

New South Wales
TREASURY

Office of Financial Management
Annual Report 2005-06

The corporate plan of the Office of Financial Management (OFM) outlines the strategic framework for the management of the State's finances.

The Plan outlines OFM's mission, the results we seek to influence and the strategies we apply to maximise the impact of our services.

Results indicators allow us to monitor progress towards our planned results.

Service measures report on the standard of our services.

The corporate plan also provides the context for OFM's annual Results and Services Plan (RSP) and the performance agreement of the Secretary and all OFM officers.

It provides the structure for our internal and external performance reporting.

This annual report documents our performance in implementing our corporate plan, including our RSP for 2005-06.

The chapters outline progress towards our planned results, linking our achievements with our applied strategies.

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31 October 2006

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New South Wales

TREASURY

NSW Treasury comprises the Office of Financial Management (OFM) and the Office of State Revenue (OSR). This volume of Treasury's annual report relates to OFM. It incorporates the Office of Infrastructure Management which operates as an OFM Directorate.

The OFM volume also reports on activity and staffing matters associated with the NSW Self Insurance Corporation (SICorp), a statutory authority which is managed by one of OFM's branches. NSW SICorp also publishes its own separate annual report as required by its founding legislation.

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The Hon Michael Costa MLC
Treasurer, Minister for Infrastructure,
and Minister for the Hunter
Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Treasurer,

I have pleasure in submitting the Annual Report of the NSW Treasury's Office of Financial Management for the financial year ended 30 June 2006, for presentation to the Parliament of New South Wales in accordance with the *Annual Reports (Departments) Act 1985*.

The Report contains the Consolidated Financial Statements for Treasury covering both the Office of Financial Management and the Office of State Revenue.

A second volume containing a report on the operations of the Office of State Revenue is submitted separately.

A third volume contains the financial statements for the Crown Entity and its commercial activities. Treasury is responsible for managing Crown finances, which concern public sector wide assets, liabilities and transactions that are the overall responsibility of government and not individual agencies.

Yours sincerely

John Pierce
Secretary
31 October 2006

OFM's Strategic Management Framework

Our Planned Results

- A more competitive and sustainable business environment
- Better resource allocation and management
- Strengthened State finances

We support the achievement of these planned results through organisation building activity that focusses on building our capability, strong support systems and stakeholder alliances.

Our Strategies

- Implementing microeconomic reform
- Implementing a Financial Management Framework for general government agencies
- Applying a Commercial Policy Framework to government businesses
- Implementing a State Fiscal Strategy
 - Managing the State balance sheet

OUR MISSION

PROMOTING STATE RESOURCE
MANAGEMENT TO ACHIEVE
A STRONGER NEW SOUTH WALES
ECONOMY & BETTER PUBLIC SERVICES.

Our Services

- Advice on economic and fiscal strategies
- Advice on the efficiency of government businesses
 - Advice on the efficiency and effectiveness of General Government agencies
 - Budget management
- Public sector management systems
 - Physical asset policy and management
 - Financial asset and liability management

Our Values

- Focussing on our stakeholders
- Valuing the individual
- Acting with integrity
- Providing leadership at all levels
- Continuously learning and innovating



John Pierce,
Secretary,
NSW Treasury

■ The Secretary's Message

2005-06 was an eventful and productive year for the Office of Financial Management.

It was a year that saw two changes of Treasurer. The Honourable Morris Iemma MP, Premier, also became Treasurer on 3 August 2005 following the resignation of the Honourable Andrew Refshauge MP. Following the achievement of priorities set by the Premier, the Honourable Michael Costa MLC previously Minister for Finance took over as Treasurer on 17 February 2006.

We enjoyed a good working relationship with our various Treasurers and significant achievements in state resource management were made under their leadership.

Once again the triple A credit rating for NSW was confirmed by both the major international credit rating agencies. The sound fiscal strategy advocated and applied by OFM is a key factor contributing to this continuing status. OFM officers can take great pride in this achievement.

A few examples of our achievements during 2005-06 signal the substantial progress towards our planned results.

Planned Result:

1

A More Competitive and Sustainable Business Environment

Business and households have benefited from the implementation of competition policy in NSW over the last decade, particularly in the energy sector. The envelopment of future competition policy action into a broader National Reform Agenda that also includes human capital and regulation reforms is a major milestone. OFM advised the Government in its negotiations with the Commonwealth, which resulted in COAG agreement on the new Agenda. This provides us with continuing opportunities to participate in implementing reforms to ensure a more competitive and sustainable business environment in NSW.

We also advised the Government on strategies for its successful negotiations with the Commonwealth on the review of business stamp duties under the provisions of the Intergovernmental Agreement. Subsequently the Premier announced the phased abolition of a number of business taxes during coming years.

These tax decisions will ensure a stronger NSW economy while maintaining an efficient and sustainable revenue regime, which is one of our planned results.

NSW AAA

NSW's Aaa rating is stable....

"reflecting the State's strong fiscal record and its modest debt burden"...."and the strength and diversity of the state economy"

Moody's
May, 2006

NSW's rating is

"...supported by the state's moderate debt levels, demonstrated fiscal discipline and prudent fiscal targets, diversified economy, and strong system support"

Standard and Poor's
August 2006

2

Planned Result:

Better Resource Allocation and Management

During the year OFM intensified its efforts to better integrate infrastructure planning into the State Budget process. The establishment of the Office of Infrastructure Management within OFM presented us with the exciting challenge to develop and monitor the State Infrastructure Strategy. The Strategy, which links immediate funding with longer term infrastructure planning, issued in May 2006 and was one of our major outputs for the year. We continued to work with agencies in their development of Total Asset Management (TAM) to ensure that management of physical assets supports service delivery.

We also contributed to the reform of public sector property management through our involvement with the establishment of the Growth Centres Commission and the NSW Property Authority.

And of course we again successfully coordinated another responsible State Budget, prepared within the framework of the State Fiscal Strategy. The Budget implements a number of the initiatives announced by the Premier in his February Economic and Financial Statement. We look forward to the challenge of further developing the State Budget process to achieve the integrated performance management and budgeting system foreshadowed by the Premier. The Results and Services Plan will continue to play the pivotal role.

3 Planned Result: Strengthened State Finances

During the year OFM supported the preparation of the Audit of NSW Expenditure and Assets, which was released by the Treasurer in February 2006. The Audit confirmed the strength of the State's balance sheet, but highlighted the need for action to address some emerging structural pressures including those arising from the ageing of the population. We must continue to work closely with agencies to ensure effective implementation of the responses outlined by the Government in the Economic and Financial Statement. More fundamentally, our ongoing application of the State Fiscal Strategy will also secure the longer term strength of the State's finances regardless of cyclical shocks.

OFM was also active in providing policy advice relating to a number of major tax decisions, including the abolition of vendor duty, new land tax provisions and amended gaming tax arrangements.

Again this advice was guided by the principles of the Fiscal Strategy.

Building a values oriented organisation that facilitates the achievement of our planned results

An organisation is only as good as its people and its systems. OFM's success and the world wide respect we enjoy as leaders in financial management are testimony to the professionalism and dedication of our people. It is especially gratifying that despite the challenging environment in which we operate that we are able to uphold the organisational values that we have set ourselves.

Thank you to all Treasury officers for making 2005-06 such a satisfying and productive year. Thanks too to our colleagues in the other central and line agencies, for their partnership is essential to the successful pursuit of OFM's planned results.

Finally, I would like to express my appreciation to Robert Carling, Executive Director, Economic and Fiscal who resigned during the year, and a warm welcome to his successor, Philip Mussared. Best wishes also to Kerry Schott who was assigned responsibility as Deputy Secretary, Office of Infrastructure Management following its establishment within OFM during the second half of the year.

OFM Efficiency Measures	2004-05	2005-06	Target
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Staff Development

Training days per officer	4.9 days	5.2 days	≥5 days
Staff turnover	8.6%	13.4%	≤20%

Project Management

Actual controlled net cost of services ≤ budget	100.4%	95.3%	≤100%
Work Plan milestones achieved	77%	82%	≥80%
Registered correspondence and projects completed by due date	83%	83%	≥80%

Performance Management

Staff participating in OFM's Performance Agreement & Review scheme (PAR)	89%	44%	100%
Staff satisfied with Treasury	90%	91%	≥90%

Adherence to OFM Values

Staff believing OFM's values are adhered to	93%	93%	≥90%
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Agency Relations

Agencies satisfied with their relationship with OFM	78% (2004 survey)	73% (2006 survey)	≥75%
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Results Progress

Planned results may be affected by external factors beyond the control of OFM, or government.

While annual targets for result indicators are not generally applicable, the monitoring of actual data reveals progress towards the results that OFM is ultimately seeking to influence.

Following sections in this report include commentary on performance against these results indicators and show trends over a longer period.

Result Indicators	2004-05	2005-06	Ultimate Goal
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A more competitive and sustainable business environment

<ul style="list-style-type: none"> The 10 year average growth in NSW Gross State Product per capita to be equal to or better than the national average 	NSW: 2.1% Aust: 2.5%	nya	≥ national average
<ul style="list-style-type: none"> Receipt of all potential payments for National Competition Policy implementation 	100%	≥90%	100%
<ul style="list-style-type: none"> Deviation of NSW annual tax effort index as calculated by the CGC from the average for all States 	+2.3%	nya	≤ +3%

Better resource allocation and management

<ul style="list-style-type: none"> NSW efficiency in providing services to be equal to or better than the national average for at least 50% of functions. (As reported by the Productivity Commission) 	48.5%	nya (pending PC's 2007 Report)	≥50%
<ul style="list-style-type: none"> Deviation of actual from budgeted Net Operating Result, as a percentage of total expenses 	-0.3%	1.7%	≤ +1%
<ul style="list-style-type: none"> Weighted % of agencies TAM plans meeting required standards 	62%	58%	≥ 60% by 2007
<ul style="list-style-type: none"> Number of State Accounts audit qualifications 	2	2	Nil

Strengthened State finances

<ul style="list-style-type: none"> Maintenance of AAA credit rating for NSW 	AAA	AAA	AAA
<ul style="list-style-type: none"> Reduction in General Government Sector net financial liabilities as a % of GSP 	8.1%	8.4%	≤ 6.0% by 30-6-2015
<ul style="list-style-type: none"> 4 year average growth of budget expenses ≤ long run average growth in revenue 	New	Δ Exp: 5.9% Δ Rev: 5.0%	Δ Expenses ≤ Δ Revenue
<ul style="list-style-type: none"> At least maintenance of NSW GST share relative to an equal per capita share following 5 yearly CGC reviews 	0.86846	0.87332	Improved NSW share
<ul style="list-style-type: none"> Average real return on superannuation and insurance investments 	8.7%	10.4%	≥ 3.5%
<ul style="list-style-type: none"> Return on PTE sector assets 	2.76%	3.34%	≥ 2%

Service Delivery

The quality of OFM's services is generally within its control.

Service measures and associated benchmarks ensure accountability for achievement of acceptable standards.

Commentary on these service measures and the contribution made to the achievement of our planned results is included in following sections.

A longer time series is also provided.

Service Measures	2004-05	2005-06	Target
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Advice on Economic and Fiscal Strategies

▪ OFM's tax revenue estimation error relative to that of other Treasuries	NSW: 1.2% Others: 8.2%	NSW: 9.2% Others: 4.1%	NSW ≤ Other States' average
▪ OFM's economic variables forecasting error relative to that of other Treasuries	NSW: 0.9% Others: 1.4%	nya	NSW ≤ Other States' average

Advice on the Efficiency of Government Businesses

▪ Percentage of SOCs with signed Statements of Corporate Intent	95%	100%	100%
▪ Deviation of actual GTE distribution payments from Budget estimate	-4.2%	-3.3%	≤ ±10%

Advice on the Efficiency and Effectiveness of General Government agencies

▪ % of RSPs finalised with agencies	93%	94%	100%
▪ % of surveyed agencies satisfied that RSPs improve communication with Treasury	72% (2004 survey)	70% (2006 survey)	≥ 75% by 2007

Budget Management

▪ OFM's General Government expenses estimation error relative to that of other Treasuries	NSW: 2.9% Others: 3.3%	NSW: 0.1% Others: nya	NSW ≤ Other States' average
▪ Delivery of printed Budget papers	B Day-1	B Day-1	B Day-1
▪ Issue of Report on the Half Yearly Budget Review	20 Dec	21 Dec	<31 Dec
▪ Tabling of Report on State Finance before the statutory date	25 Oct	27 Oct	<31 Oct

Physical Asset Policy and Assessment

▪ % of surveyed agencies satisfied that TAM plans improve their asset management	60% (2004 survey)	62% (2006 survey)	≥ 75% by 2007
▪ % of surveyed agencies satisfied that TAM plans improve communication with Treasury	51% (2004 survey)	56% (2006 survey)	≥ 75% by 2007

Public Sector Management Systems

▪ % of surveyed agencies satisfied with OFM's financial management support	80% (2004 survey)	77% (2006 survey)	≥ 75%
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Financial Asset and Liability Management

▪ Deviation of actual superannuation, debt and insurance expenses from the budget estimate	-1.5%	-25%	≤ ±10%
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■ Our Environment

Economic and financial developments are often unpredictable and beyond the control of OFM.

Yet events like droughts, Commonwealth Government decisions and global economic shocks all impact on our ability to deliver the results we plan for.

Economic Impacts

In 2005-06, the global economy recorded another year of strong growth and NSW goods exports increased by the most since 1999-00. The sharp rise in global commodity prices of recent years, while not directly contributing significantly to the NSW economy, was felt indirectly through:

- a lift in corporate profits;
- another strong year of equity market performance; and
- a lift in growth in employment in the financial and business services sector.

On the other hand the appreciation of the Australian dollar slowed import-competing sectors such as manufacturing and the important services export sector of the NSW economy.

Global and domestic long-term bond yields remained at low levels for much of the year, but rose later in the year reflecting an increase in inflation and ongoing increases in official rates by central banks around the world.

Domestic spending growth in NSW was skewed to private business investment and public sector capital spending. Housing investment continued to decline, contrary to Budget expectations. The broader housing market was more subdued than expected at Budget time, but was showing signs of modest improvement over the course of the year. Notwithstanding solid growth in incomes and employment, NSW consumer spending slowed further in 2005-06 reflecting the negative impacts of higher petrol prices, higher interest rates and a further year of downturn in the housing construction sector.

Fiscal Impacts

The economic environment had a significant impact on strategies applied by OFM during the year. The weaker than expected property market for example led to downward revisions to estimates for transfer duty collections relative to the 2005-06 Budget estimates. On the other hand, stronger than expected equity market performance led to upward revisions to investment incomes. Lower than expected bond yields lowered estimated superannuation expenses.

Increased spending commitments emerged in the priority service delivery areas of transport and health. Higher than expected payments were required for drought relief.

The total impact of this combination of cyclical, one-off and structural factors led to an improved budget result for 2005-06 as the year continued on.

More significantly though, the outlook for the 2006-07 budget position had worsened considerably, from a forecast surplus of \$481 million at the time of the 2005-06 Budget, to a deficit of \$533 million in the Half-Yearly Review, and a deficit of \$696 million in the 2006-07 Budget.

To deal with this emerging budgetary pressure, a number of strategic responses were developed focussing on the structural aspects of the budget:

- The Government commissioned an Audit of Expenditure and Assets which found that trend expenses had been exceeding trend revenue growth in recent years, leading to a structural deterioration in the Budget.
- The Government responded with the February 2006 Economic and Financial Statement, outlining a number of significant measures to address the structural deficit, slow growth in expenses and return the budget to a structural surplus.
- A paper detailing long-term fiscal pressures was published with the 2006-07 Budget and quantified the potential deterioration in the fiscal balance over the next 40 years.
- The Government also commissioned an independent report into Commonwealth-State financial arrangements, which have contributed to the structural deficit position. Associate Professor Warren concluded that Australia performs poorly against many of the criteria which define best practice fiscal federalism.
- The State Infrastructure Strategy which was issued in May 2006 is a further step to address the budget's structural issues. It details proposed capital spending to support service delivery over the next decade and links the 4-year Budget with 25-year plans like the Metropolitan Strategy.

■ Office of Financial Management

SECRETARY
John Pierce

DEPUTY SECRETARY Mark Ronsisvalle

Resources and Budget Directorate

- Advice on the overall management of the State Budget; and coordination of State Budget preparation and reporting
- Advice on agency specific resource and policy issues for Transport and Human Services agencies
- Implementation of General Government financial management policy and systems, accounting policy and standards
- Administration of State financial and annual reporting legislation

Directorate Contact Officer Tel : 9228 5796 Fax : 9228 3031
Agency Data Provision Tel : 9228 4481 Fax : 9228 3031

DEPUTY SECRETARY Kevin Cosgriff

Resources and Planning Directorate

- Advice on and oversight of major public sector structural reforms
- Advice on agency specific resource and policy issues for Natural Resource and Environment agencies and Energy businesses
- Advice on and implementation of the commercial policy framework that applies to Government businesses

Directorate Contact Officer Tel : 9228 5796 Fax : 9228 3173

DEPUTY SECRETARY Kerry Schott

Office of Infrastructure Management

- Oversight of the implementation of the State Infrastructure Strategy
- Assessment and monitoring of capital investment proposals
- Advice on agency specific resource and policy issues for Property Sector agencies
- Implementation of physical asset management policy, including procurement policy and public property management policy
- Policy development and implementation support for Privately Financed Projects

Directorate Contact Officer Tel : 9228 4011 Fax : 9228 5748

EXECUTIVE DIRECTOR Ian Neale

Resources and Crown Directorate

- Advice on agency specific resource and policy issues for Justice and Emergency Services, Education, Financial Service and Central agencies
- Management of Crown financial liabilities and assets, advice on insurance and superannuation liability issues; oversight of the Treasury Banking System and Government self insurance arrangements

Directorate Contact Officer Tel : 9228 5622 Fax : 9228 5748

EXECUTIVE DIRECTOR Philip Mussared

Economic and Fiscal Directorate

- Advice on overall State fiscal strategy, including intergovernmental and taxation policy issues
- Advice on economic strategy, including the application of competition policy and economic forecasting

Directorate Contact Officer Tel : 9228 4011 Fax : 9228 4041

- OFM is supported by a Corporate Management Unit which advises on corporate support policy and systems.
- The Executive is supported by an **Executive Coordination Unit**.
- For **Freedom of Information Enquiries** contact Tel : 9228 5796 Fax : 9228 3031

Structure as at
30 June 2006

■ Adjustments to our Structure

During 2005-06 a number of adjustments to OFM's organisational structure occurred.

Office of Infrastructure Management

The most significant change concerned the establishment of the Office of Infrastructure Management (OIM) within OFM.

Responsibility for preparation and coordination of a State Infrastructure Strategy was transferred to Treasury in October 2005 following the abolition of the Department of Infrastructure, Planning and Natural Resources. Transferred staff formed a new Branch, which joined with the existing branches of our former Private Projects and Asset Management Directorate, to form OIM.

This added responsibility necessitated an adjustment to OFM's Executive structure. In May 2006, the position of Executive Director, Private Projects and Asset Management was converted to Deputy Secretary, Office of Infrastructure Management.

Special Project Teams

When required OFM establishes special project teams to ensure the implementation of major initiatives. When executive members are involved with these teams, their normal responsibilities are allocated to other Executive members for the duration of the project. During 2005-06 officers were taken off line to staff special project teams managing some priority matters:

- A team of Treasury officers, with the assistance of secondees from other agencies, was set up in September 2005 to provide the secretariat for the Government's Audit of Expenditure and Assets, which reported as required in January 2006. This team was led by the Executive Director, Resources and Crown whose normal duties during this time were undertaken by other OFM Executive members;
- The Snowy Hydro taskforce was established in January 2006 to manage the process for the Initial Public Offering of Snowy Hydro Limited. It was led by the Deputy Secretary, Resources and Policy whose normal duties were shared by other members of the OFM Executive. While the Government decided in early June not to proceed with the sale, the team continued to operate until financial year end to ensure completion of internal administrative matters.

Other Structural Change

In December 2005 the Central Agencies Branch within our Resources and Crown Directorate was abolished and its functions allocated across other branches. This was one of the measures taken by OFM to ensure the achievement of required Budget savings.

The new Self Insurance Branch which was established late in 2004-05 to coordinate the new contestable arrangements for the Treasury Managed Fund was fully staffed from July 2005. A number of officers were transferred from other parts of OFM into this new Branch.

■ Our Senior People Major Achievements



John Pierce
B.Comm (Hons.)
Secretary,
NSW Treasury,
Level 8
Remuneration:
\$412,048

- Led the ongoing refinement of the State budget process, including revised mechanisms for Government monitoring of the Budget to ensure the achievement of required savings and delivery of Government priorities.
- Oversighted the preparation of a new Budget Paper (Number 6) to report on the projected impact on the State's finances of an ageing population, quantifying the need for the ongoing application of a sound fiscal strategy and current and proposed policy responses.
- Continued efforts to reform Commonwealth State financial arrangements, commissioning Professor Neil Warren to compare Australian and international systems for the allocation of taxation powers and spending responsibilities, and fiscal transfers between levels of government.
- Led officer negotiations with the Commonwealth following the review of State business taxes required under the Inter Governmental Agreement (IGA) and advised the State Government on appropriate revenue and expenditure responses to the Commonwealth Government's funding decisions.
- Established the Office of Infrastructure Management within Treasury to assist the coordination and delivery of major infrastructure.
- Finalised with the Treasurer OFM's Results and Services Plan, and integrated it into OFM's management systems to ensure the successful implementation of agreed actions.

Executive Performance

- During 2005-06 the OFM Executive participated in the Performance Agreement and Review scheme (PAR) that applies to all our officers.
- Executive members were assessed as either meeting or exceeding standards for overall performance, competencies and adherence to OFM values.
- All members fulfilled the commitments in their annual performance agreements in an efficient and effective manner.

Executive Remuneration

- Remuneration reported for Executive members is the actual payment during 2005-06 based on the total monetary remuneration and the value of employment benefits specified in their employment contracts.
- It includes any allowances for periods acting in higher positions.
- No performance related incentive payments were made, in line with public sector policy.

■ Our Senior People Major Achievements



Mark Ronsisvalle
PSM, BEc
Deputy Secretary,
Resources and Budget
Level 6
Remuneration:
\$292,044

- Advised on the ongoing refinement of the State's Budget process, including implementation of actions arising from the Premier's February 2006 Economic and Financial Statement.
- Led strategy development, formulation and preparation of the NSW Budget for 2006-07 and reports on State financial performance.



Kevin Cosgriff
MA(Econ), BSc(Hons)
Deputy Secretary,
Resources and Policy
Level 6
Remuneration:
\$275,255

Mr Cosgriff was full time leader of the Snowy Hydro Taskforce from 3 January 2006 until June when it was announced the sale would not proceed. During that time his normal responsibilities were assigned to other Executive members.

- Managed negotiations with other jurisdictions and led preparations for the initial public offering of Snowy Hydro Limited, subsequently discontinued.
- Oversighted Treasury's involvement and advice on the development of the Metropolitan Strategy and water planning process.



Kerry Schott
D.Phil, MA, BA(Hons)
Deputy Secretary,
Office of Infrastructure
Management
Level 6
Remuneration:
\$273,640

Dr Schott was temporarily appointed to the Growth Centres Commission from 1 July until end October 2005. During this time she continued to undertake all her responsibilities as a member of the OFM Executive. Dr Schott's position was reclassified from Executive Director to Deputy Secretary in May 2006.

- Led the development of property management reforms, including establishment of the Growth Centres Commission and the NSW Property Authority.
- Oversighted the development of the State Infrastructure Strategy to ensure the linkage of funding with longer term infrastructure plans.



Ian Neale
FCPA
Executive Director,
Resources and Crown
Level 5
Remuneration
\$233,450

Mr Neale was offline from 6 September 2005 until 17 February 2006 to work on the Audit of Expenditure and Assets. During this time his normal responsibilities were assigned to other Executive members.

- Led Treasury's support of, and contribution to, the Audit of Government expenditure and asset management practices.
- Oversighted the ongoing implementation of SiCorp, which manages multi service provider arrangements for public sector self insurance.



Philip Mussared
BEc(Hons), BA, FCPA
Executive Director,
Economic and Fiscal
Level 5
Remuneration:
\$19,139

Mr Mussared was appointed Executive Director on 22 May 2006. His predecessor, Robert Carling resigned on 3 February 2006*. Richard Cox acted until Mr Mussared's arrival. During the year the Executive Director:

- Oversighted preparation of the Government's review of undue administrative burdens imposed by agencies on other agencies.
- Advised on revenue strategy and negotiations with the Commonwealth on the review of particular business taxes.

* Mr Carling's remuneration for the year was \$209,312

■ OFM's Future Priorities

The year ahead 2006-07

- Our Mission

- Our Planned Results

- Our Intermediate Results

- Our Services

- Organisation Building

Office of Financial Management

- OFM will continue to apply the strategic framework that is outlined in our corporate plan.
- The framework aligns with the themes of the State Plan, and supports the delivery of those priorities and targets over which OFM has influence.
- Treasury on a page maps the contribution that OFM services make to the achievement of our planned results, and our mission.
- Strategies show how our services are being mobilised to achieve the results.
- They signal our priorities.
- This framework is reflected in the structure of our Annual Report, which reports on our progress in implementing our corporate plan, and the commitments included in the annual Results and Services Plan.

OFM's performance in undertaking the priorities outlined in this section will be reported in the 2006-07 and future Annual Reports.

1 A more competitive and sustainable business environment

Our Microeconomic Reform strategy aims to create an efficient policy and regulatory environment, a sustainable revenue regime, and ultimately a stronger economy.

An efficient policy and regulatory regime

- Continuing energy market reform.
- Implementing the National Reform Agenda including competition policy, regulatory and human capital reforms.

An efficient and sustainable revenue regime

- Ongoing review of State taxes, including arrangements for the scheduled abolition of particular business stamp duties as announced by the Premier.
-

2 Better resource allocation and management

The **Microeconomic Reform strategy** also contributes to better resource allocation by periodic review of service delivery and funding for key sectors. The aim is to improve general government sector productivity.

Better resource allocation decision making

- Supporting government wide property reform, including start up of the NSW Property Authority.
- Providing transport, health and community service agencies with advice on strategic planning, governance and accountability.
- Cooperating with other agencies to implement actions outlined in the Premier's February 2006 Economic and Financial Statement.

The **Financial Management Framework strategy** links budgeting and planning to help agencies deliver value for money programs and services.

Better resource allocation decision making and improved agency service delivery

- Further strengthening the Budget process, using the RSP as the basis for the new performance management and budgeting system to support delivery of the State Plan's priorities and targets.

Appropriate maintenance and management of physical assets

- Oversighting implementation of the State Infrastructure Strategy.
 - Continuing development of the Total Asset Management Framework and procurement policy.
 - Strengthening the monitoring of capital projects in terms of performance against budgets.
-

3 Strengthened state finances

The **State Fiscal Strategy** ensures fiscal outcomes for NSW that will strengthen the State's Balance sheet.

Appropriate Budget results and appropriate net financial liabilities

- Monitoring progress against the medium and long term targets for major budget aggregates.
- Advising on the impacts of ageing and other fiscal pressures.

A fair share of federal funding

- Contributing to intergovernmental financial arrangements through taxation review and benchmarking vertical and horizontal impacts.
- Advising on the Budget impact of the distribution of GST through the CGC process.

The **State Balance Sheet Management strategy** ensures efficient management of assets, debt and other liabilities to achieve an optimal balance sheet structure.

Efficient financial asset and liability management

- Overseeing the arrangements for multi provider management of the Government's self insurance scheme.

The **Commercial Policy Framework**, emphasises the performance and accountability of Government businesses.

Increased value of government businesses

- Reforming specific government business activities as determined by Government.
-

OFM Organisation building

OFM's planning framework includes a multi-faceted **Staff Development** program to ensure that we have the capability to achieve our business objectives.

- Reviewing the effectiveness of actions taken following the 2005 review of the role of the Treasury analyst.

The **Agency Relations strategy** which requires OFM to work in partnership with other agencies when developing and implementing state financial reforms will continue to be emphasised.

- Developing and applying strategies to address issues emerging from the biennial survey of our client agencies.

OFM's **organisational efficiency** requires strong corporate procedures and systems to support management and staff.

- Undertaking the triennial review of OFM's corporate plan.
-

■ Our Commitment to Stakeholders

OFM serves the government & community through our main client - the Treasurer.

Agreed values dictate our work philosophy & prescribe appropriate behaviours for the organisation & our people.

Other major stakeholders include:

- Our staff & central & line agencies & government businesses
- Parliament, the Opposition & other governments
- Auditor General & IPART
- Media, rating agencies, interest groups & unions.

Commitment to the Community

- Independent and professional advice to decision-makers
- Access to information

Commitment to the Treasurer

- Efficient & effective administration of OFM, including successful implementation of initiatives included in its Corporate Plan
- Provision of accurate, relevant, professional & timely advice & information

Commitment to Staff

- Job satisfaction, personal development & career opportunities & the ability to participate & contribute information
- Strong leadership & effective management

Commitment to Agencies

- Working in partnership to pursue the successful implementation of financial management reforms
- Openness, mutual respect & sharing of information

Performance Evaluation

Every two years agencies are surveyed to assess how they rate OFM's commitment to service.



OFM's Code of Good Practice with Agencies

Regular Consultation, Openness & Courtesy

OFM meets regularly with agencies, at least quarterly with larger ones, to discuss financial and relevant issues. Agencies must give OFM timely information on all developments. OFM discusses issues with agencies before making a final decision or recommendation to the Treasurer.

OFM works with agencies in planning and implementing financial management reforms. Consultative Councils comprising CEOs of key agencies are set up to discuss proposed reforms and implications for agencies. Agencies' views are sought if OFM's proposed changes affect a range of agencies. Teamwork, both within OFM and with other agencies, is a process that must be applied to all OFM's corporate plan initiatives.

Our planning methodology also requires special attention to any implementation issues for agencies. For each agency an OFM officer is designated as a single point of contact with OFM. Agencies must also establish their designated contact with OFM.

Consistent, Accurate Advice & Timely Responses

A team based approach minimises the problems arising from changes in staff dealing with an individual agency. OFM endeavours to ensure that all staff are fully trained to provide informed advice to agencies.

Agency contact officers ensure prompt response to Ministerial and agency letters/requests. OFM will give direct advice within 15 working days. If referred to the Treasurer, a response is likely within 20 working days. Agencies are informed if these deadlines cannot be met. Agencies should give timely responses to OFM's reporting and data requests.

■ Our commitment to Agencies How are we actually doing ?

	1995	1997	1999	2001	2004	2006
Agencies rate OFM staff as						
▪ courteous in our dealings with them	93%	99%	97%	98%	97%	96%
▪ providing advice that is generally consistent	76%	85%	89%	89%	93%	93%
▪ competent to explain policies and procedures	81%	79%	86%	84%	90%	79%
Agencies consider OFM's						
▪ nominated contact officer is the appropriate first point of contact	-	-	-	-	90%	88%
▪ staff are easy to access at the appropriate level	-	-	-	-	88%	87%
▪ circulars are issued in a coordinated and easy-to-read style	71%	78%	87%	93%	86%	85%
▪ staff have a high standard of technical knowledge and professional expertise	76%	76%	77%	82%	84%	87%
▪ requests and requirements for financial monitoring data are clear and well coordinated	47%	49%	66%	77%	84%	78%
Agencies think OFM						
▪ communicates policy and reform agendas to our agency	-	-	-	-	83%	74%
▪ responds to correspondence or requests for information within 4 weeks	63%	75%	72%	82%	76%	73%
▪ is timely in responding to issues and proposals presented by our agency	-	-	-	-	76%	71%
▪ has adequate existing consultation mechanisms	-	-	-	-	75%	74%
▪ changing staff and contact people does not create problems	52%	68%	68%	71%	71%	69%
▪ arranges regular meetings (at least quarterly for larger agencies) to discuss key issues	42%	49%	50%	60%	69%	61%
▪ pays special attention to implementation issues for agencies when introducing new initiatives	-	42%	53%	65%	69%	53%
▪ demonstrates a good understanding of our agency's operational activities and issues	-	-	-	59%	68%	73%
▪ provides interim replies or progress reports where delays occur	47%	55%	65%	65%	67%	69%
▪ fully discusses issues with our agency before making final decisions and recommendations	37%	40%	51%	53%	61%	64%

Our values

OFM is a values-driven organisation.

Agreed values prescribe appropriate behaviours for our organisation and our people:

- **Acting with integrity**
- **Valuing the individual**
- **Focusing on our stakeholders**
- **Providing leadership at all levels**
- **Continuously learning and innovating**

1 A more competitive & sustainable business environment

▪ **Services Provided**

Advice on economic and fiscal strategies

Service Measures

- NSW estimation error for tax revenue to be equal to or better than the estimation error of other State Treasuries

Strategies Applied

*Implementing **Microeconomic Reform** by:*

- *Using competition policy to achieve efficient and competitive markets*
- *Promoting appropriate regulatory and industry policies*
- *Maximising the efficiency and competitiveness of the NSW tax system, consistent with the State fiscal strategy.*

▪ **Planned Results**

A more competitive and sustainable business environment:

- An efficient policy and regulatory environment
- An efficient and sustainable revenue regime

Results Indicators

Ten year average growth in NSW GSP per capita to be equal to or better than the national growth

Receipt of potential payments for National Competition Policy implementation

Deviation of NSW annual tax revenue raising effort from the average for all states

A more competitive & sustainable business environment

- **Commitment in last year's Annual Report**

Participating in the implementation of initiatives included in the Government's Energy Directions White Paper.

Participating in the implementation of various energy sector reforms involving electricity generation and retail; gas; governance; and legislative initiatives.

- **Our Achievement**

Extension of the NSW Greenhouse gas abatement scheme and the determination of terms of reference for IPART's review of retail pricing for 2007 to 2010.

Major contribution to national energy market 2006 legislative reforms covering the economic regulation of electricity and gas distribution, and gas access regulation of transmission and distribution.

Microeconomic Reform

OFM's strategy for *Microeconomic Reform* is focused on maintaining an environment that is conducive to a stronger economy for NSW.

A number of our services are mobilised under this strategy, including:

- facilitating implementation of the National Reform Agenda, including competition policy;
- recommending appropriate microeconomic reforms;
- advising on regulatory policy, IPART, Productivity Commission and industry reviews; and
- recommending tax and revenue policy.

These services are targeted at the following planned results:

- efficient policy and regulatory arrangements, and
- an efficient and sustainable revenue regime.

A more competitive & sustainable business environment

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
The 10 year average growth in NSW Gross State Product per capita to equal or better the national average	NSW: 2.6% Aust: 2.8%	NSW: 2.6% Aust: 2.7%	NSW: 2.4% Aust: 2.7%	NSW: 2.1% Aust: 2.5%	nya	≥ national average

Growth in Gross State Product provides the broadest measure of economic activity. Many factors impact on this measure. The Australian federal system assigns prime responsibility for economic management to the Commonwealth Government so its actions will have greater economic impact than those of State governments.

By applying national competition policy and taxation policies, the States can exert some influence but any resulting structural adjustment of State economies will be incremental over the longer term.

National Reform Agenda

During the past decade OFM has played a key role in ensuring NSW's compliance with obligations under the 1995 National Competition Policy (NCP) Agreement. Many reforms have been achieved due to the application of competition policy principles. The operation of competitive and efficient industry markets in NSW is a major outcome.

In 2004-05 OFM contributed to a Productivity Commission review of the benefits delivered by the NCP program and potential areas for future reform. During the first half of 2005-06 OFM also participated in the review of the expiring NCP Agreements by the Council of Australian Governments (COAG).

Subsequently in February 2006 COAG committed to a new National Reform Agenda (NRA) to cover not only competition policy, but also regulatory and human capital reforms. The aim is to increase productivity and workforce participation so that Australia is better placed to meet rising demographic pressures and intensified international competition.

- Competition reforms will include further energy market reforms, national road and freight transport reforms, infrastructure regulation and planning, and a new national climate change action plan.
- Regulatory reforms are aimed at reducing the regulatory burden across the three levels of government.
- Human capital reforms will focus initially on the priority areas of diabetes, literacy and numeracy, early childhood and child care.

During the second half of 2005-06, OFM was involved with initial action on these reform areas. This includes representation on several intergovernmental working groups charged with responsibility to implement agreed initiatives and develop reform proposals.

A more competitive & sustainable business environment

It is important that there is fair sharing of the costs and benefits of reforms under the NRA between the Commonwealth and the States. Related to this, OFM provided input to the Productivity Commission's economic modelling of the potential economic and fiscal impacts of NRA.

A new organisation, the COAG Reform Council will monitor progress in implementing agreed programs. The Commonwealth government will make payments to the States and Territories on a case by case basis, having regard to the achievement of agreed actions and progress measures and the recommendations of the COAG Reform Council.

Red Tape Review

OFM is undertaking the Government's Red Tape Review, which is aimed at streamlining and simplifying government administration. The first stage is addressing the financial and non-financial reporting requirements that add an impost to the operation of NSW public sector agencies. The review is being conducted for the Minister Assisting the Treasurer on Business and Economic Regulatory Reform.

During 2005-06 OFM commenced the Review process including consultation with agencies, prepared an interim report and progressed the first stage.

The Government will be considering the findings of this review in a staged manner to facilitate early implementation. The process will be completed by early 2007.

Efficient policy and regulatory environment

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
Receipt of all potential payments for National Competition Policy implementation	100%	100%	90%	100%	≥90%	100%

Competition payments from the Commonwealth recognise NSW' progress in implementing National Competition Policy (NCP) reforms, as assessed by the National Competition Council and National Water Commission (NWC).

From 1997-98 to 2002-03 NSW received its full entitlements each year.

In 2003-04, the Commonwealth deducted \$25.4 million (10% of NSW' maximum entitlement) in response to a perceived failure by NSW to meet legislative reform obligations for poultry and rice marketing. The Commonwealth also suspended \$25.4 million in regard to a pool of other outstanding legislative reviews. NSW recovered the pool suspension after undertaking further reforms.

In 2004-05, the Commonwealth suspended \$52 million (20%) of NSW' potential payments on the grounds that it had failed to:

- complete legislative reform obligations for poultry and rice marketing (10%); and
- demonstrate sufficient scientific support for its water planning methods (10%).

NSW has recovered at least \$39 million of the 2004-05 suspension. It is not clear how the Commonwealth has implemented a NWC recommendation to return half of the water planning suspension, but continue to suspend the remaining \$13 million. The NWC's finding and some public statements by the Prime Minister suggest that \$13 million of the 2004-05 payment is still suspended. Other information and communication from the Prime Minister to the Premier suggest that NSW has received the 2004-05 payment in full, offset by a \$13 million suspension in 2005-06. The table above presumes the latter interpretation. In either case, NSW has received \$13 million less across 2004-05 and 2005-06 than it is potentially entitled to. The Commonwealth also suspended \$13.3 million (5%) of NSW' 2005-06 payments due to insufficient progress in developing interstate water trading arrangements.

OFM is working with The Cabinet Office to have the \$26.3 million released to NSW.

Energy Industry Reform

During the past decade, NSW households and business consumers have benefited from reforms to the energy sector. OFM has played a key role in the development and implementation of these reforms, which were guided by national competition principles.

These reforms include:

- Structural reform of NSW generators and distributors;
- Introduction of retail competition to provide NSW customers with the choice of electricity supplier.
- Establishment of a National Electricity Market (NEM).
- Reform of energy sector governance, the development of institutional structures and the associated extensive amendment of the National Electricity Law.

Two national regulatory bodies - the Australian Energy Market Commission and the Australian Energy Regulator - commenced operations on 1 July 2005.

Our performance in 2005-06

Throughout 2005-06 OFM continued to participate in the implementation of the various energy sector reforms.

OFM was a major contributor to the 2006 package of national energy market legislative reforms. This comprises major amendments to the National Electricity Law and a new National Gas Law.

The new Laws provide for:

- Promotion of efficient investment in, and efficient operation and use of, electricity and natural gas services. This is aimed at ensuring the long term interests of consumers with respect to price, quality, safety, reliability, and security of supply.
- Gas access regulation of transmission and distribution. This takes into account the response of the Ministerial Council on Energy (MCE) to the Productivity Commission's Review of the Gas Access Regime.
- Review rights, including judicial review and a limited form of merits review that enables correction of errors in respect of specified economic regulatory decisions.
- New arrangements to strengthen consumer advocacy arrangements across electricity and gas.

- Economic regulation of electricity and gas distribution, with a common approach taken to transmission and distribution revenue and network pricing in electricity and gas. The approach is based on the report of the MCE-appointed Expert Panel on Energy Access Pricing.

In December 2004, the NSW Government released an Energy Directions Green Paper canvassing alternative energy policy options. The Paper recognised the need for future new investment in electricity generation.

The Green Paper foreshadowed a number of reforms to provide certainty to private sector investors in generation. These relate to:

- the planning environment for new energy infrastructure;
- greenhouse gas emissions policies;
- regulated prices and the regulatory environment; and
- structure of Government owned energy business.

Consequently during 2005-06 OFM was involved in a number of actions arising from the Green Paper, including:

- extension of the NSW Greenhouse Gas Abatement Scheme;
- terms of reference for IPART to conduct a review of retail pricing for the period 2007 to 2010; and
- phase out of the Electricity Tariff Equalisation Fund between 2008 and 2010.

OFM will continue to contribute to the reform of the energy sector under the auspices of the new National Reform Agenda.

Snowy Hydro

During the year the Governments of NSW, the Commonwealth and Victoria announced the intention to jointly sell their shares in Snowy Hydro Ltd through a listing on the Australian Stock Exchange.

NSW has a 58 per cent stake in Snowy. The Victorian and Australian Governments have interests of 29 per cent and 13 per cent respectively.

The sale of Snowy was to be through an initial public offering. It was aimed at providing Snowy Hydro with access to the equity markets to fund growth strategies required to enable the business to compete effectively in the national electricity market.

OFM was assigned responsibility to manage the sale process on behalf of the three jurisdictions. Within OFM a dedicated task force was established.

On 2 June 2006, when the sale preparations were well advanced, the Australian Government announced its withdrawal from the sale. This decision fundamentally changed the nature of the transaction being conducted jointly by the three governments. As a result NSW and Victoria also withdrew their shares from sale.

Costs associated with the discontinued sale were shared by the three jurisdictions in line with their respective shareholdings. NSW's share of the costs was met by the Crown Finance Entity which accounts for the NSW equity in Snowy Hydro.

A more competitive & sustainable business environment

State Taxation Policy

State taxation policy must be geared to gather sufficient revenue to allow the Government to fund services at required standards.

The appropriate level of tax revenue is set in the context of the State's overall fiscal strategy, which aims to ensure the ongoing maintenance and improvement of public services regardless of fluctuations in economic cycles.

While the State's Fiscal Strategy determines the appropriate amount of tax revenue required, OFMs' microeconomic reform strategy ensures that the State's tax system adheres to certain desirable principles.

The tax system must minimise the potential for taxation to distort taxpayer decision making. And good tax policy must be predictable and stable and involve maximum possible restraint – both also requirements of the Fiscal Strategy.

In 2005-06 OFM continued to advise on ways to maximise the efficiency and competitiveness of the NSW tax system.

Advice was given on arrangements for:

- Abolition of vendor duty on all contracts signed on or after 2 August 2005.
- Land Tax reforms, involving:
 - An increase in the tax free threshold for 2006;
 - Introduction of 3 year averaging of land values and the threshold from 2007;
- New gaming tax rates for the period 2006-07 to 2011-12.
- Introduction of a payroll tax rebate scheme from 1 July 2006 for businesses newly liable for the tax that relocate to, or expand in, areas with higher than average unemployment.

OFM also advised on the review of businesses duties specified by the *Intergovernmental Agreement (IGA)* of 1999.

The IGA provides for the Commonwealth to distribute GST revenue to the States. (The GST grants replace previous financial assistance grants and revenue foregone from some taxes abolished when the GST was introduced.)

The IGA required the States to abolish debits tax and to review the need to retain a range of other business stamp duties, by 2005. NSW abolished debits tax early, from 1 January 2002.

In May 2006 the Premier announced a schedule for the abolition of five more stamp duties:

- Duty on the hire of goods, from 1 July 2007;
- Lease duty, from 1 January 2008;
- Unlisted marketable security duty, from 1 January 2009;
- Mortgage duty – halved from 1 January 2010, with full abolition from 1 January 2011;
- Transfer duty on business conveyances other than land, from 1 July 2012.

Efficient and sustainable revenue regime

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
Deviation of NSW annual tax effort index as calculated by the CGC from the average for all States	0.65%	-0.89%	-0.96%	2.32%	nya	≤ ±3%

The Commonwealth Grants Commission measures each State's relative effort in raising taxes by comparing actual revenue raised with the amount that would be raised if the Australian average effective tax rate was applied.

NSW's index for 2005-06 will be impacted by tax concessions introduced during the year.

2 Better resource allocation & management

Services Provided

Advice on the efficiency and effectiveness of general government agencies

Budget Management

Public sector management systems

Physical asset policy and assessment

Service Measures

- Agencies' satisfaction that Results and Services Plans improve communication with Treasury
- Timely delivery of the NSW Budget
- Agencies' satisfaction with OFM's financial management support
- Agencies' satisfaction that Total Asset Management Plans improve their asset management, and communication with Treasury

Strategies Applied

Microeconomic Reform through periodic review of service delivery and funding for key sectors, including expanded private sector involvement to achieve better value for money infrastructure based service delivery.

Ongoing development and implementation of the **Financial Management Framework** for general government agencies to link budget allocations to performance:

- Facilitating more strategic resource allocation and delivery of value for money programs and services, and
- Promoting transparency in State Budget resources management.

Planned Results

Better resource allocation and management:

- Better resource allocation decision making
- Improved agency service delivery
- Improved agency management systems
- Appropriate maintenance and management of physical assets
- Improved accountability

Results Indicators

NSW efficiency in providing government services relative to the national average

Deviation of the actual Budget result from the Budget estimate

Agencies' achievement of Results and Services Plan benchmarks

Agencies' achievement of benchmark criteria for their management systems

Agencies' achievement of asset strategy benchmarks as required by the Total Asset Management process

Number of qualifications in the State Accounts

- **Commitment in last year's Annual Report**

Developing IR reform strategies to assist the efficient operation of state agencies

Participating in the reform of key service delivery areas

Further refining the Budget process, reviewing the effectiveness of RSP and TAM plans, and streamlining performance reporting

Ongoing strengthening of asset management and procurement policy

Reviewing NSW financial legislation

Overseeing public sector convergence with International Accounting Standards

- **Our Achievement**

In conjunction with the PEO, ensured the consistency of general government wage negotiations with the Government's fiscal targets.

Contributed to the development and implementation of policy initiatives and structural reforms of Transport, Human Service and Natural Resource and Land Use Management agencies.

Implemented procedures to better integrate cross portfolio issues in the Budget process; and introduced the first stage of a new Budget Papers reporting format that reflects agency RSPs.

Established the Office of Infrastructure Management and prepared the inaugural State Infrastructure Strategy to link immediate funding with longer term plans.

Work on this initiative was deferred due to the need to divert resources to the more pressing priority of guiding the application of the Australian Equivalents of International Financial Reporting Standards within the NSW public sector. The project will resume when the new Performance Management and Budgeting System has been fully developed so that any legislative impacts can be taken into account.

Developed revised NSW public sector accounting policies to reflect the required international standards, and successfully guided their application.

Our performance in 2005-06:

Financial Management Framework

The general government Financial Management Framework encompasses OFM's key strategy to contribute to our second planned result – better resource allocation and management of the state's resources.

Within this strategy the Results and Services Plan is the main tool to achieve better resource allocation by linking budgeting and planning, within the State Budget process and in agencies.

Better resource allocation & management

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
NSW efficiency in providing services to be equal to or better than the national average for at least 50% of functions. (As reported by the Productivity Commission)	44.4%	48.3%	48.0%	48.5%	nya (pending PC's 2007 Report)	≥50%

Better resource allocation decision making

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
Deviation of the GFS Net Lending result from the Budget estimate (Discontinued indicator)	\$127m	\$451m	-\$37m	\$177m	..	≤ ±\$300m
Deviation of actual from budgeted Net Operating Result, as a percentage of total expenses (New indicator)	0.9%	1.1%	0.3%	-0.3%	1.7%	≤ ±1%

OFM's efforts to achieve better resource allocation and management are aimed at improving the standard of living in NSW through better public sector service delivery.

Many of the influences on this can be affected by external factors that are beyond the control of OFM, or government. Ultimately however an improvement in the standard of NSW services relative to those of other states will signal progress with the achievement of this planned result.

OFM uses Productivity Commission data to monitor the planned result. It is apparent that movement in the relativity of NSW services will be incremental and long term. Ultimately however we seek an upward trend in this indicator.

The appropriate allocation of Budget resources facilitates delivery of better public services. Effective resource allocation decision making may be signalled by the achievement of an actual Budget result that is not appreciably different from the projected result. From 2005-06, the net operating result is being used to measure the Budget result, consistent with the approach of most other jurisdictions. The deviation of this measure beyond target in 2005-06 is largely explained by higher investment income reflecting stronger than expected market returns.

Budget Process Refinement

Each year OFM reviews the operation of the State Budget process based on the previous year's experience. Subsequently refinements are made to ensure the effectiveness of the process for the coming year.

Adjustments to the process in recent years have focussed on improving interaction between Treasury and the other central and line agencies. Mechanisms have also been put in place to enhance communication at the ministerial level.

In recent times agency Results and Services Plans (RSP) have played the integral role in the Budget process.

An agency's RSP shows the services it provides using its Budget allocation, and the planned results those services are aimed at. Performance expectations are explicit.

All general government agencies submit a proposed RSP as the basis for funding proposals in the coming year. Following the Budget the RSP is finalised to reflect the agency's Budget allocation.

The importance of linking budgeting, planning and accountability for performance management was emphasised by the Premier in February 2006 when he foreshadowed the introduction of a Performance Management and Budgeting System.

This System will link the State Budget with the priorities to be outlined in a State Plan to issue early in 2006-07. The RSP will continue to be an important element.

During 2005-06, particular efforts were taken to better integrate cross-portfolio issues within the 2006-07 Budget process.

OFM established a CEO cluster RSP Network to support the preparation of Budget statements covering member agencies' work plans. These cluster Budget statements were one input to subsequent decision making on the allocation of State Budget resources.

Better resource allocation & management

OFM also continued to work with individual agencies to improve the effectiveness of their RSPs. Updated guidance material including an example RSP and information sheets issued to agencies in September 2005.

Other material was prepared throughout the year and added to the internet-based Budget Process facility for agencies.

The first stage of a new agency reporting format was also introduced in the State's budget papers for 2006-07.

The commentary in agency statements reflected the agency's RSP. Further integration will continue next year.

OFM looks forward to working with the other central agencies and line agencies in the coming year to implement the Performance Management and Budgeting System. In particular we will work to ensure that agency RSPs reflect and support the priorities and targets of the State Plan.

Improved agency service delivery

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
% of agencies meeting benchmark criteria for RSPs		New indicator		32%	40%	≥ 60% by 2007

Improved agency management systems

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
% of agencies meeting benchmark criteria for their management systems		Indicator still being developed				≥ 60% by 2007

Appropriate physical asset management

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
Weighted % of agencies Total Asset Management plans that meet required standards		New indicator		62%	58%	≥ 60% by 2007

OFM is working with general government agencies to improve management systems and service delivery. The achievement of these intermediate results is expected to lead to better public services, and contribute to an improved standard of living for NSW residents. In recent years OFM has introduced indicators to gauge the effectiveness of the Financial Management Framework, our main strategy to achieve these outcomes.

One such indicator assesses the standard of agency RSPs based on rigorous criteria. Since it was introduced in 2004-05 this indicator shows that the proportion of agreed RSPs meeting the benchmark criteria has increased from 32% to 40% in 2005-06. It is anticipated that this trend of improvement will continue in forward years.

The indicator for the quality of agency management systems will be developed within the context of the new Performance Management and Budgeting System.

OFM seeks to ensure that public sector service delivery is supported by appropriate maintenance and management of physical assets. Total Asset Management (TAM) guidelines were strengthened during 2005-06 to take into account recommendations of the Auditor-General. It is expected that the weighted percentage of agencies with TAM plans satisfying required standards will rise steadily during the coming years.

Our performance in 2005-06:

Physical Asset Policy

Treasury's responsibility for the development and implementation of policy for the management of the State's physical assets was broadened during the year.

The Office of Infrastructure Management was established within OFM. This new Directorate combines the new responsibility for the development of the State Infrastructure Strategy with Total Asset Management (TAM) and procurement policy, and the oversight of privately financed projects.

State Infrastructure Strategy

OFM's role in developing the long term State Infrastructure Strategy (SIS) was one of its key achievements during 2005-06. The inaugural SIS was issued in May 2006.

The SIS is a comprehensive plan that maps planned major government infrastructure across NSW over a ten year period and across six broad regions.

The SIS identifies the main drivers of infrastructure spending, including coastal population growth, increased ageing of the population and the impact of new technology. It links the State's capital Budget through the TAM process with these demands and longer term regional plans, including the Sydney Metropolitan Strategy.

The SIS is one of OFM's major outputs. It will be updated every two years to monitor progress and take into account the impacts of new demographic projections or policy changes.

Together with the State's *Total Asset Management* process, the SIS will ensure that agency asset programs align with service delivery plans and the Government's long-term planning strategies.

Total Asset Management Policy

In addition to the SIS, OFM continued to work at strengthening the application of Total Asset Management policy across the public sector.

TAM policy is aimed at ensuring that agencies' physical assets support efficient, effective service delivery.

A TAM plan outlines an agency's asset strategy for capital investment, maintenance and asset disposal.

It includes accommodation and information and communication technology (ICT). These plans link with the agency's RSP (if a Budget dependent agency) or Statement of Business Intent (if a government business) to provide the mechanism to ensure its assets support its service delivery needs.

During 2005-006 TAM guidelines were strengthened to reflect the recommendations of an Audit Office report issued in October 2005 - *Implementing Asset Management Reforms*.

Revisions also emphasise incorporation of ICT assets. The TAM template which prompts agencies on the appropriate content for their TAM plans was also refined to reflect this emphasis and to encourage better integration of office accommodation strategic planning.

Asset maintenance reporting was upgraded with agency labour costs included to provide a fuller picture of the Government's maintenance spend.

To assist small agencies with few assets to develop TAM plans, a case study was published to illustrate how one such agency applied the guidelines to develop its Asset Strategy.

Other action to improve the overall quality and timeliness of agencies' TAM planning included:

- greater Treasury feedback on agencies plans and TAM policy generally;
- regular Treasury TAM briefings and seminars; and
- TAM training via the Institute of Public Administration Australia.

Advice on the efficiency and effectiveness of agencies

Service Measures	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
% of RSPs finalised with agencies *	73%	91%	91%	93%	94%	100%
% of surveyed agencies satisfied that RSPs improve communication with OFM	New indicator		72%	na (biennial survey)	70%	≥ 75% by 2007

Public sector management systems

Service Measure	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
% of surveyed agencies satisfied with OFM's financial management support	74%	na (biennial survey)	80%	na (biennial survey)	77%	≥ 75%

Physical asset policy and assessment

Service Measures	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
% of surveyed agencies satisfied TAM plans improve their asset management	New indicator		60%	na (biennial survey)	62%	≥ 75% by 2007
% of surveyed agencies satisfied TAM plans improve communication with OFM	New indicator		51%	na (biennial survey)	56%	≥ 75% by 2007

* The RSP evolved following the trial of Service and Resource Allocation Agreements (SRAAs) with selected agencies during the 4 years from 1999-2000. Results against this measure relate to SRAAs up to 2002-03, and RSPs thereafter.

RSPs for 2005-06 were finalised with 94% of major agencies. As required, proposed RSPs for 2007-07 were received from all Budget dependent agencies and assisted the allocation of the Budget for the year. OFM continues to work with agencies to improve the quality of RSPs.

The majority of agencies responding to OFM's biennial client survey were satisfied that RSPs assist communication with OFM. Most agencies were also satisfied with the level of support received from OFM on financial management system and procedural matters.

OFM gives priority to working with agencies to develop and improve their TAM plans and their linkage with RSPs to ensure public sector asset management supports service delivery of the Government's priorities. Most agencies reported they were satisfied that this process has improved their asset management, and communication with OFM. We will continue working with agencies and, as the quality of TAM plans further improves, expect agency satisfaction to reach target levels by 2007.

Procurement Policy Reform

Efficient procurement policy and practice are important elements of the government investment process.

Since July 2004 when OFM assumed responsibility for the application of procurement policy across the public sector a number of key reforms have been implemented:

- the policy has been simplified and procedures strengthened;
- a Gateway Review process has been introduced to ensure major projects are independently reviewed at key stages;
- an agency Accreditation Scheme for construction has been adopted; and
- OFM's assessment and monitoring of major and complex capital projects has been strengthened.

Our performance in 2005-06:

These improvements in capital project planning, assessment and monitoring have resulted in better quality business cases and greater adherence to budgets.

During 2005-06 OFM's efforts to strengthen procurement policy and procedures continued.

A property and accommodation process map was added to the consolidated guidelines that are available from the Treasury website. More than 120 outdated/duplicated guidelines and memos were retired.

The Code of Practice for NSW Government Procurement was updated. New whole-of-government tendering guidelines were issued, incorporating requirements of the Australia–United States Free Trade Agreement.

A Gateway Review Toolkit was issued to agencies and over 150 agency staff received comprehensive training.

Gateway reviews are mandatory at the business case stage for all high risk and other procurements over \$10 million (\$5 million for ICT projects). During the year 30 reviews were conducted on projects worth \$3.3 billion.

By year end 7 agencies were accredited for construction project delivery and 13 agencies for construction project planning. Unaccredited agencies use pre-qualified external expert advisors and a standardised procurement system.

Much of the support in operating and maintaining the procurement framework, including the Gateway Review process and Accreditation Scheme, is through a service level agreement Treasury has with the Department of Commerce.

OFM has also adopted a greater role in assessing and monitoring major capital projects throughout the procurement cycle, not just up to the investment decision.

A representative sample of construction projects reveals that in recent years cost overruns have been reduced by 50%. It is assumed this improvement has resulted primarily from improved business cases with more accurate up front project budgets.

Public Sector Property Management

OFM's responsibility for asset management policy also requires it to advise on the management of public sector property.

During 2005-06 OFM led the development of a new property management model and the Government subsequently approved a package of property management reforms.

A key initiative is the creation of a new State Property Authority, which draws on the corporate real estate concept used by many private sector firms. This is aimed at improving:

- information in the Government's property register; and
- efficiency in the flexibility, use and management of the Government's property assets.

The Property Authority's focus is to ensure better productivity of generic property assets - those properties that can be used easily by any number of agencies.

Legislation creating the Authority was passed by Parliament in May 2006 and OFM is working with the Department of Commerce to ensure it is operational from 1 September 2006.

OFM is also responsible for the Crown Property Portfolio and in that capacity chairs the project steering committee that oversees the development of the *Parramatta Justice Precinct*.

This major capital project is providing a preventative health centre, trial and children's courts and office accommodation for justice-related agencies. Project progress was ahead of schedule during 2005-06:

- Following assessment of tenders, Multiplex Constructions was appointed in July 2005.
- Site work commenced in August.
- By April 2006 Jeffrey House had been refurbished and all health facilities relocated.
- The Children's Court was substantially completed by June 2006.

While cash flows were increased to match this faster than expected progress the overall project budget remains on track.

Public Sector Finances Management and Reporting

OFM is responsible to ensure that best practice accounting, financial and reporting standards are applied in the NSW public sector.

All Australian public and private sector reporting entities were required to adopt Australian Equivalents to International Financial Reporting Standards (AEIFRS) for reporting periods on or after 1 January 2005.

OFM led the convergence of the NSW public sector to AEIFRS. To this end the following actions were taken by OFM during 2005-06:

- Individual standards were analysed, focussing on significant changes and their potential impacts on public sector agencies.
- Following the distribution of mandates regarding options within standards, revised policies were issued.
- The implications of the standards were communicated to ministers and agencies and guidance provided. There was regular consultation with the Audit Office and agencies.
- Treasury's web site was continuously updated with an analysis of each AEIFR standard.
- The harmonisation of Government Finance Statistics (GFS) with AEIFRS was examined and implementation action commenced.

Further seminars will be held, as required and revised accounting policies and updated guidance will continue to be developed for subsequent amendments in AEIFRS requirements.

Reporting on State Finance

Accurate, informative and timely reports on the management of the State's finances ensure accountability for the use of public funds.

During 2005-06 a number of State financial reports were prepared and issued.

- The Treasurer, the Hon Michael Costa MLC presented the 2006-07 State Budget to Parliament on 6 June 2006.

The Budget outlines funding for general government sector service delivery and capital works. It also reports on trends in, and forecasts of, the State's overall finances including the government businesses sector.

- Monthly Financial Statements on the Budget for the year to date issued as required by legislation. Generally they issued by the end of the following month. As provided by the legislation they were delayed only when the Report on State Finances was being prepared.
- The Report on State Finances for 2004-05 was tabled in Parliament on 27 October 2005.

This reports on the Budget Result and provides a consolidated financial report for the general government and government businesses sectors.

- The Half Yearly Review of the 2005-06 NSW Budget issued on 21 December 2005.

Research and Development

OFM does not undertake Research & Development activity. However, in 2005-06 in recognition of the accounting profession's role in developing accounting standards for the public and private sectors, OFM provided a grant of \$169,000 to the Australian Accounting Research and Standards Bodies.

The grant was made under:

Program Area 53.1:
State Resource Management

Program 53.1.1:
A Stronger NSW Economy and
Better Public Services.

Our performance in 2005-06:

Improved accountability

Results Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
Number of audit qualifications in the State Accounts	3	2	2	2	1	Nil

Budget management and reporting

Service Measures	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
Delivery of printed Budget papers	B Day-1	B Day-1				
Issue of Report on the Half Yearly Budget Review	21 Dec	24 Dec	23 Dec	20 Dec	21 Dec	<31 Dec
Tabling of Report on State Finances before the statutory date	15 Nov	14 Oct	29 Oct	25 Oct	27 Oct	<31 Oct

In October 2006, the Auditor-General issued an unqualified audit opinion that the Statement on Budget Result for the year ending 30 June 2006 was presented fairly in accord with the accounting policies identified in the notes to the Statement.

The Auditor-General's audit of the Total State Sector Accounts for 2005-06 was subject to a single qualification concerning the recognition of the value of Crown reserves. The Auditor-General noted that the State is undertaking a project to identify and value the Crown reserves it controls under the *Crown Lands Act 1989*, and until that project is completed he cannot form an opinion on the value of those Crown reserves that should be recognised as land in the Accounts.

Treasury is liaising with the Department of Lands to establish a detailed project plan to complete this task.

OFM's ultimate goal is to issue State Accounts that are without audit qualification.

During 2005-06, OFM met the deadlines for the timely issue of the Budget Papers and other major reports.

The NSW Budget and other financial performance reports are available on OFM's website www.treasury.nsw.gov.au.

Microeconomic Reform

One element of our microeconomic strategy involves reviewing service delivery and funding for key sectors. The aim is to improve productivity, resource allocation and management. These special reviews, and more general analysis of agencies' financial performance, also supports application of the General Government and Commercial Sector frameworks, and in turn, the State's fiscal strategy.

Service Delivery Reviews

During 2005-06 OFM participated with relevant agencies in reforming a number of key service delivery areas.

With regard to the *Transport Sector*, OFM continued to advise the Treasurer and the Minister for Finance in their roles as shareholders of the State's transport businesses.

Specific achievements included:

- Advising on the negotiation of a new Auslink agreement with the Commonwealth for roads funding.
- Supporting the operational reform of Sydney Ferries with an upgraded Statement of Corporate Intent and a new funding structure.
- Working with Rail Corporation to introduce more rigorous financial and economic appraisal methodology to business decisions.
- Participating in a major risk management review of rail Clearways projects to ensure an effective risk identification and management strategy.
- Working with agencies in advising Government on major rail expansion proposals.
- Advising on port expansion proposals developed by the Sydney, Port Kembla and Newcastle Port Corporations in line with the Ports Growth Plan.
- Working with the Ministry of Transport to finalise the negotiation of new metropolitan bus contracts.

OFM also contributed to *Health Sector Reforms*, including those negotiated at a national level through the Council of Australian Governments (COAG).

These reforms have included the release of a *COAG National Action Plan for Mental Health* and a reform package to achieve better health for all Australians.

OFM worked with NSW Health to develop a *New Direction for Mental Health* which was NSW's contribution to the *COAG National Action Plan for Mental Health*.

The *New Direction for Mental Health* included a major investment in community based and early intervention services.

The COAG health investments include a new approach to promotion, prevention and early intervention through the Australian Better Health Initiative.

OFM is also working with NSW Health to improve the asset planning and approval process to ensure it is linked through the Total Asset Management plan to the State Infrastructure Strategy and the annual Budget process.

Working with the Department of Ageing, Disability and Home Care (DADHC), OFM also contributed to the review of *Disability Service Provision*.

This led to a new 10 Year Plan, *Stronger Together*, announced as part of the 2006-07 Budget. This plan incorporates strategies to address past budgetary problems as well as increasing demand for services. In particular, there is an emphasis on providing more assistance for people with disabilities to live in their own home.

OFM is working with DADHC to monitor the Plan's implementation and ensure successful management of services within the funding package attached to the Plan.

Our performance in 2005-06:

OFM has also participated in the implementation of agency reforms in the *Natural Resource and Land Use Management Sectors*.

Following its formation in 2004, OFM continued to work with the *Department of Primary Industries* (DPI) to consolidate its operations, revitalise its asset base and deliver efficiency measures. OFM also contributed to particular projects, such as a review of arrangements for improved management of animal pest and plant disease incursions.

OFM worked with the *Department of the Environment and Conservation* to streamline its service delivery and achieve efficiency improvements. A particular focus has been to develop a costing model for National Parks to better understand its cost structure and cost drivers of parks management in specific areas.

OFM worked closely with the *Department of Natural Resources* following its formation in 2005, to develop its Results and Service Plan and ensure a sound financial footing for the new Department.

OFM also continued to advise on and participate in the implementation of action to manage urban growth.

This included the application of the *Sydney Metropolitan Strategy* to provide a land-use planning framework for Sydney over the next 25 years to accommodate an expected additional 1.1 million residents. We were also involved with the development of draft regional strategies for the lower Hunter, South Coast, Far North Coast and Illawarra.

Working with the Department of Planning, OFM also contributed to the reformed planning system provided by the Environmental Planning and Assessment Act 1979. The Act was amended to streamline the assessment process for major projects and to improve the determination and collection of contributions for State infrastructure needed to support new developments.

OFM also assisted with the establishment of the *Growth Centres Commission*. OFM Deputy Secretary Kerry Schott was temporarily appointed to the Commission from

1 July to 31 October 2006 to guide the development of its infrastructure program and associated developer contributions.

The Sydney growth centres will accommodate 181,000 new homes. These will be supported by a \$7.5 billion infrastructure program for new schools, health facilities, roads, police stations, ambulance services and rail lines. Contributions from land developers will recover 75 per cent of the costs of these services.

Public Sector Industrial Relations Policy

OFM has a responsibility to advise the Treasurer on strategies for the reform of NSW public sector industrial relations policy, and to identify inefficient practices in agencies.

During the year, OFM worked with the Public Employment Office (PEO) on a process to ensure that all NSW public sector organisations meet the objectives of section 13 of the *Fiscal Responsibility Act (NSW) 2005*.

This requires negotiations on rates of pay and related employment conditions for general government sector employees to be consistent with the fiscal targets.

Public trading enterprises must also take this into account in their industrial relations negotiations.

Consequently the PEO prepared a Memorandum, *NSW Government Policy: Negotiating Public Sector Wages, Salaries and Employment Conditions* [M2006-04].

During the year new employment arrangements for the staff of NSW public sector statutory corporations were also enacted, in the *Public Sector Employment Legislation Amendment Act 2006*.

Better resource allocation & management

The new arrangements were in response to Commonwealth Work Choice legislation. 186,000 employees of specified authorities were transferred into direct State Government employment with existing employment conditions and accrued leave entitlements maintained.

OFM worked with the PEO to ensure appropriate administration of this new public sector employment framework.

Several Treasury Circulars were issued to advise affected agencies on the administration of the new arrangements including taxation, banking, and financial reporting implications of the change. Half-day seminars were also held to assist agencies' compliance.

Privately Financed Projects

Within OFM the Office of Infrastructure Management supports private sector delivery of public infrastructure and related services when this results in value for money outcomes.

During 2005-06 OFM guided the implementation of a number of significant Privately Financed Project (PFP) arrangements.

OFM worked in conjunction with the relevant agencies on the PFP procurement of hospitals – the redevelopment of the Newcastle Mater Hospital and the Long Bay Prison and Forensic Hospitals - and a second batch of new schools. Subsequently contracts were awarded for these projects.

PFPs already in the market were also progressed - the development of the Bonnyrigg Living Communities Project; and the procurement of 600 rail cars for Rail Corporation NSW.

A post implementation review of the New Schools Stage 1 project was published and work commenced on a post implementation review for the Eastern Creek Alternative Waste Treatment Plant.

OFM personnel also contributed to a number of reviews and enquiries, including:

- Review of Future Provision of Motorways in NSW
- The Joint Select Committee Parliamentary Inquiry into the Cross-City Tunnel
- Auditor-General's performance audits of the first new schools PFP and the Cross City Tunnel
- The Public Accounts Committee Inquiry into Public Private Partnerships.

These reviews resulted in some refinements being made to the PFP procurement process in respect of contractual disclosure; checks and balances on the public interest test; public consultation; and the tender process.

Progress was also made with establishing a national framework for PFP procurements:

- The Treasurer hosted a National PPP forum in October 2005.
- Where possible, consistency with Victoria was sought in drafting risk allocation and commercial principles for NSW social infrastructure PFPs. These draft principles also draw on recent PFP social infrastructure contracts.

OFM also started the update of the *Working with Government* guidelines that detail the policy for private financing of public infrastructure. This work takes into account the outcomes of the recent reviews and inquiries, and the experience of PFP procurements since the issue of the original guidelines in 2001.

3 Strengthened State finances

Services Provided

Advice on economic and fiscal strategies
Budget management
Financial asset and liability management
Advice on the efficiency of Government businesses

Service Measures

- NSW estimation/forecasting error relative to that of other State Treasuries for
 - General government sector expenses
 - Tax revenues
 - Key economic variables
- Deviation of actual superannuation, debt and insurance expenses from the Budget estimate
- Deviation of actual GTE distribution payments from the Budget estimate

Strategies Applied

*Advocating a **State Fiscal Strategy** to enhance the State's capacity to achieve consistent service delivery throughout economic cycles.*

*Optimising the **State's Balance Sheet** structure to ensure NSW's financial strength and budget flexibility.*

*Applying a **Commercial Sector Policy Framework** to Government businesses to:*

- *Increase their value, and*
- *Enhance accountability for their commercial performance.*

Planned Results

Strengthened State finance:

- Appropriate Budget results
- Appropriate net financial liabilities
- A fair share of Commonwealth funding
- Efficient financial asset and liability management
- Increased value of government businesses
- Improved accountability

Results Indicators

Maintenance of NSW's AAA credit rating

Budget expenses growth relative to growth in Gross State Product

Downward trend in general government sector net financial liabilities as a % of Gross State Product

At least maintenance of NSW's GST revenue share relative to an equal per capita share after 5 yearly Commonwealth Grants Commission reviews

A real return per annum on superannuation and insurance investments

An increased return on the assets of Government businesses

- **Commitment in last year's Annual Report**

Advising on responses to long term fiscal issues arising from an ageing population.

Advising on Horizontal Fiscal Equalisation (HFE) reform and implications for State taxes.

Implementing contestable arrangements for the Government's self insurance scheme, the Treasury Managed Fund (TMF).

Reforming specific government business activities as determined by Government.

Monitoring action to address Sydney's water supply and demand balance.

- **Our Achievement**

Issued the inaugural NSW Long-Term Fiscal Pressures Report examining the fiscal importance of demographic trends and resulting spending pressures.

Coordinated submissions to the Commonwealth Grants Commission on HFE, and supported the international benchmarking of Australia's federal system to demonstrate the need for reform.

Arranged new contracts for the provision of actuarial, reinsurance and risk management services for TMF, and established a data warehouse for monitoring trends and service provider performance.

Participated in the review of WSN Environmental Solutions to investigate options to ensure the continued growth of the business.

Advised on key aspects of the Metropolitan Water Plan, including options for increased recycling, accessing deep water supplies and demand management initiatives.

State Fiscal Strategy

"New South Wales' fiscal strategy is prudent..... Compliance with the strategy is likely to be consistent with the preservation of the 'AAA' rating".

Standard and Poors
24 August 2006

OFM advises the Government on the development and application of the State Fiscal Strategy. It is the core of OFM's strategic framework for managing the State's finances.

The State Fiscal Strategy is instrumental to the ongoing triple A credit rating assigned to NSW by international rating agencies.

The Fiscal Strategy is specified in the *Fiscal Responsibility Act 2005* (FRA), which took effect from 1 July 2005. The FRA contains medium and long-term fiscal targets and sets out a range of fiscal principles to address specific goals.

The FRA's fiscal targets are aimed at further strengthening the State's balance sheet:

- reducing general government net financial liabilities as a share of GSP to 7.5% or less by 30 June 2010, and to 6% or less by June 2015;
- maintaining general government underlying net debt as a share of GSP at or below its level at 30 June 2005; and
- eliminating total state sector unfunded superannuation liabilities by 30 June 2030.

The FRA's governing fiscal principles are:

- keeping the budget in operating surplus;
- constraining growth in net cost of services and expenses;
- managing public sector employee expenses;
- evaluating capital expenditure proposals;
- managing state finances with a view to long term fiscal pressures;
- maintaining or increasing general government sector net worth;
- funding employer superannuation liabilities;
- total asset management;
- prudent risk management; and
- tax restraint.

The 2005-06 Budget and actual financial outcomes for the year were consistent with the principles and targets of the State Fiscal Strategy.

NSW's Budget for 2006-07 was also framed around the updated Strategy. The main fiscal target, reducing the State's net financial liabilities (of which net debt is one component) over time remains on track. So too is the objective of eliminating state sector unfunded superannuation liabilities.

There will be a temporary departure from the net debt target over the forward estimates period. General government net debt relative to gross state product will increase during this period because of increases in expenditure on key services, weaker revenue growth, rapid growth in capital expenditure and the payment of an additional \$2.2 billion off superannuation liabilities.

However, the return of the Budget operating result to surplus as planned for 2007-08 will see underlying general government net debt heading toward the long-term target.

Strengthened State finances

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Goal
Maintenance of AAA credit rating for NSW	AAA	AAA	AAA	AAA	AAA	AAA

The maintenance of a triple A rating for NSW by international credit rating agencies is an independent indicator of the Government's management of the State's finances. It is testimony to the effectiveness of the State Fiscal Strategy and the financial management, policy advice, systems and procedures advocated by OFM.

OFM met with both the major credit rating agencies - Standard & Poor's and Moody's Investor Service - for their annual credit rating reviews. NSW's AAA credit rating was confirmed by Standard & Poor's in September 2005, and by Moody's in May 2006. Standard and Poor's also commented on the consistency with the AAA rating following the issue of the Half Year 2005-06 Budget Report and the new Budget for 2006-07.

These announcements continued the State's impressive record of holding AAA domestic credit rating with both Moody's and Standard & Poor's since ratings commenced in 1987.

Strengthened State finances

An underlying principle of the State Fiscal Strategy requires state finances to be managed having regard to long term fiscal pressures, such as the impact of an ageing population.

Consistent with this obligation, OFM:

- issues every five years a long term fiscal pressures report, and
- reports each year in the Budget Papers on the impacts of policy changes on the long-term fiscal gap.

The inaugural *NSW Long-Term Fiscal Pressures Report* was published as Budget Paper 6 of the 2006-07 Budget.

This Budget Paper projects the long-term fiscal position of NSW over a 40 year horizon.

The purpose is to estimate the impact on state finances of a range of spending pressures including those arising from the age composition of the population, lower fertility rates, rising life expectancies, and increased demands on areas such as health, social security and welfare.

An analysis of the impacts of policy changes on the long-term fiscal gap was published in Budget Paper 2.

Appropriate net financial liabilities

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
Reduction in general government sector net financial liabilities as a % of GSP	9.3%	9.1%	8.5%	8.1%	8.4%	≤ 6.0% by 30-6-2015

Appropriate budget results

4 year average growth of budget expenses ≤ average long run growth in revenue	New indicator applicable from 2005-06	Δ Exp: 5.9% Δ Rev: 5.0%	Δ Expenses ≤ Δ Revenue
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The maintenance of an appropriate level of general government sector net financial liabilities (NFL) continues to be a prime focus of the State Fiscal Strategy. As a share of the economy this measure has fallen over the last decade, from 19.2% at June 1995 to 8.4% at June 2006.

The marginal increase during 2005-06 was due to the effect of adopting the Australian Equivalents of International Financial Reporting Standards on the measurement of superannuation liabilities, which accounts for two thirds of all liabilities. The forecast trend in general government NFLs as a percentage of GSP is on track to meet the fiscal strategy's long term target.

Factors that have caused NSW Budget expenses to increase during the past four years include higher wages to teachers and nurses, and a general build up in the cost, volume and quality of health, transport, welfare and public order and safety services. This has resulted in the average increase in expenses to 2005-06 (5.9%) exceeding the long term average growth in revenues (5.0%).

The 2006-07 NSW Budget put in place measures to constrain the growth in expenses to an average of 3.8% per annum over the four years to 2009-10.

Advice on economic and fiscal strategies

Service Measure	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
OFM's tax revenue estimation error relative to that of other Treasuries	NSW: 8.5% Others: 8.3%	NSW: 9.1% Others: 9.9%	NSW: 5.5% Others: 11.6%	NSW: 1.2% Others: 8.2%	NSW: 2.9% Others: 9.2%	NSW ≤ Other States' average
OFM's economic variables forecasting error relative to that of other Treasuries	NSW: 0.74% Others: 1.27%	NSW: 0.52% Others: 1.16%	NSW: 0.87% Others: 1.02%	NSW: 0.91% Others: 1.41%	nya	NSW ≤ Other States' average

Budget management

Service Measure	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
OFM's general gov't expenses estimation error relative to that of other Treasuries	NSW: 5.0% Others: 3.5%	NSW: 5.6% Others: 3.2%	NSW: 4.3% Others: 4.6%	NSW: 2.9% Others: 3.3%	NSW: 0.1% Others: nya	NSW ≤ Other States' average

While Treasuries can have some influence over Budget outcomes they cannot control them due to external influences. While the nature and severity of external impacts may vary between jurisdictions a comparison of State Treasuries' forecasting accuracy provides some measure of relative performance with this core Treasury activity. Based on the most recently available data, in recent years OFM's performance has been better than the average of other State Treasuries.

Audit of Expenditure & Assets

In August 2005, the NSW Government commissioned an independent Audit of Government Expenditure and Assets.

Dr Michael Vertigan and Mr Nigel Stokes were appointed to undertake the audit. OFM provided support – the Executive Director, Resources and Crown headed a team of OFM officers and secondees from other agencies.

The aim was to analyse the structural issues affecting the State's finances and the forces producing them, and to investigate necessary action to address the issues.

The Audit report was submitted to the Government in January 2006. The Government's response, which was outlined in the February 2006 *Economic and Financial Statement*, focussed on action to make structural improvements to expenditure.

During the latter half of 2005-06 OFM actioned a number of tasks assigned to it from the Statement, including:

- application of agency efficiency dividend requirements;
- initial work on the new Performance Management and Budgeting System (PMBS);
- establishment of the NSW Property Authority;
- preparation of the State Infrastructure Strategy; and
- implementation of the payroll tax rebate scheme applicable to areas with higher than average unemployment.

These matters are reported in more detail in other parts of this report.

Specific measures were also incorporated in the 2006-07 Budget.

During the coming year OFM will focus on the development of the new PMBS, to support implementation of the State Plan's priorities and targets.

State Tax Policy Advice

Current federal arrangements for the distribution of GST revenues amongst the States, require NSW to rely on its own taxation revenue to a greater extent than other States.

OFM advises the government on tax policy mindful of the need to:

- ensure sufficient revenue to achieve appropriate budget results; while
- minimising the burden for NSW taxpayers.

These are both requirements of the State Fiscal Strategy. The former is aimed at *strengthening the state's finances*, while the latter ensures *a more competitive State economy*.

In practice it is difficult to distinguish these dual requirements. In this annual report OFM's contribution to tax policy is reported in the chapter on *a more competitive and sustainable business environment*.

Intergovernmental Financial Arrangements

The achievement of a fair share of federal funding is one of OFM's planned intermediate results. The State's Fiscal Strategy depends on it. The Commonwealth uses GST revenue to fund its general purpose assistance to the States.

It distributes this funding amongst the States and Territories based on the recommendations of Commonwealth Grants Commission (CGC).

The CGC reviews its assessment methods every five years and undertakes data updates annually. Work has already commenced on the review of methodology for the interstate distribution of general revenue grants that will affect payments to the States during the five years from 2010.

The terms of reference for the review require the CGC to:

- aggregate and otherwise simplify its assessments;
- apply a materiality threshold to assessments;
- eliminate unreliable assessments;
- address data quality and quality assurance issues; and
- continuously improve assessments (data and methods).

During 2005-06, OFM made submissions to the CGC on the principles and implementation of horizontal fiscal equalisation, aggregation, and materiality and reliability.

The CGC's progress report on its approach to the 2010 review was considered at the March 2006 meeting of the Ministerial Council for Commonwealth-State Financial Relations.

International Benchmarking of Australia's Federal System

The Australian system of Commonwealth funding has two significant aspects – Horizontal Fiscal Equalisation (HFE) and Vertical Fiscal Imbalance (VFI).

The CGC applies the principle of HFE when determining its recommendations for the distribution of the Commonwealth's general purpose funding (GST Revenue) across the States.

This assumes each state should have an equal capacity to provide the same level of service, provided it makes an equal effort to raise its own revenue and operates at the same level of efficiency.

Fair share of Commonwealth funding

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
At least maintenance of NSW GST share relative to an equal per capita share following 5 yearly CGC reviews	0.90631	0.89117	0.86750 (5 year review outcome)	0.86846	0.87332	Improved NSW share

NSW's share of GST revenue is adjusted following the CGC's periodic review of its assessment methods. Annual data updates also impact on state shares between the methodology reviews. The data in this table reflects the impact of methodology reviews and annual data updates.

Despite strong arguments from OFM, the last methodology review, in 2004, reduced NSW's share. The next methodological review is scheduled for 2010.

However our share of GST revenue increased marginally in 2004-05 and again in 2005-06 due to the CGC's annual update of data. These increases follow five consecutive years of losses.

Our performance in 2005-06:

VFI refers to the mismatch between the revenue-raising capacity and spending responsibilities of the States and the Commonwealth. The high degree of VFI in Australia compared with other federations, and the issues this creates for State budgeting is acknowledged.

During the year, Associate Professor Neil Warren of the University of NSW was commissioned to independently review the allocation of spending and taxing powers between the Commonwealth and State governments, and the mechanisms for intergovernmental fiscal transfers. OFM provided research support to the study.

Professor Warren found that fiscal federalism in Australia is characterised by:

- very high vertical fiscal imbalance; and
- overly complex horizontal fiscal equalisation.

The NSW Treasurer has called for a summit of Commonwealth and State leaders to address these issues. OFM will continue to use the Warren report to support NSW's case for the reform of Commonwealth/State financial arrangements.

Specific Purpose Payments

The February 2006 meeting of the Council of Australian Governments (COAG) decided to review health sector Specific Purpose Payments (SPP) arrangements, as part of the human capital aspect of the national reform agenda.

OFM is participating on the interjurisdictional SPP Working Group, which reports to Heads of Treasuries. This Group has been commissioned to advise on the impact of the Australian Health Care Agreements on the capacity of States to contribute to better health outcomes. It is due to report by September 2006.

State Balance Sheet Management

OFM helps manage the State balance sheet in accordance with State Fiscal Strategy targets, including the progressive reduction of general government net financial liabilities as a share of Gross State Product.

OFM is responsible for the management of Crown Entity financial assets and liabilities, those that apply across the public sector rather than to a particular agency - for example public sector superannuation liabilities.

Other functions include operation of the banking system for budget-dependent agencies and financial management of the Treasury Managed Fund (TMF), the Government's self-insurance scheme.

A more detailed report on the management of Crown finances is provided in the Crown Entity Annual Report, volume 3 of NSW Treasury's annual report.

Insurance Claims Management

The *NSW Self Insurance Act 2004* established the NSW Self Insurance Corporation (SICorp) to administer the TMF. SICorp which operates as a branch within OFM was fully staffed from July 2005, largely with officers transferred from other parts of OFM.

Prior to 30 June 2005 the TMF was managed solely by GIO. Following expiry of this contract, contestable service provision arrangements were introduced to improve scheme performance through exposure to competition and portability.

Following a tender process, new contracts for claims management for the five years from 1 July 2005 were entered into with GIO General Limited, Employers Mutual Limited and Allianz Australia Insurance Limited. (GIO continued to solely manage all open claims for a transitional period, from 30 June to 31 December 2005.)

SICorp Branch oversees these contestable arrangements.

During the year the Branch also conducted tenders and arranged four year contracts from 1 October 2005 for:

- actuarial services, with PricewaterhouseCoopers Actuarial and Taylor Fry (peer review actuary);
- reinsurance services, with Benfield (Australia); and
- risk management services, with Suncorp.

The Branch also established a data warehouse to facilitate monitoring of insurance claim trends and claims manager performance. The database is being refined on an ongoing basis.

While this OFM annual report details activity and staffing matters associated with SICorp, a separate more comprehensive report is also published by SICorp as required by its founding legislation.

Commercial Policy Framework

The Commercial Policy Framework (CPF) represents OFM's main strategy to maximise the value of the government's commercial businesses and to ensure accountability for their performance. Consequently, it contributes to the achievement of OFM's third planned result – strengthened State finances.

The CPF subjects government businesses to the same disciplines as private sector businesses. It comprises a suite of policies, which includes:

- Financial Distribution Policy which subjects the businesses to the discipline of paying dividends and making capital repayments to ensure an appropriate return on the Government's investment in them.
- Capital Structure Policy which determines the target mix of debt and equity for government businesses.
- Reporting and Monitoring Policy which sets out the framework for the financial performance monitoring of the businesses by NSW Treasury from a shareholder perspective.
- Government Guarantee Fee Policy which sets out the basis for payment by government businesses of a fee for Government-guaranteed debt.
- Tax Equivalent Regime Policy which exposes the businesses to Commonwealth income tax equivalents, to ensure competitive neutrality with the private sector.
- Social Program Policy under which businesses are compensated for the costs of providing non-commercial activities on behalf of the Government.
- Treasury Management Policy which establishes a framework for the management of financial risks (such as credit risk, interest rate risk, foreign exchange risk, etc).

Efficient financial asset and liability management

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Ultimate Goal
Average real return on superannuation and insurance investments	-5.8%	-1.8%	9.4%	8.7%	10.4%	≥ 3.5%

Financial asset and liability management

Service Measure	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
Deviation of actual superannuation, debt and insurance expenses from the budget estimate	14%	7%	-1%	-1.5%	-25%	≤ ±10%

The performance recorded for the accuracy of OFM's forecast of liability expenses in 2005-06 was significantly wide of the annual target. Actual costs were 25% lower than the budget estimate due to lower insurance claims largely due to legislative reforms introduced by the Government. The impact on superannuation expenses of changed accounting standards also contributed to this variance.

Our performance in 2005-06:

OFM is responsible for advising the Government's shareholding ministers (including the Treasurer and the Minister for Finance) on the application of these policies and the performance of the government's businesses.

During 2005-06 OFM reviewed some elements of the CPF.

The *Reporting and Monitoring Policy* issued in November 2005, following extensive consultation during the previous year. It superseded the 1992 *Monitoring Policy for Government Trading Enterprises*.

The revised Policy clarifies pre-existing arrangements for business planning, Statements of Corporate Intent/Statements of Business Intent and quarterly reporting. It introduces new requirements for continuous disclosure and enhanced reporting of capital projects.

Internally, to facilitate monitoring of government businesses, OFM established a financial database of key financial information obtained from published annual reports of the businesses and their counterparts in other States and the private sector.

In January 2006 OFM issued a policy paper outlining *CEO Contract Guidelines for Government Businesses*. This document provides guidance on key terms in the employment contracts of chief executives and managing directors of State Owned Corporations and other government businesses not covered by the Public Sector Employment and Management Act 2002.

The Guidelines are based on best practice corporate governance standards in the context of Government ownership.

OFM also assisted The Cabinet Office with the issue of a new Premier's memorandum *Formation and Operation of Public Sector Subsidiaries* (M2006-02). Subsidiaries formed for a commercial purpose are now to be subject to the CPF. This consistent approach across agencies will ensure that subsidiaries operate with disciplines and accountabilities to achieve efficiency and competitive neutrality.

Increased value of Government businesses

Result Indicator	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Goal
Return on PTE sector assets	4.29%	2.21%	2.56%	2.76%	3.34%	≥ 2%

Advice on the efficiency of Government businesses

Service Measure	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
Percentage of SOCs with signed Statements of Corporate Intent	100%	100%	100%	95%	100%	100%
Deviation of actual GTE distribution payments from the Budget estimate	7.0%	4.3%	7.9%	-4.2%	-3.3%	≤ ±10%

Satisfactory outcomes were achieved during 2005-06 for the results indicators and service measures that apply to OFM's interaction with government businesses.

Reform of Business Activities

OFM applies the principles of the CPF when advising on the reform of State business activities, and participates in their implementation as determined by Government.

During 2005-06 OFM advised on a number of matters associated with Government commercial activities.

This included participation in a strategic review of *WSN Environmental Solutions* (WSN).

WSN was corporatised five years ago and since then the business has improved markedly. It has established a strong position in the rapidly evolving market for recovering valuable resources from waste.

Under the NSW State Waste Avoidance Strategy, it is envisaged that the waste industry will be investing significant capital over the coming years. WSN uses a variety of mechanisms to fund capital, including direct investment, public private partnerships and joint ventures.

A range of options to ensure the continued growth of the business is being reviewed. Each option is being assessed in terms of its implications for the business and stakeholders.

The review will be completed in the new year.

OFM also finalised a Post Implementation Review of the Eastern Creek Alternative Waste Treatment facility.

OFM has an ongoing role in monitoring the implementation of the *Metropolitan Water Plan*. The plan aims to address the current drought, longer-term balance between water demand and supply, and the long term health of the Hawkesbury-Nepean and Shoalhaven River systems.

During the year OFM advised on key aspects of the plan, including:

- increased recycling;
- accessing deep water at Warragamba and Nepean dams;
- contingency plans for desalination and groundwater;
- more demand management initiatives; and
- increased environmental flows.

Our performance in 2005-06:

Organisation Building

Building a values-based organisation that facilitates the achievement of our planned business results

Our success depends on how well we work as individuals and as an organisation. Our corporate strategies for Organisation Building focus on:

- building our capability,
- strengthening support systems, and
- stakeholder alliances.

Agreed values dictate our work philosophy and prescribe appropriate behaviours for the organisation and our people.

Our Strategies

*Applying a multi-faceted **Staff Development strategy** to ensure that OFM has the capability to pursue its planned business results.*

*Applying an **Agency Relations strategy** that emphasises the need for OFM to work in partnership with other agencies in developing and implementing state financial reforms.*

*Ensuring OFM's **organisational efficiency** with strong corporate procedures and systems that support management and staff.*

- Commitment in last year's Annual Report

Advising the results of the biennial OFM staff opinion survey and taking action to address any emerging issues.

Completing the implementation of recommendations arising from the 2005 review of the role of the NSW Treasury analyst.

Ensuring the efficient implementation of OFM's new records information management system.

Our Achievement

Staff rated OFM very favourably compared with ratings other NSW public sector officers give their agencies. A new recruitment policy is to be introduced to address staff concerns with promotion processes.

In response to recommended actions OFM introduced:

- a risk based approach to agency monitoring;
- a more explicit framework for analysing agency proposals; and
- formal handover procedures when analysts change.

The new system was introduced in November 2005. Staff received training, and implementation issues were addressed throughout the year.

Staff Development

OFM is a knowledge based organisation. Continuous learning and innovation are vital to our success and are actively promoted through a comprehensive training and development program.

Learning in NSW Treasury can occur in a number of different ways.

- Face to face learning through internal or external courses.
- E-learning which allows the flexibility of courses online and course completion at an individual's own pace and time.
- On-the-job learning which is most useful when blended with structured coaching, mentoring, face to face or e-learning sessions.
- Exposure to new skills through development opportunities, rotation and committee and task force work.

OFM's program is multi-faceted emphasising improvement in our planning, and management of people and projects, technical skills, corporate citizenship and performance.

Under the 2005-06 program, 61 courses addressing technical and non-technical issues were offered in-house. Our staff also attended 39 courses hosted by other government agencies and 105 externally provided courses.

A target of at least 5 days annual training was set for every staff member. In 2005-06 training averaged 5.2 days per officer.

In September 2005, OFM commenced a partnership with *TAFE NSW* for the delivery of the Certificate IV in Government program. The program was offered to all administration staff within OFM. This program attracted funding from the Federal Government's new apprenticeship employers incentive scheme. We chose to use a blended learning style for the program consisting of:

- A process to recognise current competence, requiring participants to submit documentation outlining their abilities against a set of criteria.
- 5 face to face training modules:
 - Implementing workplace safety procedures and programs;
 - Administering simple projects;
 - Providing leadership;
 - Dealing with conflict;
 - Managing workplace relations.

Eighteen staff enrolled and by the end of June 2006 seven had completed all requirements for the qualification. It is envisaged that all staff who enrolled will graduate during 2006-07.

OFM has also encouraged staff to participate in *Australian New Zealand School of Government* (ANZSOG) programs, which provide high calibre qualifications and short courses within a public sector context. An Executive Masters of Public Administration program was established in 2003 and all OFM participants since then have achieved their qualification.

Staff Development and Wellbeing

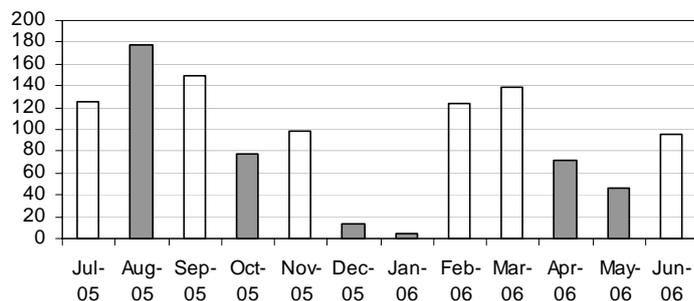
	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
Training days per staff member	4.3 days	5.3 days	5.4 days	4.9 days	5.2 days	≥5 days
% of staff participating in performance appraisals	80%	63%	82%	89%	44%	100%
% staff turnover	11%	9.4%	8.3%	8.6%	13.4%	≤20%
Sick days per staff member	4.6 days	5.2 days	4.8 days	5.0 days	4.2 days	≤5 days

Generally favourable results continue to be achieved for the indicators of the development and wellbeing of OFM staff. During 2005-06, average training per staff member was in line with the year's target. The incidence of staff sick leave was well under the targeted limit of 6 days which applied up to 2005-06. In view of past performance and reflecting the Premier's aim to reduce time lost due to sick leave this target has been reduced to 5 days or less from 2006-07.

OFM's current Performance Appraisal and Review (PAR) scheme was implemented in 2003-04 to address staff concerns with the complexity of the previous scheme. Under PAR, managers and staff provide feedback on actual performance, set personal work objectives and agree to staff development action. While initially there was a strong improvement in participation, this dropped away significantly in 2005-06. Following review by the Human Resources Executive Committee, it was determined that the current timing of interviews is problematic for both managers and staff. It is expected that rescheduling these interviews to June and January in future years will support increased participation.

Our performance in 2005-06:

Total Training Days Per Month



Australasian Treasury Officers' Conference

In November OFM hosted the 2005 Australasian Treasury Officers' Conference (ATOC), an annual forum that allows Australian and New Zealand Treasuries to exchange information on budgeting and financial management practices. 25 delegates attended.

The theme of the conference was *Positioning Central Budget Agencies for the Challenges Ahead*. Facilitated discussion and strategic thinking exercises were used to evaluate common issues and build capacity in three areas:

- improving the accuracy of agency forecasts;
- making program reviews more effective; and
- improving the use of non-financial performance information in allocating resources.

Following the conference 90% of participants rated the 2005 ATOC as either 'good' or 'excellent'.

Role of the Treasury Analyst Project

In 2004-05, OFM established a project team to examine the role of the Treasury analyst. The aim was to ensure that Treasury can continue to meet the challenges of an evolving operating environment.

The project team sought input from staff and selected agencies and examined the role of analysts in other jurisdictions.

The project report, with recommendations, was finalised in 2004-05. An implementation plan provided for 44 strategies to be implemented. Many of these were implemented during 2005-06, including:

- applying a risk based framework to agency monitoring, with detailed trend analysis for high risk agencies;
- creating a more explicit and detailed framework for considering and comparing competing agency proposals;
- introducing formal handover procedures when analysts change agency responsibilities to maintain corporate knowledge and ensure a smooth transition for agencies.

It is anticipated that this refocussing of the analyst's role will increase knowledge of agency operations, build more constructive agency relationships and lead to improved information exchange between Treasury and agencies.

Improved information for decision making should lead to improved value for money and resource allocation.

Analysts will also be better placed to:

- support the enhanced Budget process and its focus on whole of agency operations; and
- guide agencies in implementing strategic resource planning initiatives, including Results and Services Plans and supporting Total Asset Management Plans.

Recruitment Effectiveness

Effective recruitment remains crucial to the efficacy of OFM operations. Our Graduate Recruitment Program continues to be a strong source of external recruitment. During 2005-06 four new graduates commenced work with OFM.

Our new graduate recruits were selected from a field of 209 high calibre applicants. During their first 12 months the graduates are rotated through the major operational areas of OFM. At the end of their first year they are placed in a permanent position.

Staff Feedback

OFM's Commitment to Service assures its employees job satisfaction, personal development and career opportunities in an environment of strong leadership and effective management.

To monitor OFM's success in meeting these commitments, a comprehensive survey issues to staff every two years. A briefer quarterly questionnaire also provides the opportunity for staff to flag emerging issues and for management to monitor trends.

A confidential biennial survey was completed by staff in July 2005. Staff feedback was broadly very positive. More than three quarters provided a positive response to 35 of the 61 survey questions.

Benchmarking data was available for particular questions to enable the staff's rating of OFM to be compared with the ratings other NSW public sector officers give their agencies.

Generally OFM staff were more positive in their rating of OFM. In particular the view that OFM values its staff and that there is good internal cooperation was significantly higher than the average for other agencies.

However the OFM result for the perceived fairness of promotion processes was below benchmark. In response, a new recruitment policy is being developed to address issues, including the length of time taken to recruit.

OFM Ratings compared to the NSW Public Sector (% Agreeing)

	OFM	Compare to NSW Average
Staff are valued	78%	+29%
We work together cooperatively	74%	+25%
I have flexibility for family and personal commitments	93%	+11%
I receive development and career opportunities	72%	+11%
Management treats staff fairly with acting opportunities	81%	+10%
My work is fairly and objectively assessed	85%	+9%
Staff work with honesty and integrity	97%	+7%
I get opportunity to develop the skills for my job	77%	+6%
Staff selection and promotion is based on merit	64%	+5%
I feel part of a team	88%	+5%
I receive information needed to do my job	80%	-1%
The process has been fair when I have sought promotion	52%	-15%

Staff Survey Results

	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
<i>Biennial Survey:</i>						
% of staff responding	74%	na	82%	na	79%	≥75%
% of staff agreeing they are valued	na	na	74%	na	78%	≥75%
% of staff agreeing they have sufficient opportunities to develop their skills	na	na	84%	na	72%	≥75%
<i>Quarterly Questionnaire:</i>						
% of staff believing OFM values are being adhered to	94%	92%	94%	93%	93%	≥90%
% of staff satisfied with OFM	95%	95%	95%	90%	91%	≥90%
% of staff satisfied with their job	94%	94%	95%	92%	95%	≥90%

Generally OFM's biennial and quarterly staff surveys report good levels of staff satisfaction. In particular there is strong confirmation that OFM operates in a manner consistent with the values agreed to by management and staff.

Remedial action is taken whenever possible to address emerging issues. In that regard providing staff with an effective development program continues to be a priority. Currently OFM is reviewing its recruitment process.

Our performance in 2005-06:

Working with Agencies

OFM's effectiveness is very dependent on our ability to work in alliance with the other central and line agencies. A code of good practice safeguards our relationship with other agencies. The code commits us to:

- Working in partnership with agencies to pursue successful implementation of financial management reforms.
- Openness, mutual respect and the sharing of information.

Specific undertakings to agencies include:

- regular consultation,
- alliance in planning and implementing reforms,
- consistent, accurate advice, and
- timely responses.

We ask agencies every two years for their view on whether OFM has complied with the code.

The 2006 Client Survey

The June 2006 survey covered 111 agencies. It issued to both Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs). The overall response rate was 66%, marginally lower than the 69% response in 2004.

The response rate from general government agencies was 60%, and 79% from the commercial sector.

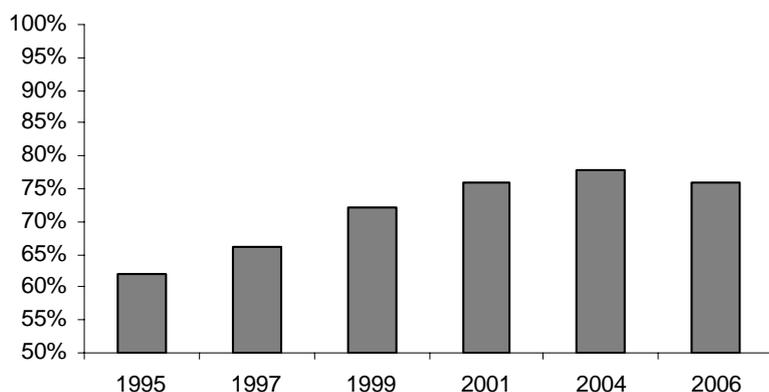
The level of agency satisfaction with OFM has remained relatively steady since the first survey in 1991. Overall, 73% of respondents to the 2006 survey expressed satisfaction with their relationship with OFM, which compared with the peak of 78% in 2004.

This dip in satisfaction during the last two years was expressed by both general government and commercial sector agencies.

While satisfaction of general government agencies in 2006 was marginally lower than it had been in the mid 1990s, commercial sector agencies' satisfaction continued to be significantly higher than it was a decade ago.

CFOs were asked 19 questions seeking their view on Treasury's compliance with the specific commitments of our code of good practice. Responses to these questions are used to calculate the Commitment to Client Service Index.

Commitment to Client Service Index

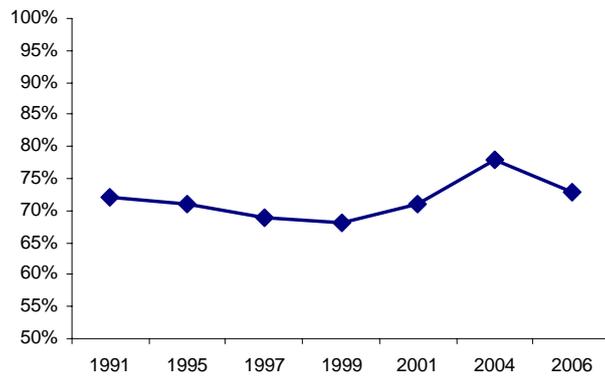


Agencies' Satisfaction

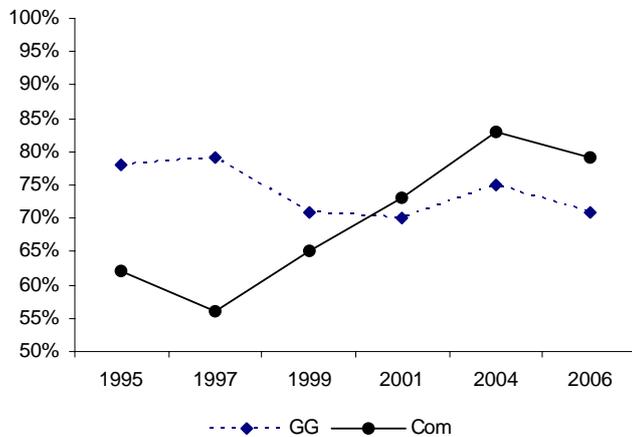
Benchmark: $\geq 75\%$	1999	2001	2004	2006
% satisfaction with relationship with OFM	68%	71%	78%	73%
% satisfaction that OFM consistently works towards the Government's economic vision and fiscal strategy	85%	84%	93%	93%
% satisfaction with OFM's financial management support	New	74%	78%	77%
% satisfaction with OFM's accounting and financial reporting guidelines and support	New	76%	82%	76%
% satisfaction that RSPs improve communication with OFM	New (target to be achieved by 2007)		72%	70%
% satisfaction that TAM plans improve communication with OFM	New (target to be achieved by 2007)		51%	56%

The 2006 biennial survey of agencies revealed a slight fall in satisfaction with OFM. This follows the improving trend reported by previous surveys. While attitudes remained positive overall, OFM will work to strengthen perceived weaknesses, including communication, consultation and assistance to agencies.

**Overall satisfaction with OFM-Agency relations
- all survey respondents**



**Overall satisfaction with OFM-Agency relations
- General Government & Commercial Sectors**



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there has been a small decrease in the Commitment to Service Index since 2004. This small decline follows steady improvements between 1995 and 2004.

More than half of CFOs agreed that OFM is currently meeting all of its client service commitments.

OFM is confident that outcomes from the recently completed review of the role of Treasury analysts will address perceived weaknesses.

The drop in the Index in 2006 reflects two particular areas:

- Attention to agency implementation issues when introducing new initiatives (2006: 53%; 2004: 69%); and
- Competency of Treasury staff to explain policies and procedures (2006: 90%; 2004: 79%).

The 2006 survey also contained a number of questions relating to recent reforms led by OFM. Analysis of the responses reveals:

- Acceptance of Results and Services Plans has increased from 53% in 2004 to 66% in 2006.
- There was 100% acceptance of Statements of Corporate/Business Intent, and a high proportion of CFOs was satisfied that their negotiation improves accountability and performance.
- 72% of CFOs reported a high level of acceptance of Total Asset Management planning, and the majority expressed a positive view of Treasury's role.
- There was high acceptance (91%) of the introduction of International Accounting Standards. However while 82% were satisfied with Treasury's advice, a lower proportion (68%) was satisfied with implementation assistance.
- 95% of CFOs reported a high level of acceptance of Government Procurement Policy.

OFM values this feedback and will attempt to address the areas of concern. In particular we will act on requests for improved communication, including more regular direct contact and site visits.

In recent years OFM has used secondments to improve our interaction with agencies. Seconded OFM officers get the opportunity to better understand agency business and priorities and the issues to be managed. Officers seconded into OFM gain an insight of the central agency perspective and OFM's strategies and requirements.

Seconded officers benefit from the professional development opportunity.

During 2005-06 twelve OFM officers were seconded to work with other agencies. Ten officers from other agencies were seconded to work in OFM.

Our performance in 2005-06:

Organisational Efficiency

OFM's corporate plan outlines our strategic management framework. It documents our mission, the results we seek to influence and the strategies we apply to maximise the impact of our services.

Results indicators allow progress towards our planned results to be monitored. Service measures report on the standard of our services.

The corporate plan also sets the framework for OFM's other planning documentation. During 2005-06, updated versions issued for:

- The Results and Services Plan;
- Directorate work plans;
- The Secretary's Performance Agreement; and
- Staff performance agreements.

Our internal and external performance reports, including this annual report and State Budget Paper 3, also reflect the structure of the corporate plan.

The corporate plan emphasises the criticality of our Organisation Building activity, including internal support systems and processes.

During 2005-06 a new system was implemented to record and track incoming, internal and outgoing documents. The previous system was replaced to facilitate future transition to full electronic document management. The change took place in November 2006.

There was ongoing communication with CCSU, the service provider, to resolve emerging operational issues.

OFM's records practices were also reviewed to ensure consistency with State Records requirements.

Project Management Performance

	01-02 Actual	02-03 Actual	03-04 Actual	04-05 Actual	05-06 Actual	Target
Work plan milestones achieved	80%	62%	76%	77%	82%	≥80%
Correspondence/ projects completed by due date	79%	82%	82%	83%	83%	≥80%
Correspondence/ projects on hand that are late	19%	29%	8%	11%	2%	≤20%
Average days late for correspondence/ projects completed late	9 days	11 days	8 days	10 days	16 days	≤10 days

Again in 2005-06 OFM performed well against the targets set for the timely completion of work plan projects and attendance to correspondence and other registered projects.

OFM took the opportunity created by the transition to a new records system to attend to a stock of overdue outstanding projects carried forward from the previous year. This explains the higher than targeted result for the number of days late for projects completed late, notwithstanding strong performance against the in year timeliness measures.

Performance Review and Risk Management

OFM's Audit and Risk Committee oversees regular performance reviews of our key activities and functions. The areas to be reviewed are outlined in an annual Audit Plan and are determined based on exposure to potential financial or operating risks.

The Committee's seven members include three members of OFM's Executive and an independent. Its charter, which is on our Intranet, charges it with responsibility to:

- oversee the internal audit function, risk management, corporate governance and other internal assurance processes that operate within OFM;
- assess risks arising from OFM's operations and the adequacy of measures to moderate those risks;
- ensure the integrity of external financial reporting; and
- ensure appropriate management reporting.

During 2005-06 the Committee met on eight occasions and addressed many significant activities, including:

- OFM's Internal Audit Plan for 2005-06;
- matters raised in the 2004-05 external audit of Crown Entity and Total State Sector Accounts;
- application of Australian Equivalents of International Financial Reporting Standards to the Crown Entity, and the impact on OFM's resources;
- definitional review of the Crown Entity for financial reporting purposes;
- valuation of Crown Reserve Trusts;
- clarifying agencies' responsibilities to report on Crown contingent liabilities and guarantees to ensure their full reporting (see Treasury Circular TC06/15, issued 27 June 2006);
- protocols for clear communication between OFM

and the NSW Audit Office to ensure prompt action on audit issues; and

- compliance with Premier's Department Guidelines on contract disclosure.

Representatives of the NSW Audit Office and the Internal Audit Bureau (IAB) attended all meetings of the Committee as observers.

OFM contracts the IAB to carry out the internal audits scheduled in the annual audit plan. The Committee considered reports on the following internal audit reviews in 2005-06:

- Efficacy of OFM's role in Procurement Policy implementation;
- Efficacy of management and governance arrangements between OFM and the NSW Treasury Corporation;
- IT governance control environment;
- Efficacy of OFM's role in the management of long term contracts and major projects; and
- Electricity Tariff Equalisation Fund.

The audit findings were generally satisfactory. Recommendations to improve performance and processes were considered and implementation plans are being monitored by the Committee.

In the year ahead the Audit and Risk Committee will continue reviewing draft external financial statements that OFM prepares for the Crown Entity and the Total State Sector.

Internal audit reviews will continue to focus on the potential areas of risk identified in the Risk Assessment undertaken in 2003-04 as well as responding to risks identified since the last comprehensive review.

Risk Management and Insurance

OFM is responsible for the administration of the *Public Authorities (Financial Arrangements) Act*. That involves reviewing the appropriateness of agencies' financial risk management activities.

Agencies with high financial risks are reviewed annually while those with lower risk financial arrangements are reviewed less frequently.

During the year OFM commenced a review of the Act with a view to recommending legislative and policy changes to:

- strengthen the underlying risk management framework;
- update and simplify the Act; and
- streamline associated processes.

The *Treasury Managed Fund (TMF)*, the Government's self insurance scheme, encourages effective risk management by participating agencies. Those that manage risk well are rewarded with lower premiums. Those that do not are penalised.

OFM is covered for a range of insurances under the TMF and acts to reduce its operational risks to achieve lower premiums. For example, workers' compensation risks are managed with early intervention, workplace inspections and active rehabilitation.

Our performance in 2005-06:

Communication Strategies

OFM's Information Management and Technology Plan supports the achievement of our planned results.

Our web and intranet sites are continuously upgraded and expanded to improve internal and external communication. The most popular destinations on our sites are tracked to ensure the most accessible presentation of required information.

Our officers can access manuals, guidelines, professional development material, internal reports and information from the intranet.

During 2005-06 the website was given a minor facelift, including the incorporation of staff photographs to promote NSW Treasury's corporate image and our cultural diversity.

A number of adjustments also were made to enhance navigation and compliance with accessibility standards.

The internal OFM Web User Group (formed in 2004-05) identified user requirements for the proposed application of a Content Management System (CMS) to the OFM web and intranet sites.

In that regard vendor proposals were sought for the provision of a CMS. Following investigation a number of proposed systems were found to be unsuitable either due to cost or system incompatibility.

Subsequently some internal options utilising open source systems were pursued in conjunction with the Office of State Revenue. It is anticipated that a CMS will be in place by late 2006, including greater scope for extranet facilities to agencies.

The new CMS will provide for devolved updates to content, allowing the OFM web and intranet sites to be updated with even greater efficiency.

This is consistent with OFM's policy of using IT solutions to ensure our ongoing development.

Electronic Service Delivery

To ensure our clients are given current and accurate information OFM applies the Government's Electronic Service Delivery Strategy.

Our web site offers access to:

- all NSW Treasury publications including Policy & Guidelines Papers; Research & Information Papers, Treasury Circulars and annual reports;
- reports on NSW financial management, including the State Budget Papers and the State Infrastructure Strategy; and
- details of available OFM jobs and OFM tender specifications.

New Treasury Circulars and our Treasury Focus newsletter issue solely via the web site.

Areas of the site are targeted at particular clients:

- Working With Government
- Information for Agencies

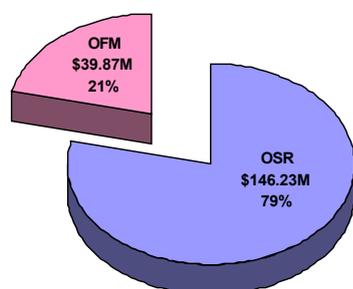
Again the use of the on-line subscription service increased with more users registering to receive automatic notification whenever particular web information is updated. This was reflected in Treasury Circular Index page being the sixth most accessed page.

Facilities are also in place for agencies to lodge their financial data electronically directly into Treasury's Financial Information System.

OFM Website Top 10 pages	2004-2005	2005-2006
Publications Index	2	1
Current Budget Papers	4	2
Budget Papers Index	3	3
Link Page	8	4
Treasury Search Page	6	5
2006 Treasury Circular Index	..	6
Current OFM jobs	5	7
Introduction to Procurement	9	8
Publications by Policy Area	7	9
About OFM Page	..	10

OFM's resources

Treasury Expenses*



* Excludes \$285.6 million for OSR First Home Owner Grants Scheme payments.

OFM's Budget

OFM's share of NSW Treasury's total expenses during 2005-06 was \$39.87 million, or 21%. This was slightly less than in the previous year.

Controlled Net Cost of Services (CNCOS) is used as the baseline budget indicator. It measures total expenses less revenue and excluding non-controllable and unfunded items such as depreciation.

On this measure OFM operated within its budget for the year - actual CNCOS of \$30.9 million compared with the budget of \$32.5 million, a saving of roundly \$1.5 million.

In managing its finances OFM closely monitors actual CNCOS against the budget. This year's actual result showed that OFM utilised just over 95% of its budget.

Benchmark ≤100%	2001-02 Actual	2002-03 Actual	2003-04 Actual	2004-05 Actual	2005-06 Actual
% of actual CNCOS to Budget	87%	100%	91%	100.4%	95.3%

Actual CNCOS for 2005-06 was \$3.6 million lower than in the previous year, due to lower expenses (\$1.6 million) and higher revenues (\$1.9 million).

Employee related costs account for the bulk of OFM's expenditure - approximately 68%. The year end result saw this item fall \$485,000 (2%) under the budgeted amount - the level of expenditure about the same as the previous year.

The employee related result reflects the net effect of a combination of factors including:

- a general award increase,
- vacancies resulting from recruitment difficulties in some areas, and
- transfer of ministerial office budgets from host agencies to the Ministerial and Parliamentary Services Unit in the Premier's Department.

Other operating expenditure of \$11.9 million was \$1.4 million lower than in the previous year. This reflected the transfer of the ministerial office referred to above, and one off expenditure on vendor duty no longer being required following its abolition.

These reductions were partly offset by additional expenditure associated with the Self Insurance Corporation and the Snowy Hydro project.

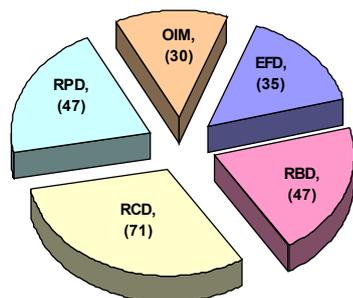
A number of other factors impacted on the OFM budget during 2005-06, including:

- Transfer to OFM of responsibility for preparing and monitoring the State Infrastructure Plan, which involved five positions and associated budget provision.
- Establishment of a National Reform project team to respond to the Commonwealth agenda.
- Achievement of global savings required by all agencies.
- Transfer of a share of the CCSU provided records information system to OFM, as an intangible asset.

OFM fully utilised its 2005-06 capital allocation of \$363,000 to improve back up processes, purchase software, replace office equipment and upgrade computers with extinguished value and warranty.

Our performance in 2005-06:

OFM Directorate Staff *



EFD = Economic & Fiscal Directorate
OIM = Office of Infrastructure Management
RBD = Resources & Budget Directorate
RCD = Resources & Crown Directorate
RPD = Resources & Planning Directorate

* Executive and support staff have been allocated across Directorates on a pro rata basis. Numbers do not add to the OFM total due to the treatment of part time staff.

OFM's People

OFM depends on the excellence of its people, operational strategies and support systems to ensure successful outcomes.

Our organisation building activity is underpinned by strategic support plans which contribute to our ongoing development and the achievement of planned business results.

The **Human Resource Plan** outlines strategies to enhance the performance and contribution of our staff. The **Information Management and Technology Plan** provides for technology to support our current and future performance.

Staff Numbers & Grading Structure

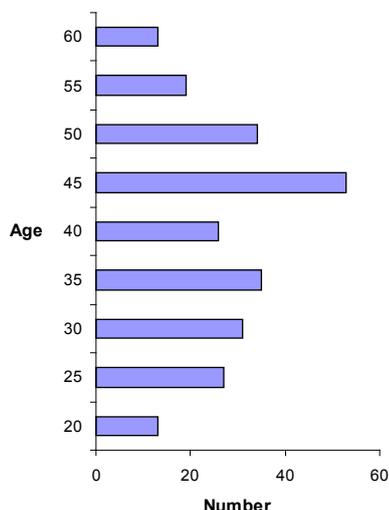
	2001-02	2002-03	2003-04	2004-05	2005-06
Executive	5	5	6	6	6
Branch Directors	17	19	20	20.4	19.6
Treasury Technical Officers	20	19	27	31.4	32.2
Grade 7-12	96	105	113.2	114.5	113.3
Grade 3-6	35	34	42	50.6	48
Grade 1-2	2	2	12.6	3	2.8
Clerical Officer 3/4	14	14	0	0	0
Clerical Officer 1/2	2	0	0	0	0
DPO	8	9	8	10	4
	199	207	228.8	235.9	225.9

The staff increase in 2003-04 was mainly due to the transfer to OFM of the asset management and procurement policy function and staff from the former Department of Public Works and Services.

The increase in 2004-05 mainly reflects the staffing of the new Self Insurance Branch which was established to undertake new OFM responsibilities associated with the operation of contestable arrangements for the State's self insurance scheme. A review of OFM's internal administration that year resulted in the deletion of some positions and the reclassification of other support positions.

The decrease in 2005-06 is largely due to the removal from OFM's numbers of the staff of SiCorp Branch, formerly Self Insurance Branch. (SiCorp staff numbers are reported separately in its own annual report in line with the requirements of *NSW Treasury Circular TC06/13*.) Five staff positions were also transferred to OFM from the former Department of Infrastructure Planning and Natural Resources for the new State Infrastructure Plan function assigned to OFM.

OFM Staff Age Profile



Chief Executive & Senior Executive Officers

	2001-02		2002-03		2003-04		2004-05		2005-06	
	M	F	M	F	M	F	M	F	M	F
Level 8	1	-	1	-	1	-	1	-	1	-
Level 7	-	-	-	-	-	-	-	-	-	-
Level 6	-	-	-	-	2	-	2	-	2	1
Level 5	4	-	4	-	2	1	2	1	2	-
Level 4	-	-	-	-	-	-	-	-	-	-
Level 3	-	1	1	-	1	1	-	1	1	2
Level 2	1	-	14	4	13	5	14.8	4.6	12	4.6
Level 1	10	5	-	-	-	-	-	-	-	-
	16	6	20	4	19	7	19.8	6.6	18	7.6

2005-06 numbers exclude SiCorp in line with the requirements of *NSW Treasury Circular TC06/13*. SiCorp issues its own annual report.

OFM's Processes

Major Assets Acquired in 2005-06

Hardware:	\$'000
Personal Computing	67
Other Computer Equipment	88
Total Hardware	155
Intangible Software	743*
Office Equipment	59
Office Furniture	0
Total Major Assets	957

* includes \$700,000 for the new Records and Information Management System (RIMS)

Accounts Payable Performance

OFM contracts the Central Corporate Services Unit (CCSU) of the Department of Commerce to provide financial transaction services.

The service level agreement provides for CCSU to process the payment of OFM accounts after they have been verified and approved for payment by delegated OFM officers.

The following table reports on the total time taken by OFM and CCSU officers to administer payments.

Credit Card Certification

OFM's *Credit Card Policy and Procedures Statement* outlines the requirements for the issue, use and administration of cards. These rules are in line with Government policy outlined in Treasurer's Directions and Treasury Circulars.

The *Statement* is available to all OFM staff from OFM's intranet.

In accordance with Treasurer's Direction 205.01, it is certified that credit card usage by officers of OFM has been in line with the Government's requirements.

Value of outstanding invoices by age at the end of each quarter

Quarter	Current (ie within due date)	Less than 30 days overdue	Between 30 and 60 days overdue	Between 60 and 90 days overdue	More than 90 days overdue
	\$	\$	\$	\$	\$
September 2005	11,129	0	0	0	0
December 2005	9,734	0	0	0	0
March 2006	16,904	0	0	0	0
June 2006	1,434	0	0	0	0

Accounts paid on time during each quarter

Quarter	Total Accounts Paid on Time			\$	Total Amount Paid \$
	Target %	Actual %			
		By Number	By Value		
September 2005	88	87	90	3,351,487	3,713,415
December 2005	88	90	88	2,707,031	3,067,538
March 2006	88	87	88	3,410,233	3,865,184
June 2006	88	94	97	4,160,998	4,283,943

There were no significant events that affected payment performance during 2005-06.

There were no instances where penalty interest was paid in accord with section 18 of the Public Finance and Audit (General) Regulation 1995.

It is expected that electronic processing of accounts and the increasing use of Purchase Orders for recurring purchases will continue to improve accounts processing performance.

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Treasury's Audited Financial Statements 2005-06

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The following audited 2005-06 Financial Statements provide the consolidated NSW Treasury accounts.

They represent the combined financial statements of OFM and OSR.



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

TREASURY

To Members of the New South Wales Parliament

Audit Opinion

In my opinion the financial report of Treasury:

- presents fairly the Treasury's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 45E of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

My opinion should be read in conjunction with the rest of this report.

Scope

The Financial Report and Secretary's Responsibility

The financial report comprises the operating statement, statement of changes in equity, balance sheet, cash flow statement, program statement - expenses and revenues, summary of compliance with financial directives and accompanying notes to the financial statements for the Treasury, for the year ended 30 June 2006.

The Secretary is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Secretary in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Secretary had not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Treasury,
- that it has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the financial report.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



A T Whitfield
Acting Auditor-General

SYDNEY
7 September 2006

STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F of the Public Finance and Audit Act 1983, I state that:

- (a) the accompanying financial statements in respect of the year ended 30 June 2006 have been prepared in accordance with applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the requirements of the *Public Finance and Audit Act 1983* and Regulation 2005, and the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Agencies or issued by the Treasurer under section 9(2) of the Act;
- (b) the statements and notes exhibit a true and fair view of the financial position and transactions of the Department; and
- (c) there are no circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.



J Pierce
Secretary
4 September 2006

Operating Statement for the Year Ended 30 June 2006

	Notes	Actual 2006 \$'000	Budget 2006 \$'000	Actual 2005 \$'000
Expenses excluding losses				
Operating expenses				
Employee related	2(a)	109 394	110 342	105 978
Other operating expenses	2(b)	48 211	48 078	56 268
Depreciation and amortisation	2(c)	11 510	14 772	11 788
Grants and subsidies	2(d)	302 436	277 356	261 511
Other expenses	2(e)	145	-	217
Total Expenses excluding losses		471 696	450 548	435 762
Less:				
Revenue				
Sale of goods and services	3(a)	27 884	25 096	25 999
Investment revenue	3(b)	1 575	1 257	2 216
Retained taxes, fees and fines	3(c)	116	148	254
Grants and contributions	3(d)	701	80	68
Other revenue	3(e)	6 375	6 233	4 730
Total Revenue		36 651	32 814	33 267
Loss on disposal	4	(6)	-	(24)
Other gains/(losses)	5	62	-	(103)
Net Cost of Services	20	434 989	417 734	402 622
Government Contributions				
Recurrent appropriation	6	421 820	396 446	377 847
Capital appropriation	6	11 346	11 725	20 232
Acceptance by the Crown Entity of employee benefits and other liabilities	7	6 734	5 242	12 615
Total Government Contributions		439 900	413 413	410 694
SURPLUS/ (DEFICIT) FOR THE YEAR	16	4 911	(4 321)	8 072

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the year ended 30 June 2006

	Note	Actual 2006 \$'000	Budget 2006 \$'000	Actual 2005 \$'000
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		-	-	-
Surplus/ (Deficit) for the year	16	4 911	(4 321)	8 072
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR		<u>4 911</u>	<u>(4 321)</u>	<u>8 072</u>

The accompanying notes form part of these financial statements.

Balance Sheet as at 30 June 2006

	Notes	Actual 2006 \$'000	Budget 2006 \$'000	Actual 2005 \$'000
ASSETS				
Current Assets				
Cash and cash equivalents	9	17 436	11 627	12 901
Receivables	10	<u>12 518</u>	<u>12 404</u>	<u>12 404</u>
Total Current Assets		<u>29 954</u>	<u>24 031</u>	<u>25 305</u>
Non-Current Assets				
Receivables	10	5	2	2
Property, plant and equipment				
- Plant and equipment	11	34 118	45 246	28 742
Intangible assets	12	<u>19 791</u>	<u>5 092</u>	<u>24 643</u>
Total Non-Current Assets		<u>53 914</u>	<u>50 340</u>	<u>53 387</u>
Total Assets		<u>83 868</u>	<u>74 371</u>	<u>78 692</u>
LIABILITIES				
Current Liabilities				
Payables	13	5 297	5 478	5 478
Provisions	14	11 306	9 076	9 076
Other	15	<u>736</u>	<u>338</u>	<u>338</u>
Total Current Liabilities		<u>17 339</u>	<u>14 892</u>	<u>14 892</u>
Non-Current Liabilities				
Provisions	14	122	2 140	2 140
Other	15	<u>207</u>	<u>371</u>	<u>371</u>
Total Non-Current Liabilities		<u>329</u>	<u>2 511</u>	<u>2 511</u>
Total Liabilities		<u>17 668</u>	<u>17 403</u>	<u>17 403</u>
Net Assets		<u>66 200</u>	<u>56 968</u>	<u>61 289</u>
EQUITY				
Reserves		-	-	-
Accumulated funds		<u>66 200</u>	<u>56 968</u>	<u>61 289</u>
Total Equity	16	<u>66 200</u>	<u>56 968</u>	<u>61 289</u>

The accompanying notes form part of these financial statements.

Cash Flow Statement for the Year Ended 30 June 2006

	Notes	Actual 2006 \$'000	Budget 2006 \$'000	Actual 2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments				
Employee related		(100 824)	(105 100)	(97 160)
Grants and subsidies		(303 044)	(277 356)	(263 413)
Other		(57 523)	(55 907)	(97 497)
Total Payments		(461 391)	(438 363)	(458 070)
Receipts				
Sale of goods and services		27 790	25 096	32 354
Retained taxes, fees and fines		116	148	255
Interest received		1 891	1 257	1 716
Other		13 895	14 142	13 236
Total Receipts		43 692	40 643	47 561
Cash Flows from Government				
Recurrent appropriation		421 660	396 446	377 847
Capital appropriation		11 346	11 725	20 232
Cash reimbursements from the Crown Entity		-	-	4 626
Cash transfers to the Consolidated Fund		571	-	(631)
Net Cash Flows from Government		433 577	408 171	402 074
NET CASH FLOWS FROM OPERATING ACTIVITIES	20	15 878	10 451	(8 435)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of plant and equipment	4	3	-	12
Purchases of plant and equipment		(10 684)	(3 861)	(8 244)
Other		(662)	(7 864)	(12 267)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(11 343)	(11 725)	(20 499)
NET INCREASE/(DECREASE) IN CASH		4 535	(1 274)	(28 934)
Opening cash and cash equivalents		12 901	15 734	41 835
CLOSING CASH AND CASH EQUIVALENTS	9	17 436	14 460	12 901

The accompanying notes form part of these statements.

Program Statement - Expenses and Revenues for the year ended 30 June 2006

DEPARTMENT'S EXPENSES & REVENUES	Program 64.1.1*		Program 64.2.1*		Program 64.3.1*		Program 64.4.1*		Not Attributable		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Expenses excluding losses												
Operating expenses												
Employee related	27 264	27 256	55 845	52 332	22 399	22 704	3 886	3 686	-	-	109 394	105 978
Other operating expenses	11 992	13 427	16 892	19 494	18 347	22 101	980	1 246	-	-	48 211	56 268
Depreciation and amortisation	448	667	7 710	5 794	2 734	4 812	618	515	-	-	11 510	11 788
Grants and subsidies	169	169	16 673	12 176	-	-	285 594	249 166	-	-	302 436	261 511
Other expenses	-	-	-	-	145	217	-	-	-	-	145	217
Total Expenses excluding losses	39 873	41 519	97 120	89 796	43 625	49 834	291 078	254 613	-	-	471 696	435 762
Revenue												
Sale of goods and services	16	14	3 667	3 094	24 193	22 853	8	38	-	-	27 884	25 999
Investment revenue	302	338	602	757	624	1 055	47	66	-	-	1 575	2 216
Retained taxes, fees and fines	-	-	-	-	116	254	-	-	-	-	116	254
Grants and contributions	700	-	-	14	1	53	-	1	-	-	701	68
Other revenue	5 653	4 353	710	361	(30)	-	42	16	-	-	6 375	4 730
Total Revenue	6 671	4 705	4 979	4 226	24 904	24 215	97	121	-	-	36 651	33 267
Gain / (loss) on disposal	2	5	-	-	(8)	(29)	-	-	-	-	(6)	(24)
Other gains/ (losses)	-	-	-	-	-	-	62	(103)	-	-	62	(103)
NET COST OF SERVICES	33 200	36 809	92 141	85 570	18 729	25 648	290 919	254 595	-	-	434 989	402 622
Government contributions **	-	-	-	-	-	-	-	-	439 900	410 694	439 900	410 694
NET (EXPENDITURE)/REVENUE FOR THE YEARS	(33 200)	(36 809)	(92 141)	(85 570)	(18 729)	(25 648)	(290 919)	(254 595)	439 900	410 694	4 911	8 072
ADMINISTERED EXPENSES & REVENUES												
Administered Expenses												
Other (Note 26)	-	-	110 010	93 932	-	-	-	-	-	-	110 010	93 932
Total Administered Expenses	-	-	110 010	93 932	-	-	-	-	-	-	110 010	93 932
Administered Revenues												
Consolidated Fund Revenue earned (Note 27(a))												
Taxes, fees, and fines	-	-	13 857 545	13 295 825	255 690	266 914	-	-	-	-	14 113 235	13 562 739
Other	-	-	452 165	415 698	-	-	-	-	-	-	452 165	415 698
Total Administered Revenues	-	-	14 309 710	13 711 523	255 690	266 914	-	-	-	-	14 565 400	13 978 437
Administered Revenues less Expenses	-	-	14 199 700	13 617 591	255 690	266 914	-	-	-	-	14 455 390	13 884 505

* The name and purpose of each program is summarised in Note 8.

** Appropriations are made on a department basis and not to individual programs. Consequently, government contributions must be included in the "Not Attributable" column.

Summary of Compliance with Financial Directives for the year ended 30 June 2006

	2006				2005			
	Recurrent Appropriation	Expenditure/ Net Claim on Consolidated Fund	Capital Appropriation	Expenditure/ Net Claim on Consolidated Fund	Recurrent Appropriation	Expenditure	Capital Appropriation	Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Original Budget Appropriation/ Expenditure								
▪ Appropriation Act	396 446	396 188	11 725	11 333	399 679	377 087	18 308	18 302
▪ Additional Appropriations s 21A PF&A Act-special appropriation	17 000	17 000	-	-	-	-	-	-
▪ s 24 PF&A Act- transfers of functions between departments	548	548	13	13	-	-	-	-
	413 994	413 736	11 738	11 346	399 679	377 087	18 308	18 302
Other Appropriations/Expenditure								
▪ Treasurer's Advance	-	-	-	-	543	537	2 097	1 746
▪ Section 22 – expenditure for certain works and services	10 000	6 594	-	-	-	-	-	-
▪ Transfers from another department (section 27 of the Appropriation Act)	-	-	-	-	944	923	242	241
▪ Transfers to another department (section 27 of the Appropriation Act)	-	-	-	-	(700)	(700)	-	-
▪ Transfers from another department (section 28 of the Appropriation Act)	1 490	1 490	-	-	-	-	-	-
	11 490	8 084	-	-	787	760	2 339	1 987
Total Appropriations/ Expenditure/ Net Claim on Consolidated Fund (includes transfer payments)	425 484	421 820	11 738	11 346	400 466	377 847	20 647	20 289
Amount drawn down against Appropriation		421 999		11 738		377 847		20 232
Liability to Consolidated Fund (Note 15)		179		392		-		-

- The Summary of Compliance is based on the assumption that Consolidated Fund moneys are spent first (except where otherwise identified or prescribed).
- The “Liability to Consolidated Fund” represents the difference between the “Amount drawn down against Appropriation” and the “Total Expenditure / Net Claim on Consolidated Fund”.

Notes to the Financial Statements

30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The NSW Treasury, as a reporting entity comprises all the operating activities of the Office of Financial Management (OFM) and the Office of State Revenue (OSR). The OFM serves the Treasurer and the Government by providing economic, budgetary and financial advice on the effective management of and accounting for the State's finances and for providing timely and relevant information on the overall State finances. The OSR is responsible for the administration and collection of specific taxes imposed by the State of New South Wales and income tax equivalents from State Government businesses. OSR is also responsible for the processing and enforcement of fines, administration and payment of grants under the First Home Owner Grant Scheme (FHOGS) and Unclaimed Money.

In the process of preparing the financial statements for the department, all transactions between the OSR and the OFM have been eliminated.

The NSW Treasury is a NSW government department. The NSW Treasury (the department) is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. It is consolidated as part of the NSW Total State Sector Accounts.

Administered activities are consolidated as part of the Crown Entity accounts.

This financial report for the year ended 30 June 2006 has been authorised for issue by the Secretary on 4 September 2006.

(b) Basis of Preparation

The departments's financial report is a general purpose financial report which has been prepared in accordance with:

- applicable Australian Accounting Standards (which include Australian equivalents to International Financial Reporting Standards (AEIFRS))
- the requirements of the *Public Finance and Audit Act 1983* and Regulation 2005, and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependant General Government Sector Agencies or issued by the Treasurer.

Property, plant and equipment is measured at fair value. Other financial report items are prepared in accordance with the historical cost convention.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial report.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Statement of Compliance

The financial statements and notes comply with Australian Accounting Standards, which include AEIFRS.

This is the first financial report prepared based on AEIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly, except as stated below.

In accordance with AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and Treasury Mandates, the date of transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* has been deferred to 1 July 2005. As a result, comparative information for these two Standards is presented under the previous Australian Accounting Standards which applied to the year ended 30 June 2005.

The basis used to prepare the 2004/05 comparative information for financial instruments under previous Australian Accounting Standards is discussed in Note 1 (y) below. The financial instrument accounting policies for 2005/06 are specified in Notes 1 (r) and 1 (v), below.

Reconciliation of AEIFRS equity or surplus or deficit for 30 June 2005 to the balances reported in the 30 June 2005 financial report are detailed in Note 29.

(d) Administered Activities

The department administers, but does not control, certain activities on behalf of the Crown Entity. It is accountable for the transactions relating to those administered activities but does not have the discretion, for example, to deploy those resources for the achievement of the department's own objectives.

Transactions and balances relating to the administered activities are not recognised as the department's revenues, expenses, assets and liabilities, but are disclosed in the accompanying schedules as "Administered Revenues", "Administered Expenses", "Administered Assets" and "Administered Liabilities".

In accordance with the Crown Entity's current revenue recognition policy (TC 92/25 "Accounting for Crown Revenue") State taxation revenue is recognised as follows:

- Government-assessed revenues (primarily land tax) are regarded as being able to be measured reliably at the time of issuing the assessment.
- Taxpayer-assessed revenues (including pay-roll tax) are regarded as being able to be measured reliably when the funds are received by the tax collecting department. Additional revenues are recognised for assessments subsequently issued following the review of returns lodged by taxpayers.
- Interest payable on government and taxpayer - assessed revenues is brought to account on a daily basis.
- Fines (such as those issued by the Courts) and enforcement orders issued by the State Debt Recovery Office (SDRO) are regarded as being able to be measured reliably when the fine or enforcement order is issued. Infringements issued, are regarded as being able to be measured reliably when the cash is received.

(e) Income Recognition

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below.

(i) Parliamentary Appropriations and Contributions

Parliamentary appropriations and contributions from other bodies (including grants and donations) are generally recognised as income when the department obtains control over the assets comprising the appropriations and contributions. Control over appropriations and contributions are normally obtained upon the receipt of cash.

An exception to the above is when appropriations are unspent at year end. In this case the authority to spend the money lapses and generally the unspent amount must be repaid to the Consolidated Fund in the following financial year. As a result, unspent appropriations are accounted for as liabilities rather than revenue.

The liability is disclosed in Note 15 as part of "Current / Non-Current Liabilities-Other". The amount will be repaid and the liability will be extinguished in the next financial year.

(ii) Sale of Goods

Revenue from the sale of goods is recognised as revenue when the department transfers the significant risks and rewards of ownership of the assets.

(iii) Rendering of Services

Revenue is recognised when the service is provided or by reference to the stage of completion (based on labour hours incurred to date). Infringement fees are recognised when the service is provided. Land tax search fees are recognised as revenue when the department obtains control of the assets that result from them.

(iv) Investment Revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*

(f) Employee Benefits and Other Provisions

(i) Salaries and Wages, Annual Leave, Sick Leave and On-Costs

Liabilities for salaries and wages (including non-monetary benefits), annual leave and paid sick leave that fall due wholly within 12 months of the reporting date are recognised and measured in respect of employees' services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

The outstanding amounts of pay-roll tax, workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

(ii) Long Service Leave and Superannuation

The department's liabilities for long service leave and superannuation are assumed by the Crown Entity. The department accounts for the liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item described as "Acceptance by the Crown Entity of Employee Entitlements and other Liabilities". Prior to 2005/06 the Crown Entity also assumed the defined contribution superannuation liability.

Long service leave is measured at present value in accordance with AASB 119 *Employee Benefits*. This is based on the application of certain factors (specified in NSWTC 06/09) to employees with five or more years of service, using current rates of pay. These factors were determined based on an actuarial review to approximate present value.

The superannuation expense for the financial year is determined by using the formulae specified in the Treasurer's Directions. The expense for certain superannuation schemes (ie, Basic Benefit and First State Super) is calculated as a percentage of the employees' salary. For other superannuation schemes (ie State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of the employees' superannuation contributions.

(iii) Other Provisions

Other provisions exist when: the department has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Any provisions for restructuring are recognised only when an department has a detailed formal plan and the department has raised a valid expectation in those affected by the restructuring that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected.

(g) Insurance

The department's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self-insurance for Government agencies. The expense (premium) is determined by the Fund Manager based on past claim experience.

(h) Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where:

- the amount of GST incurred by the department as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.
- receivables and payables are stated with the amount of GST included.

(i) Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the department. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

Fair value means the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Where payment for an item is deferred beyond normal credit terms, its cost is the cash price equivalent, i.e. the deferred payment amount is effectively discounted at an asset-specific rate.

(j) Capitalisation Thresholds

Office furniture and equipment costing at least \$5 000 is capitalised. Computer hardware costing at least \$1 000 is also capitalised. However, grouped assets with inter-related functions such as the computer network and revenue receiving equipment are capitalised regardless of cost.

(k) Revaluation of Property, Plant and Equipment

Physical non-current assets are valued in accordance with the "Valuation of Physical Non-Current Assets at Fair Value" Policy and Guidelines paper (TPP 05-3). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment*.

Property, plant and equipment is measured on an existing use basis, where there are no feasible alternative uses in the existing natural, legal, financial and socio-political environment. However, in the limited circumstances where there are feasible alternative uses, assets are valued at their highest and best use.

Fair value of property, plant and equipment is determined based on the best available market evidence, including current market selling prices for the same or similar assets. Where there is no available market evidence, the asset's fair value is measured at its market buying price, the best indicator of which is depreciated replacement cost.

As the department does not own Land, Building or Infrastructure assets, management does not believe that the revaluation of physical non-current assets over five years is warranted, unless it becomes aware of any material difference in the carrying amount of any class of assets.

Most of the department's assets with the exception of core business applications, are non-specialised with short useful lives and are therefore measured at depreciated historical cost, as a surrogate for fair value.

(l) Impairment of Property, Plant and Equipment

As a not-for-profit entity with no cash generating units, the department is effectively exempted from AASB 136 *Impairment of Assets* and impairment testing. This is because AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

(m) Depreciation of Property, Plant and Equipment

Depreciation is provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the department.

All material separately identifiable components of assets are recognised and depreciated over their shorter useful lives.

The useful lives of each category of depreciable assets are:

Computer Hardware	4 years
Office Equipment	7 years
Office Furniture	5 to 10 years
Computer Software	1 to 10 years depending on the expected usage of the application.

(n) Grants and Subsidies

The FHOGS was introduced in July 2000 to compensate first home buyers for the impact of the introduction of GST. OSR is responsible for the payment of the grant to approved applicants.

The amount is net of returns of payments made in relation to contracts not settled and recoveries by compliance auditors of payments made to ineligible applicants. Write-off of refunds that are irrecoverable, however, are added back. Penalties, imposed in terms of the FHOGS legislation on applicants for wrongful claims, are also netted off against the total amount of payments made in the year.

(o) Maintenance

Day-to-day servicing costs or maintenance are charged as expenses when incurred, except where they relate to the replacement of a part or component of an asset, in which case the costs are capitalised and depreciated.

(p) Leased Assets

Operating lease payments are charged to the Operating Statement in the periods in which they are incurred. The department has not entered into any finance leases.

(q) Intangible Assets

The department recognises intangible assets only if it is probable that future economic benefits will flow to the department and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the department's intangible assets, the assets are carried at cost less any accumulated amortisation.

The department's intangible assets are amortised using the straight line method over a period ranging from 1 to 10 years depending upon the nature of the application.

In general, intangible assets are tested for impairment where an indicator of impairment exists. However, as a not-for-profit entity with no cash generating units, the department is effectively exempted from impairment testing (refer para (l)).

(r) Receivables – Year Ended 30 June 2006 (refer Note 1 (y) for 2004/05 Policy)

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the Operating Statement when impaired, derecognised or through the amortisation process.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(s) Impairment of Financial Assets

All financial assets, except those measured at fair value through profit and loss, are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due.

For financial assets carried at amortised cost, the amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the Operating Statement.

Any reversals of impairment losses are reversed through the Operating Statement, where there is objective evidence. Reversals of impairment losses of financial assets carried at amortised cost cannot result in a carrying amount that exceeds what the carrying amount would have been had there not been an impairment loss.

(t) Trust Funds

The department receives monies in a trustee capacity for various trusts as set out in Note 22. As the department performs only a custodial role in respect of these monies, and because the monies cannot be used for the achievement of the department's own objectives, these funds are not recognised in the financial statements.

(u) Other Assets

Other assets are recognised on a cost basis.

(v) Payables – Year Ended 30 June 2006 (refer Note 1 (y) for 2004/05 Policy)

These amounts represent liabilities for goods and services provided to the department and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(w) Budgeted Amounts

The budgeted amounts are drawn from the budgets as formulated at the beginning of the financial year and with any adjustments for the effects of additional appropriations, s 21A, s 24 and/or s 26 of the *Public Finance and Audit Act 1983*.

The budgeted amounts in the Operating Statement and the Cash Flow Statement are generally based on the amounts disclosed in the NSW Budget Papers (as adjusted above). However, in the Balance Sheet, the amounts vary from the Budget Papers, as the opening balances of the budgeted amounts are based on carried forward actual amounts ie per the audited financial statements (rather than carried forward estimates).

(x) Comparative Information

Comparative figures have been restated based on AEIFRS with the exception of financial instruments information, which has been prepared under the previous AGAAP Standard (AAS 33) as permitted by AASB 1.36A. The transition to AEIFRS for financial instruments information was 1 July 2005. The impact of adopting AASB 132 / 139 is further discussed in Note 29.

(y) Financial Instruments Accounting Policy for 2004/05 Comparative Period

Investment income

Interest revenue is recognised as it accrues.

Receivables

Receivables are recognised and carried at cost, based on the original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer possible. Bad debts are written off as incurred.

Payables

These amounts represent liabilities for goods and services provided to the department and other amounts, including interest. Interest is accrued over the period it becomes due.

2. EXPENSES EXCLUDING LOSSES

	2006	2005
	\$'000	\$'000
(a) Employee related expenses		
Salaries and wages (including recreation leave)	90 871	87 260
Superannuation – defined benefit plans	3 309	3 193
Superannuation – defined contribution plans	4 914	4 626
Long service leave	3 164	4 341
Workers' compensation insurance	674	499
Pay-roll tax and fringe benefits tax	6 402	5 840
On-costs on LSL not assumed by Crown	<u>60</u>	<u>219</u>
	<u>109 394</u>	<u>105 978</u>
Employee related expenses of \$1.5 million (2004-2005 - \$2.6 million) have been incurred for various capital projects and are included in computer software costs, intangible costs and capital work in progress in Notes 11 and 12. Except as noted, there are no other employee related payments included in asset and expenditure accounts.		
(b) Other operating expenses		
Auditor's remuneration		
Audit or review of financial reports	255	307
Operating lease rental expense		
Minimum lease payments	9 553	9 992
Maintenance (i)	803	832
Insurance	145	129
Other		
Contractors' and consultancy fees	13 171	16 692
Printing and advertising	2 389	3 356
Centralised corporate support charges	3 312	3 270
Computer maintenance and software licences	4 240	1 984
Data access fees	2 088	2 217
Training	794	842
Building maintenance and utilities	2 273	2 757
Minor plant, equipment and stores	1 264	1 791
Postal charges	2 166	2 715
Bank charges	1 948	1 323
Other	<u>3 810</u>	<u>8 061</u>
	<u>48 211</u>	<u>56 268</u>
(c) Depreciation and amortisation expense		
Depreciation		
Computer hardware	2 376	2 315
Computer software	1 760	645
Office equipment	190	180
Office furniture	<u>970</u>	<u>842</u>
	<u>5 296</u>	<u>3 982</u>
Amortisation	<u>6 214</u>	<u>7 806</u>
Total depreciation and amortisation	<u>11 510</u>	<u>11 788</u>
(d) Grants and subsidies		
FHOGS (ii)	285 594	249 166
Department of Lands (iii)	16 673	12 176
Other	<u>169</u>	<u>169</u>
	<u>302 436</u>	<u>261 511</u>
(e) Other expenses		
Compensation payments (Statute Barred Infringements) (iv)	<u>145</u>	<u>217</u>
	<u>145</u>	<u>217</u>

		2006	2005
		\$'000	\$'000
	2006		
	\$'000		
(i)	Reconciliation		
	Maintenance expense, as above	803	
	Maintenance related employee expenses Included in Note 2(a)	4 179	
	Total maintenance expenses included In Note 2(a) + 2(b)	<u>4 982</u>	
		2006	2005
		\$'000	\$'000
(ii)	Total FHOGS payments	300 514	264 848
	Less Returns – payments on contracts not settled	(7 309)	(6 288)
	Refunds – ineligible payments	(6 325)	(8 068)
	Penalties on wrongful claims	(1 501)	(1 500)
	Add Write-off of Refunds due	215	174
	Net FHOGS payments	<u>285 594</u>	<u>249 166</u>
(iii)	The Department of Lands provides land information and valuation services required to administer the <i>Land Tax Management Act 1956</i> .		
(iv)	In 2005-2006, compensation payments amounting to \$145 000 were paid to clients of the SDRO who were financially disadvantaged due to infringements reaching a statute barred status. In 2004-2005, \$217 000 in compensation payments were paid to clients of the SDRO who were financially disadvantaged due to processing delays that ultimately led to infringements becoming statute barred. The payments were made in accordance with the Service Level Agreement provisions.		

3. REVENUES

	2006	2005
	\$'000	\$'000
(a) Sale of goods and services		
Sale of Goods		
Sale of publications	16	14
Rendering of Services		
Land tax search fees	3 024	2 662
Administration fees	627	447
Infringement processing fees	24 055	22 707
Other	<u>162</u>	<u>169</u>
	<u>27 884</u>	<u>25 999</u>

Infringement processing fees represent a service provided by the SDRO to a range of local government and public sector clients.

(b) Investment revenue

Interest	<u>1 575</u>	<u>2 216</u>
	<u>1 575</u>	<u>2 216</u>

(c) Retained taxes, fees and fines**Fees**

Collection fees	<u>116</u>	<u>254</u>
	<u>116</u>	<u>254</u>

Annulment fees imposed by the SDRO are recognised as revenues as they are controlled by the department and can be deployed for the achievement of its objectives. They are not required to be paid to the Consolidated Fund.

(d) Grants and contributions

Skills incentive scheme	-	15
Other grants	1	53
Contributions	<u>700</u>	<u>-</u>
	<u>701</u>	<u>68</u>

\$1 000 was received for training and skills incentive programs for staff.

\$700 000 represents non cash income for receipt of part ownership of records management software.

(e) Other revenue

Crown Assets and Liabilities Management (i)	5 493	4 184
Other (ii)	<u>882</u>	<u>546</u>
	<u>6 375</u>	<u>4 730</u>

(i) Recoupment of administration costs composed mainly of salaries and accommodation for OFM employees relating to Crown Assets and Liability Management.

(ii) Primarily attributable to reimbursement of legal fees associated with debt recovery action.

4. GAIN / (LOSS) ON DISPOSAL OF NON-CURRENT ASSETS

	2006	2005
	\$'000	\$'000
Gain / (loss) on disposal of plant and equipment		
Proceeds from disposal	3	12
Written down value of assets disposed	<u>(9)</u>	<u>(36)</u>
Net gain / (loss) on disposal of plant and equipment	<u>(6)</u>	<u>(24)</u>

5. OTHER GAINS/(LOSSES)

	2006	2005
	\$'000	\$'000
Impairment of receivables	<u>62</u>	<u>(103)</u>
	<u>62</u>	<u>(103)</u>

6. APPROPRIATIONS

	2006	2005
	\$'000	\$'000
Recurrent appropriations		
Total recurrent drawdowns from NSW Treasury (per Summary of Compliance)	421 999	377 847
Less: Liability to Consolidated Fund (per Summary of Compliance)	<u>179</u>	<u>-</u>
	<u>421 820</u>	<u>377 847</u>
Comprising:		
Recurrent appropriations (per Operating Statement)	<u>421 820</u>	<u>377 847</u>
Capital appropriations		
Total capital drawdowns from NSW Treasury (per Summary of Compliance)	11 738	20 232
Less: Liability to Consolidated Fund (per Summary of Compliance)	<u>392</u>	<u>-</u>
	<u>11 346</u>	<u>20 232</u>
Comprising:		
Capital appropriations (per Operating Statement)	<u>11 346</u>	<u>20 232</u>

7. ACCEPTANCE BY THE CROWN ENTITY OF EMPLOYEE BENEFITS AND OTHER LIABILITIES

	2006	2005
	\$'000	\$'000
The following liabilities and/or expenses have been assumed by the Crown Entity:		
Superannuation	3 311	7 819
Long service leave	3 164	4 341
Pay-roll tax	<u>259</u>	<u>455</u>
	<u>6 734</u>	<u>12 615</u>

8. PROGRAMS / ACTIVITIES OF THE DEPARTMENT

- (a) **Program 64.1.1** **A Stronger NSW Economy and Better Public Services**
Objective: Promoting state resource management to achieve a stronger New South Wales economy and better public services.
- (b) **Program 64.2.1** **All Due Revenue is Collected and Compliance is Maximised**
Objective: Ensure effective and equitable collection of revenue from taxes, duties and other sources due to the State of New South Wales by enhancing our revenue performance and driving service and efficiency through technology.
- (c) **Program 64.3.1** **Effective Infringement Processing and Fine Enforcement**
Objective: Ensure effective and timely infringement processing and fine enforcement services which contribute to a higher level of compliance with the law through the implementation of improved business processes and technology.
- (d) **Program 64.4.1** **Ensuring Eligible Payments**
Objective: Ensure eligible applicants receive payments due under Commonwealth/State Government schemes through maximising the efficiency and effectiveness of payments administration consistent with applicable policies, client service strategies and enhanced technology.

The "Infrastructure" function of the Department of Infrastructure, Planning and Natural Resources (DIPNR), included as part of Program 40.1.1 was transferred to the OFM on 31 August 2005. The following summarises the expenses and revenues, recognised by DIPNR for the two months ended 31 August 2005 (Program 40.1.1 in part) and OFM for the ten months ended 30 June 2006 (Program 64.1.1 in part) for the reporting period.

	DIPNR	OFM	Total	
	1 July 2005 to 31 August 2005 \$'000	1 September 2005 to 30 June 2006 \$'000	2006 \$'000	2005 \$'000
Expenses				
Operating expenses				
Employee related	81	422	503	535
Other operating expenses	2	286	288	114
Depreciation and amortisation	-	4	4	-
Other expenses	-	-	-	-
Total Expenses excluding losses	<u>83</u>	<u>712</u>	<u>795</u>	<u>649</u>
Total Revenue	-	-	-	-
Gain/(loss) on disposal	-	-	-	-
Net Cost of Services	<u>83</u>	<u>712</u>	<u>795</u>	<u>649</u>

9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2006 \$'000	2005 \$'000
Cash at bank and on hand	<u>17 436</u>	<u>12 901</u>
	<u>17 436</u>	<u>12 901</u>

For the purposes of the Cash Flow Statement, cash and cash equivalents include cash at bank and cash on hand.

Cash and cash equivalent assets recognised in the Balance Sheet are reconciled at the end of the financial year to the Cash Flow Statement as follows:

Cash and cash equivalents (per Balance Sheet)	<u>17 436</u>	<u>12 901</u>
Closing cash and cash equivalents (per Cash Flow Statement)	<u>17 436</u>	<u>12 901</u>

Included in cash at bank is a restricted asset of \$571 000 (2004-2005 - \$160 000), this represents a liability to the Consolidated Fund.

10. CURRENT/NON-CURRENT ASSETS – RECEIVABLES

	2006 \$'000		2005 \$'000
Current			
Sale of goods and services (i)	4 956		4 885
Prepayments	754		658
Other			
GST receivable from ATO	685		1 253
Interest	806		1 121
FHOGS (ii)	4 068	3 460	
Less: Allowance for impairment	<u>139</u>	<u>201</u>	3 259
Other	<u>1 388</u>		<u>1 228</u>
	<u>12 518</u>		<u>12 404</u>
Non-Current			
Prepayments	<u>5</u>		<u>2</u>
Total	<u>12 523</u>		<u>12 406</u>

(i) Sale of goods and services

As at 30 June 2006, \$2.3 million (2004-2005 \$2.8 million) of this receivable represents invoices issued to SDRO clients, including councils and other statutory bodies.

(ii) FHOGS Debt

The FHOGS debt is the result of Compliance audits of grants paid where applicants do not legally qualify as first home owners. In addition to seeking recovery of grant payments, penalties are imposed in accordance with FHOGS legislation on offending claims. An allowance for impairment has been created for those outstanding amounts which are considered to be irrecoverable.

The total debt position as at 30 June 2006 was as follows:

	2006	2005
	\$'000	\$'000
Total Debt		
Current amount	361	164
Instalments	-	-
Overdue amounts	<u>6 083</u>	<u>6 184</u>
	6 444	6 348
Less: Allowance for impairment	<u>139</u>	<u>201</u>
	<u>6 305</u>	<u>6 147</u>

Overdue Amounts

Receivable	Less than 30 days		30-90 days		More than 90 days		Total		Allowance for impairment		Net	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
SDRO fees	1 630	2 180	228	625	508	34	2 366	2 839	-	-	2 366	2 839
FHOGS	340	264	694	750	2 683	2 331	3 717	3 345	139	201	3 578	3 144
Total	1 970	2 444	922	1 375	3 191	2 365	6 083	6 184	139	201	5 944	5 983

11. NON-CURRENT ASSETS – PLANT & EQUIPMENT

	Computer Hardware	Computer Software	Office Equipme nt	Office Furniture	Capital Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2005						
At fair value	15 657	7 040	2 483	16 855	8 145	50 180
Accumulated depreciation and impairment	<u>9 999</u>	<u>1 641</u>	<u>1 654</u>	<u>8 144</u>	<u>-</u>	<u>21 438</u>
Net carrying amount	<u>5 658</u>	<u>5 399</u>	<u>829</u>	<u>8 711</u>	<u>8 145</u>	<u>28 742</u>
At 30 June 2006						
At fair value	17 858	7 756	2 734	16 916	15 240	60 504
Accumulated depreciation and impairment	<u>12 067</u>	<u>3 401</u>	<u>1 804</u>	<u>9 114</u>	<u>-</u>	<u>26 386</u>
Net carrying amount	<u>5 791</u>	<u>4 355</u>	<u>930</u>	<u>7 802</u>	<u>15 240</u>	<u>34 118</u>

Reconciliation

A reconciliation of the carrying amount of each class of plant and equipment at the beginning and end of the current reporting period is set out below.

	Computer Hardware	Computer Software	Office Equipment	Office Furniture	Capital Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 30 June 2006						
Net carrying amount at start of year	5 658	5 399	829	8 711	8 145	28 742
Additions	183	150	88	61	10 818	11 300
Disposals	(308)	-	(49)	-	-	(357)
Transfer from CWIP	2 326	566	212	-	(3 723)	(619)
Depreciation expense	(2 376)	(1 760)	(190)	(970)	-	(5 296)
Other movements						
Write back on disposal	308	-	40	-	-	348
Net carrying amount at end of year	5 791	4 355	930	7 802	15 240	34 118

	Computer Hardware	Computer Software	Office Equipment	Office Furniture	Capital Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2004						
At fair value	13 397	2 611	2 218	10 636	14 164	43 026
Accumulated depreciation and impairment	8 916	689	1 607	7 302	-	18 514
Net carrying amount	4 481	1 922	611	3 334	14 164	24 512
At 30 June 2005						
At fair value	15 657	7 040	2 483	16 855	8 145	50 180
Accumulated depreciation and impairment	9 999	1 641	1 654	8 144	-	21 438
Net carrying amount	5 658	5 399	829	8 711	8 145	28 742

Reconciliation

A reconciliation of the carrying amount of each class of plant and equipment at the beginning and end of the previous reporting period is set out below.

	Computer Hardware	Computer Software	Office Equipment	Office Furniture	Capital Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 30 June 2005						
Net carrying amount at start of year	4 481	1 923	611	3 334	14 164	24 513
Additions	149	-	129	55	20 110	20 443
Disposals	(927)	-	(167)	-	-	(1 094)
Transfer from CWIP	3 038	4 429	303	6 164	(26 129)	(12 195)
Depreciation expense	(2 007)	(953)	(180)	(842)	-	(3 982)
Other movements						
Write back on disposal	924	-	133	-	-	1 057
Net carrying amount at end of year	5 658	5 399	829	8 711	8 145	28 742

12. INTANGIBLE ASSETS

	Computer Software \$'000
At 1 July 2005	
Cost (gross carrying amount)	74 930
Accumulated amortisation and impairment	50 287
Net carrying amount	<u>24 643</u>
At 30 June 2006	
Cost (gross carrying amount)	76 293
Accumulated amortisation and impairment	56 502
Net carrying amount	<u>19 791</u>
Year ended 30 June 2006	
Net carrying amount at start of year	24 643
Additions	743
Amortisation (recognised in "depreciation and amortisation")	(6 214)
Transfer to/(from) CWIP	619
Net carrying amount at end of year	<u>19 791</u>
At 1 July 2004	
Cost (gross carrying amount)	62 662
Accumulated amortisation and impairment	42 481
Net carrying amount	<u>20 181</u>
At 30 June 2005	
Cost (gross carrying amount)	74 930
Accumulated amortisation and impairment	50 287
Net carrying amount	<u>24 643</u>
Year ended 30 June 2005	
Net carrying amount at start of year	20 181
Additions	73
Amortisation (recognised in "depreciation and amortisation")	(7 806)
Transfer to/(from) CWIP	12 195
Net carrying amount at end of year	<u>24 643</u>

13. CURRENT LIABILITIES – PAYABLES

	2006 \$'000	2005 \$'000
Accrued salaries, wages and on-costs	2 589	949
Creditors	<u>2 708</u>	<u>4 529</u>
	<u>5 297</u>	<u>5 478</u>

14. CURRENT / NON-CURRENT LIABILITIES – PROVISIONS

	2006 \$'000	2005 \$'000
Current		
Employee benefits and related on-costs		
Recreation leave	8 351	8 253
Provision for pay-roll tax on recreation leave liability	840	496
Provision for pay-roll tax on long service leave liability	1 287	146
Provision for on-costs on long service leave liability	685	86
Provision for fringe benefits tax	<u>143</u>	<u>95</u>
	<u>11 306</u>	<u>9 076</u>
Non-current		
Employee benefits and related on-costs		
Provision for pay-roll tax on long service leave liability	81	1 369
Provision for on-costs on long service leave liability	<u>41</u>	<u>771</u>
	<u>122</u>	<u>2 140</u>
Aggregate employee benefits and related on-costs		
Provisions – current	11 306	9 076
Provisions – non-current	122	2 140
Accrued salaries, wages and on-costs (Note 13)	<u>2 589</u>	<u>949</u>
	<u>14 017</u>	<u>12 165</u>

In accordance with AASB 101, management expects an amount of \$2.3 million relating to recreation leave and related on-costs, in addition to \$1.8 million relating to Pay-roll tax and on costs associated with long service leave to be settled after more than 12 months.

15. CURRENT / NON-CURRENT LIABILITIES – OTHER

	2006 \$'000	2005 \$'000
Current		
Lease incentive	165	178
Liability to the Consolidated Fund	<u>571</u>	<u>160</u>
	<u>736</u>	<u>338</u>
Non-Current		
Lease incentive	<u>207</u>	<u>371</u>
	<u>943</u>	<u>709</u>

16. CHANGES IN EQUITY

	Accumulated Funds		Total Equity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Balance at the beginning of the financial year	61 289	53 217	61 289	53 217
Changes in equity – transactions				
With owners as owners				
Increase in net assets from equity transfers	-	-	-	-
Total	<u>61 289</u>	<u>53 217</u>	<u>61 289</u>	<u>53 217</u>
Changes in equity – other than transactions				
with owners as owners				
Surplus for the year	4 911	8 072	4 911	8 072
Total	<u>4 911</u>	<u>8 072</u>	<u>4 911</u>	<u>8 072</u>
Balance at the end of the financial year	<u>66 200</u>	<u>61 289</u>	<u>66 200</u>	<u>61 289</u>

17. COMMITMENTS FOR EXPENDITURE

	2006	2005
	\$'000	\$'000
(a) Capital Commitments		
Aggregate capital expenditure for the acquisition of contractors and other computer items contracted for at balance date and not provided for:		
Not later than one year	319	1 601
Later than one year and not later than five years	-	-
Later than five years	<u>-</u>	<u>-</u>
Total (including GST)	<u>319</u>	<u>1 601</u>
(b) Other Expenditure Commitments		
Aggregate other expenditure for the acquisition of printing and other general office expenses contracted for at balance date and not provided for:		
Not later than one year	60	191
Later than one year and not later than five years	-	-
Later than five years	<u>-</u>	<u>-</u>
Total (including GST)	<u>60</u>	<u>191</u>
(c) Operating Lease Commitments		
Future non-cancellable operating lease rentals not provided for and payable:		
Not later than one year	10 944	11 280
Later than one year and not later than five years	26 394	36 610
Later than five years	<u>22 930</u>	<u>24 255</u>
Total (including GST)	<u>60 268</u>	<u>72 145</u>

Leasing arrangements are generally for rental of premises and computer equipment to be paid one month in advance. The total commitments for expenditure as at 30 June 2006 include input tax credits of \$5.6 million (\$6.7 million in 2004-2005) which are recoverable from the Australian Taxation Office.

18. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are currently 11 matters where the Crown Solicitor is acting on behalf of the department. The estimate of settlement is unspecified in each case.

A contingent liability exists for the cost of restoring leased premises in accordance with lease contracts.

19. BUDGET REVIEW**Net cost of services**

The Net Cost of Services result of \$435.0 million exceeded budget by \$17.3 million. The reasons for this 4.1 per cent variance are:

- higher First Home Owner Grants paid than expected by \$23.6 million
- higher payments to the Department of Land and Property Information for valuation fees - \$1.5 million
- lower depreciation and amortisation by \$3.3 million due to changed implementation dates for certain projects
- lower employee related expenditure by \$0.9 million
- higher retained revenues mainly from clients \$3.8 million.

Assets and liabilities

The Total Assets result of \$83.9 million exceeded the budget by \$9.5 million. The explanation for the 12.8 per cent variance is:

Current Assets

- Cash was higher by \$5.8 million mainly due to higher receipts - infringements fees and Section 47 land tax clearance certificates, and lower employee related costs.

Non-Current Assets

- Plant and Equipment and Intangible assets are higher by \$3.6 million due to the changed implementation dates for certain projects that delayed the depreciation of these assets.

Total Liabilities

- Total Liabilities of \$17.7 million varied by \$0.3 million (1.5%) to the budget. Higher employee provisions of \$0.2 million contributed to this variance.

Cash flows

The closing cash balance of \$17.4 million was higher than budget by \$3.0 million and is explained by the following cash movements:

- lower actual opening cash balance by \$2.8 million than budgeted
- lower payments for employee related expenses partly offset by higher other operating expenses - \$2.7 million
- higher receipts from the sale of goods and services by \$2.7 million.

20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET COST OF SERVICES

		2006	2005
		\$'000	\$'000
	Notes		
Net cash used on operating activities		15 878	(8 435)
Net cash flows from Government / Appropriations		(433 577)	(397 448)
Acceptance by the Crown Entity of employee benefits and other liabilities	7	(6 734)	(12 615)
Depreciation and amortisation	2(c)	(11 510)	(11 788)
Allowance for impairment		62	(103)
Increase in provisions		(212)	(1 404)
Increase / (decrease) in prepayments and other assets		55	(4 257)
Decrease in creditors		355	33 452
Other revenue – investing activities		700	-
Net loss on sale of plant and equipment	4	(6)	(24)
Net cost of services		(434 989)	(402 622)

21. FINANCIAL INSTRUMENTS

The department's principal financial instruments are outlined below. These financial instruments arise directly from the department's operations or are required to finance the department's operations. The department does not enter into or trade financial instruments for speculative purposes. The department does not use financial derivatives.

(a) Cash

Cash consists of cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11.00am unofficial cash rate adjusted for a management fee to NSW Treasury. This rate was 4.75 per cent as at 30 June 2006 (4.5 per cent at 30 June 2005).

(b) Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance for impairment). No interest is earned on trade debtors. The carrying amount approximates net fair value.

(c) Bank overdraft

The department does not have any bank overdraft facility.

(d) Trade creditors and accruals

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. No interest for late payment was made during the 2005-2006 year (2004-2005 \$nil). The carrying amount approximates net fair value.

22. TRUST FUNDS

Monies held in trust for the Crown Entity and others are not recognised in the financial report, as the OSR cannot use them for the achievement of its objectives. They are held in either a trust bank account or public monies bank account. The following is a summary of the transactions in these accounts:

(a) Unclaimed Money Trust Accounts

	Testamentary & Trust Common Fund		Testamentary & Trust Interest		Companies Liquidation		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash balance at the beginning of the financial year	4 284	4 284	5 795	5 382	1 275	583	11 354	10 249
Add: Receipts	29	-	464	413	66	931	559	1344
Less: Expenditure		-		-	6	4	6	4
Transfers to Crown		-		-	165	235	165	235
Cash balance at the end of the financial year	4 313	4 284	6 259	5 795	1 170	1 275	11 742	11 354

(b) SDRO Client Funds Account - Fines

	2006 \$'000	2005 \$'000
Cash balance at the beginning of the financial year	15 217	31 413
Add: Receipts	104 599	76 986
Less: Payments	106 685	93 182
Cash balance at the end of the financial year	13 131	15 217

Funds held in this account represent amounts collected on behalf of clients. These funds are remitted to clients in the month following collection. Included in the cash balance at the beginning of the 2005 financial year is an amount of \$20.8 million relating to prior years that have subsequently been disbursed.

(c) SDRO Public Monies Accounts - Fines

	2006 \$'000	2005 \$'000
Cash balance at the beginning of the financial year	8 215	8 617
Add: Receipts	129 732	144 033
Less: Payments	129 479	144 435
Cash balance at the end of the financial year	8 468	8 215

Amounts held in the Public Monies account for the SDRO represent receipts collected during the debt management process, on behalf of other clients that are remitted in the month following receipt.

23. ADMINISTERED ASSETS – RECEIVABLES**(a) Tax debtors**

Assets administered by OSR for the Crown Entity are primarily tax and fine debtors. They are not recognised in the Balance Sheet.

	2006	2005
	\$'000	\$'000
Current and instalment amounts	235 313	294 526
Overdue amounts	154 055	135 486
	389 368	430 012
Less: allowance for impairment	21 462	28 198
	367 906	401 814

The receivables above represent taxes owed by clients at the close of business on 30 June 2006 and exclude any credit balances, which are disclosed separately in Note 24.

Current and Instalment Amounts

The following is a summary of receivable balances by tax type:

	Current		Instalments		Total	
	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Duties	64 105	82 613	-	-	64 105	82 613
Pay-roll tax	32 416	20 438	-	-	32 416	20 438
Land tax	117 543	161 567	13 649	23 629	131 192	185 196
Parking space levy	6 682	5 412	-	-	6 682	5 412
Accommodation levy	23	23	-	-	23	23
Club gaming devices	169	329	-	-	169	329
Hotel gaming devices	567	515	-	-	567	515
Insurance protection tax	159	-	-	-	159	-
	221 664	270 897	13 649	23 629	235 313	294 526

Overdue Amounts

	Less than 30 days		31 - 90 days		Greater than 90 days		Total		Allowance for impairment		Net	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Duties	1 103	1 286	880	932	6 576	7 469	8 559	9 687	(2 090)	(3 615)	6 469	6 072
First home purchase	-	-	-	-	107	424	107	424	(46)	(184)	61	240
Pay-roll tax	5 216	3 819	6 413	7 174	30 816	37 538	42 445	48 531	(17 725)	(22 811)	24 720	25 720
Land tax	9 172	18 466	20 556	11 104	66 894	41 044	96 622	70 614	(1 464)	(1 560)	95 158	69 054
Parking space levy	130	131	64	11	1 600	2 533	1 794	2 675	(137)	(28)	1 657	2 647
Club gaming devices	2 302	496	-	244	397	557	2 699	1 297	-	-	2 699	1 297
Hotel gaming devices	-	-	262	427	1 505	1 829	1 767	2 256	-	-	1 767	2 256
Insurance protection tax	62	2	-	-	-	-	62	2	-	-	62	2
	17 985	24 200	28 175	19 892	107 895	91 394	154 055	135 486	(21 462)	(28 198)	132 593	107 288

All receivables are recognised as amounts receivable at balance date. Collectability of receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance for impairment). Interest is charged on overdue receivables in accordance with S22 of the *Tax Administration Act 1996*. The carrying amount approximates fair value.

Debt recovery action may result in negotiated payment arrangements or the initiation of legal debt recovery procedures, if clients are unwilling to pay.

Land Tax

Under the *Land Tax Management Act 1956*, a charge is held over land owned by taxpayers for unpaid land tax. If normal recovery procedures have been unsuccessful, a caveat is generally registered on the title until the debt is paid.

(b) Fine debtors (SDRO)

	2006 \$'000	2005 \$'000
Opening balance	723 510	644 866
Movement	67 331	78 644
	790 841	723 510
Application of AAS29 (i)	571 809	544 188
	219 032	179 322

(i) Debts that do not meet the asset recognition criteria.

An amount of \$1 million (2004-05 \$1.9 million) being repaid by referring agencies to the SDRO is not included in the debtors reported above.

The following is a summary of receivable balances by year of enforcement:

Source	Pre 2004 \$'000	2004 \$'000	2005 \$'000	2006 \$'000	Total \$'000	AAS29 \$'000	Net \$'000
Current (i)							
IPB	177 282	48 575	80 608	78 507	384 972	226 541	158 431
Court	127 147	34 952	36 018	42 389	240 506	197 858	42 648
State electoral office	2 238	3 334	6 632	265	12 469	8 372	4 097
Sheriff's office	6 926	2 319	2 477	6 830	18 552	17 322	1 230
Other	13 584	1 536	4 007	11 910	31 037	29 405	1 632
	327 177	90 716	129 742	139 901	687 536	479 498	208 038
Historical (ii)							
Warrant Index Unit (WIU)	51 479	2 502	23	739	54 743	43 750	10 993
Road and Traffic Authority (RTA)	47 111	93	35	1 323	48 562	48 561	1
	98 590	2 595	58	2 062	103 305	92 311	10 994
Total historical and current fines	425 767	93 311	129 800	141 963	790 841	571 809	219 032
RTA sanction costs (iii)	4 482	988	1 568	1 744	8 782	-	8 782
Total owing	430 249	94 299	131 368	143 707	799 623	571 809	227 814

(i) Current fines are those referred to SDRO following its establishment in 1998.

(ii) Historical fines are those that were referred to the SDRO on its establishment from the WIU and the RTA. Amounts are owing in each of the years as they have been enforced over a period of time.

(iii) RTA sanction costs reported above are paid to the RTA when collected.

24. ADMINISTERED LIABILITIES

Credit balances against tax debtors have not been netted off against the receivables reported in Note 23 and are required to be shown separately as administered liabilities.

	2006	2005
	\$'000	\$'000
Duties	6 280	4 988
First home purchase	-	90
Pay-roll tax	13 708	7 849
Land tax	13 947	8 828
Parking space levy	677	567
Tax equivalents	40	3 658
Club gaming devices	3	65
Hotel gaming devices	4	-
Insurance protection tax	1	1
Fines	57	38
	34 717	26 084

The credit balances above are primarily matters awaiting final assessments pending receipt of additional information. Duties in particular carry the credit against debtors until such time as the assessment is finalised. Similarly, a credit exists for a pay-roll tax client where an assessment needs to be completed. Credit situations are also created where taxes are paid in advance or overpayments are to be refunded to clients.

25. ADMINISTERED REVENUE – DEBTS WRITTEN OFF/REMISSIONS**(a) Debts written off**

	2006			2005		
	Tax/Fines	Penalties/ Interest	Total	Tax/Fines	Penalties/ Interest	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Duties	2 058	1 575	3 633	1 074	633	1 707
Parking space levy	-	6	6	22	19	41
Pay-roll tax	14 161	5 572	19 733	14 445	5 011	19 456
Land tax	592	150	742	367	71	438
Club gaming devices	212	70	282	10	5	15
Hotel gaming devices	268	94	362	5	4	9
	17 291	7 467	24 758	15 923	5 743	21 666

A debt is only considered irrecoverable where it is deemed to be either uneconomic to recover, the debtor cannot be located, the personal or financial circumstances of the debtor does not warrant the taking of recovery action, legal proceedings through the courts have proved unsatisfactory or legal advice suggests follow up would be ineffective.

(b) Remissions

In accordance with the *Taxation Administration Act 1996* administered by OSR, the Chief Commissioner or his delegate has the discretionary power to remit partially or wholly a statutory penalty and/or interest.

Penalties and interest remitted during the year amounted to:

	2006			2005		
	Penalties	Interest	Total	Penalties	Interest	Total
Duties	129	4 287	4 416	300	2 929	3 229
Parking space levy	16	1 322	1 338	4	1 409	1 413
Pay-roll tax	383	3 965	4 348	632	4 678	5 310
Land tax	49	14 442	14 491	-	17 807	17 807
Debits tax	-	-	-	-	18	18
Accommodation levy	-	-	-	-	231	231
Health insurance levies	-	187	187	-	-	-
Club gaming devices	-	17	17	-	5	5
Hotel gaming devices	-	17	17	-	11	11
Fixed odds sports betting	-	1	1	-	3	3
Totalizator tax on and off course totes	-	14	14	-	-	-
	577	24 252	24 829	936	27 091	28 027

Business rules governing the imposition of interest and penalty allow them to be remitted in part or full if the client can provide a satisfactory explanation for the default.

26. ADMINISTERED EXPENSES – OTHER

During the year, OSR incurred the following expenses on behalf of the Crown Entity:

	2006	2005
	\$'000	\$'000
Act of Grace payments	5 458	2 035
Petroleum subsidies (i)	40 356	40 369
Court imposed interest payments	756	244
Unclaimed money refund - S14 <i>Public Finance and Audit Act</i>	163	197
Bad debts expense	18 022	20 015
Land tax discounts (ii)	13 811	13 225
First home purchase	-	1
GST rebate - Clubs (iii)	31 444	17 846
	110 010	93 932

(i) Petroleum subsidies

Petroleum subsidies are paid to petroleum distributors to enable retailers located in northern NSW to compete with Queensland retailers who are provided an excise subsidy by the Queensland Government.

(ii) Land tax discounts

A 1.5 per cent discount is offered to land tax clients for full payment of their liability by the first instalment date.

(iii) GST rebate – Clubs

The GST rebate is paid to clubs to compensate for the impact of the GST and commenced during 2004-2005. It is based on gaming profits and is paid quarterly.

27. ADMINISTERED REVENUE - CONSOLIDATED FUND

Administered revenue information is presented on a revenue earned (accruals) and revenue collected (cash) basis.

	Actual 2006 \$'000	Budget 2006 \$'000	Actual 2005 \$'000
(a) Revenue earned			
Taxes, penalties and interest			
Duties (ii)	4 830 627	5 332 000	4 808 929
First home purchase scheme	10	-	6
Total duties	4 830 637	5 332 000	4 808 935
Parking space levy (ii)	46 573	44 000	47 715
Pay-roll tax (i) (ii)	5 912 456	5 843 000	5 532 932
Land tax (i) (ii)	1 748 111	1 635 000	1 677 316
Debits tax (ii)	-	-	100
Health insurance levy (ii)	108 023	106 000	101 630
Insurance protection tax	67 867	69 000	67 553
Gaming and racing			
Keno tax	7 603	8 000	7 645
Totalizator tax on and off course totes (ii)	145 541	160 000	152 751
Fixed odds sports betting (ii)	3 913	-	3 580
Fixed odds racing betting	298	-	219
Footy TAB	757	-	899
Club gaming devices (ii)	569 089	562 000	499 635
Hotel gaming devices (ii)	416 677	438 000	394 915
Total gaming and racing	1 143 878	1 168 000	1 059 644
Total taxes, penalties and interest	13 857 545	14 197 000	13 295 825
Fines			
Infringement Processing			
Traffic	79 244		76 305
Parking	14 756		8 134
Red light camera	10 385		10 697
Speed camera	30 930		57 285
Other revenue	2 166		6 293
	137 481	146 000	158 714
Debt Recovery			
Motor traffic (iii)	84 970		69 959
Other	945		587
Local courts	5 972		6 221
Enforcement	25 827		30 289
Electoral	495		1 144
	118 209	64 675	108 200
Total fines	255 690	210 675	266 914
Total taxes, fines, penalties and interest	14 113 235	14 407 675	13 562 739
Other			
Tax equivalents	439 079		392 074
Unclaimed money	11 454		22 161
Other revenue	1 632		1 463
Total other	452 165		415 698
Total revenue earned	14 565 400		13 978 437

- (i) The budget for payroll tax and land tax include elimination estimates for public sector agencies of \$729 million and \$2 million respectively.

(ii) Included in the revenue earned figures are interest and penalties amounting to:

	2006	2005
	\$'000	\$'000
Duties	8 943	11 773
Parking space levy	1 950	2 311
Pay-roll tax	22 545	25 862
Land tax	29 976	36 458
Debits Tax	-	30
Health insurance levy	250	-
Totalizator tax on and off course totes	14	-
Fixed odds sports betting	1	3
Club gaming devices	138	121
Hotel gaming devices	340	421
	64 157	76 979

(iii) An amount of \$39.7 million (2004-2005 \$20.5 million) has been recognised in motor traffic fine revenue that relates to the increase in recoverable fines for the current year (refer to Note 23 (b)).

	Actual 2006 \$'000	Actual 2005 \$'000
(b) Revenue collected		
Taxes, penalties and interest		
Duties	4 843 785	4 807 492
First home purchase scheme	49	123
Total duties	4 843 834	4 807 615
Parking space levy	45 033	46 308
Pay-roll tax	5 888 341	5 499 952
Land tax	1 752 183	1 586 371
Debits tax	-	81
Accommodation levy	-	503
Health insurance levy	107 836	101 631
Insurance protection tax	67 647	67 568
Gaming and racing		
Keno tax	7 603	7 645
Totalizator tax on and off course totes	145 527	152 751
Fixed odds sports betting	3 912	3 573
Fixed odds racing betting	298	219
Footy TAB	757	900
Club gaming devices	567 484	499 123
Hotel gaming devices	416 740	394 229
Total gaming and racing	1 142 321	1 058 440
Total taxes, penalties and interest	13 847 195	13 168 469
Fines		
Infringement Processing		
Traffic	79 244	76 305
Parking	14 756	8 134
Red light camera	10 385	10 697
Speed camera	30 930	57 285
Other revenue	2 166	6 293
	137 481	158 714
Debt Recovery		
Motor traffic	45 260	49 462
Other	945	587
Local courts	5 972	6 221
Enforcement	25 827	30 289
Electoral	495	1 144
	78 499	87 703
Total fines	215 980	246 417
Total taxes, fines, penalties and interest	14 063 175	13 414 886
Other		
Tax equivalents	435 461	395 732
Unclaimed money	11 454	22 331
Other revenue	1 632	1 463
Total other	448 547	419 526
Total revenue collected	14 511 722	13 834 412

First Home Purchase Scheme transfers to Unclaimed Moneys totalling \$91 150 for amounts collected in prior years have not been included.

28. ADMINISTERED CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent liabilities

A number of infringement matters are being reviewed by the SDRO to determine whether special circumstances exist for return of the payments.

There are currently 63 matters where the Crown Solicitor is acting on behalf of the department. The estimate of settlement is unspecified in each case.

(b) Contingent assets

There is currently one matter before the court where a contingent asset (debt) is probable.

29. IMPACT OF ADOPTING AEIFRS

The department has applied the AEIFRS for the first time in the 2005/06 financial report. The key areas where changes in accounting policies have impacted the financial report are disclosed below. The department has adopted the options mandated by NSW Treasury for all NSW public sector agencies. The impacts below reflect NSW Treasury's mandates and policy decisions.

The impacts of adopting AEIFRS on total equity and surplus / (deficit) as reported under previous AGAAP are shown below. There are no material impacts on the departments cash flows.

(a) Reconciliations – 1 July 2004 and 30 June 2005

Reconciliation of equity under previous Accounting Standards (AGAAP) to equity under AEIFRS:

	30 June 2005**	1 July 2004*
	\$'000	\$'000
Total equity under previous AGAAP	<u>61 289</u>	<u>53 217</u>
Adjustments to accumulated funds	-	-
Adjustments to other reserves	-	-
Total equity under AEIFRS	<u>61 289</u>	<u>53 217</u>

* = adjustments as at date of transition

** = cumulative adjustments as at date of transition plus the year ended 30 June 2005

Reconciliation of surplus / (deficit) under previous AGAAP to surplus / (deficit) under AEIFRS:

Year ended 30 June 2005

	\$'000
Surplus under previous AGAAP	8 072
Surplus under AEIFRS	8 072

Based on the above, application of AEIFRS in 2004/05 has not changed the Net Cost of Services.

(b) Financial Instruments – 1 July 2005 first time adoption impacts

As discussed in Note 1(c), the comparative information for 2004/05 for financial instruments has not been restated and is presented in accordance with previous AGAAP. AASB 132 and AASB 139 have been applied from 1 July 2005. There is no change to the 1 July 2005 AEIFRS opening equity for the adoption of AASB 132 / AASB 139.

(c) Grant recognition

The department, as a not-for-profit entity, has applied the requirements in AASB 1004 *Contributions* regarding contributions of assets (including grants) and forgiveness of liabilities. There are no differences in the recognition requirements between the new AASB 1004 and the previous AASB 1004. However, the new AASB 1004 may be amended by proposals in Exposure Draft ED 125 *Financial Reporting by Local Governments* and ED 147 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)*. If the ED 125 and ED 147 approach is applied, revenue and / or expense recognition will not occur until either the department supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied. ED 125 and ED 147 may therefore delay revenue recognition compared with AASB 1004, where grants are recognised when controlled. However, at this stage, the timing and dollar impact of these amendments is uncertain.

(d) Impact of standards applicable to reporting periods later than 30 June 2006

The department is unable to reliably measure the impact of the following standards applicable to financial reporting periods later than those ending 30 June 2006.

AASB No.	Name	Application Date
7	Financial Instruments: Disclosures	Annual reporting periods beginning on or after 1 January 2007
119	Employee Benefits (compiled version issued April 2006)	Annual reporting periods beginning on or after 1 January 2006
1045	Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A	Contain provisions that will apply to annual reporting periods on or after 31 December 2006
2004-3	Amendments to Australian Accounting Standards	Annual reporting periods beginning on or after 1 January 2006
2005-1	Amendments to Australian Accounting Standard	Annual reporting periods beginning on or after 1 January 2006
2005-4	Amendments to Australian Accounting Standards (AASB 139, AASB 132, AASB 1, AASB 1023, AASB 1038)	Annual reporting periods beginning on or after 1 January 2006
2005-5	Amendments to Australian Accounting Standards (AASB 1 and AASB 139)	Annual reporting periods beginning on or after 1 January 2006
2005-6	Amendments to Australian Accounting Standards (AASB 3)	Annual reporting periods beginning on or after 1 January 2006
2005-9	Amendments to Australian Accounting Standards (AASB 4, AASB 1023, AASB 139 and AASB 132)	Annual reporting periods beginning on or after 1 January 2006
2005-10	Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 1023, AASB 1023 and AASB 1038)	Annual reporting periods beginning on or after 1 January 2007
2006-1	Amendments to Australian Accounting Standards (AASB 121)	Annual reporting periods ending on or after 31 December 2006

End of Audited Financial Statements

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Commitment to Community Values

Appendix 1

OFM Code of Conduct

OFM's code of conduct sets the standards for appropriate behaviours for OFM staff and is based on:

- the public's right to expect the highest integrity and competence of our staff;
- the Government's entitlement to impartial, accurate advice and prompt policy operation; and
- the rights and obligations of staff as employees.

During their Induction new staff are required to familiarise themselves with the Code, which can be easily accessed on OFM's Intranet.

Appendix 2

Ethnic Affairs Priority Statement

OFM has no direct involvement with policy and services for the ethnic community. OFM is principally an adviser rather than a direct service provider. It is responsible for the overall management of the State's finances, and this involves advising on the appropriate allocation of the State's limited resources. In undertaking this responsibility, OFM is able to take into account the particular needs of the ethnic community as advocated by the service delivery agencies.

In fulfilling its financial management function, OFM applies Ethnic Affairs priorities including:

- applying the principles of natural justice to policy development and financial strategy to promote equitable policy outcomes for ethnic communities; and
- inviting ethnic communities to contribute to the formulation of the State Budget through the participation of the Ethnic Communities Council in pre Budget discussions.

OFM is not a party to any current ethnic affairs agreements.

Appendix 3

Disability Strategic Plan

OFM has a Disability Strategic Plan to ensure the special needs of disabled people are taken into account in the way our business is conducted.

As for any modern organisation, the website is increasingly the most effective source of information for OFM's stakeholders, particularly those that are disabled. OFM's website limits the use of images and is simply designed to allow easy navigation. We aim to conform to accessibility guidelines to achieve Level 2 of the W3C standards.

OFM offices in GMT and Elizabeth Street provide access and amenities to visitors and staff with physical disabilities. Our OH&S procedures include provision for existing conditions and also any newly diagnosed disabilities of staff.

Appendix 4

Occupational Health & Safety

OFM has an OH&S Workplace Committee to advise on health and safety in the workplace for staff in the GMT and Elizabeth Street premises. The Committee reviewed incident reports and made changes to ensure safer physical distribution of the Budget papers. OFM ensures a safe and healthy workplace by:

- regularly assessing the workplace to safeguard against staff injury risks; and by acting on all reported safety risk incidents;
- actively managing workplace injuries and rehabilitation, and encouraging fitness activities ;
- providing staff access to Ergonomic and First Aid Courses;
- offering staff annual flu injections;
- clearly displaying the names and location of First Aid Officers and evacuation plans.

The increased number of reported incidents reflects closer monitoring procedures and a small number of specific incidents.

	2004	2005	2006
Reported workplace incidents	9	9	14
OH&S assessments conducted	2	8	5

Appendix 5

Action Plan for Women

OFM is mindful of the objectives of the NSW Government's Action Plan for Women when interacting with service delivery agencies and advising on financial allocations.

The Action Plan for Women focuses on reducing violence, promoting safe and equitable workplaces, maximising interest in economic reforms, promoting the position of women in society, improving access for education, and improving health and quality of life.

OFM also is committed to providing equal employment opportunities for women so our organisation reflects the community it serves.

We remain involved with the Lucy Mentoring Program, which aims to inspire, motivate and educate young women about employment and leadership opportunities in the private and public sectors.

Appendix 6

Privacy Management Plan

OFM's privacy management plan complies with the *NSW Privacy and Personal Information Protection Act, 1998*. It outlines:

- policy and practices;
- details of information held; and
- review procedures.

No privacy codes of practice were published and no specific exemptions were sought by OFM in 2005-06.

OFM access to personal information largely relates to overseeing the operations of the Treasury Managed Fund (TMF).

The safeguarding of privacy information was a key consideration when developing and implementing the TMF's multiple service provider arrangements.

	2004	2005	2006
Requests received for review	0	1	0
Requests finalised	0	1	0
Requests carried forward	0	0	0

Commitment to Community Values

Appendix 7

Equal Employment Opportunity

Achievements

- Commenced recruitment action with the NSW Indigenous Recruitment Program.
- Developed promotional material advertising Recruitment Strategy for Aboriginal Employment and Graduate employment, issued brochure including Aboriginal staff and staff from non English speaking backgrounds.
- Arranged formal training for all administrative staff by offering the Certificate IV in Government to maximise employment options within the NSW Public Sector.
- Actively encouraged staff to balance work and family commitments by promoting flexible work practices. Flexible arrangements including job share, part time work and paternity leave were extended to senior staff.
- Supported the Lucy mentoring program where senior female managers mentor young women

Strategies for 2006-07

- Increase the number of Aboriginal staff in OFM by supporting the NSW Indigenous Recruitment Program.
- Continue promoting participation in the Lucy mentoring program.
- More closely monitor strategies to create opportunities to act in higher level positions.
- Implement improved recruitment arrangements for attracting OFM staff.
- Develop strategies targeted at maximising career path opportunities for administrative and support staff.
- Finalise formal training for administrative staff undertaking the TAFE Certificate IV in Government course.

Trends in the Representation of EEO Groups

EEO Group	Benchmark or Target	2001	2002	2003	2004	2005	2006
Women	50%	43%	44%	45%	43%	43%	43%
Aboriginal people and Torres Strait Islanders	2%	na	na	0%	0%	0.5%	0%
People whose first language was not English	20%	18%	17%	17%	15%	15%	16%
People with a disability	12%	1%	2%	2%	2%	2%	2%
People with a disability requiring work-related adjustment	7%	na	na	1%	0.5%	0.5%	0.4%

Trends in the Distribution of EEO Groups

EEO Group	Benchmark or Target	2001	2002	2003	2004	2005	2006
Women	100	83	83	83	87	88	88
Aboriginal people and Torres Strait Islanders	100	na	na	0	0	na	na
People whose first language was not English	100	91	87	88	90	89	87
People with a disability	100	na	na	na	na	na	na
People with a disability requiring work-related adjustment	100	na	na	na	na	na	na

- The statistics are based on staff numbers as at 30 June, excluding casual staff.
- A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff.
- Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels.
- The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.

Operations

Appendix 8

Expenditure on Consultants

Consultants costing \$30,000 or more

Consultant	Project	Amount (ex. GST)
Finance & Accounting/Tax		
Deloitte	Probity auditor for Long Bay Prison and Forensic Hospitals Privately Financed Project (PFP).	\$49,819
Ernst & Young	Financial advice for NSW Schools 2 PFP	\$355,220
NSW Treasury Corporation	Financial advice for Long Bay Prison and Forensic Hospitals PFP	\$45,048
NSW Treasury Corporation	Financial advice for NSW Schools 2 PFP	\$49,350
NSW Treasury Corporation	Financial advice for Newcastle Mater Hospital PFP	\$40,270
PKF Australia Limited	Review of Casino taxation and operating arrangements	\$30,850
PricewaterhouseCoopers	Financial advice for Long Bay Prison and Forensic Hospitals PFP	\$320,000
Warren Ventures Pty Ltd	Preliminary benchmarking study of Australia's Federal fiscal arrangements compared with other federations	\$44,963
Warren Ventures Pty Ltd	Detailed benchmarking study and literature review comparing Australia's Federal fiscal arrangements with those of other federations	\$63,388
Legal		
Gilbert and Tobin	Legislative framework for third party access to electricity networks	\$55,836
Management Services		
APM Consultants	Management advice and project coordination for the NSW Schools 2 PFP	\$105,699
APM Consultants	Specialist negotiator for Newcastle Mater Hospital PFP	\$53,109
Duetsche Bank	Advice on the review of Landcom and the assessment of its value	\$125,000
Frontier Economics	Modelling of Greenhouse scenarios to meet 20 year emission targets	\$67,153
The Cabinet Office (ACIL Tasman/Institute for Sustainable Futures)	Strategic economic advice for 2006 Metropolitan Water Plan. (50% contribution)	\$30,000
	Sub Total:	\$1,435,704
Consultants costing less than \$30,000		
Finance and Accounting/Tax	7 projects totalling	\$74,809
Information Technology	1 project totalling	\$6,575
Legal	4 projects totalling	\$40,311
	Sub Total:	\$121,695
	Total cost of OFM consultancies	\$1,557,399

A major proportion OFM's spending on consultants during 2005-06 reflects growth in the use of Privately Financed Projects (PFPs) in response to the Working with Government policy.

PFP procurement is pursued only when value for money outcomes can be demonstrated. OFM is responsible for advising on financial and commercial aspects of these arrangements.

It is considered more cost effective to obtain external professional advice on PFP proposals as required rather than recruiting permanent specialists for short term periodic assignments.

PFP transaction costs are taken into account when confirming the value for money to be derived from each arrangement.

Operations

Appendix 9

Overseas Visits

Brazil

Kerry Schott, Executive Director, Private Projects and Asset Management attended the *OECD Global Forum on International Investment* in Rio de Janeiro from 23 to 31 October 2005.

Dr Schott is responsible for leading development and implementation of policies relating to private sector financing of Government sponsored infrastructure projects. Commonwealth Treasury recommended her invitation to the conference given her extensive experience in privately financed projects.

Dr Schott presented on Public Private Partnership arrangements in NSW. The conference was also an opportunity to swap ideas and expertise with other participants on infrastructure matters.

Canada

Michael Di Francesco, Principal Advisor, Financial Management attended a conference in Victoria, Canada. He was away from 6 May 2006 and returned on 13 May 2006. Dr Di Francesco delivered a paper to the Summit on Results Based Management – Taking it to the Next Level conference.

Dr Di Francesco advises on the development and implementation of the General Government Financial Management Framework, which focuses on results based management. His paper was on Interjurisdictional Experiences: Innovations and Approaches for Advancing Results-Oriented Government.

The conference organisers met all Dr Di Francesco's travel costs.

New Zealand

Rose Williams, Director, Corporate Management, travelled to New Zealand on 9 February 2006 to attend an inter-jurisdictional meeting of the Australian and New Zealand Treasury Corporate Directors.

The meeting, held in Wellington on 10 February, provided an opportunity for the exchange of information on key organisational issues. It focussed on performance management, developing talent and corporate governance. The establishment of this network has created a cooperative approach that has provided valuable opportunities for bench marking performance.

United Kingdom

Tony Miller, Principal Advisor, Privately Financed Projects travelled to London to attend the United Nations Economic Commission for Europe PPP Alliance conference on 25 October 2005.

The conference considered the transferability of the UK experience with PPPs to other countries. It focussed on legal issues, the importance of value for money and employment impacts. The visit also incorporated a study tour of three PPP project sites in the health sector. Mr Miller was overseas from 21 October until 14 November 2005. This included some private recreation leave.

United Kingdom and Bermuda

Steve Hunt, Director, Self Insurance travelled to London and Pembroke, Bermuda from 13 to 23 May 2006.

Mr Hunt is responsible for overseeing the newly implemented contestable self - insurance arrangements for the NSW Government. Claims management has been divided into portfolios which are managed by different service providers. There are also separate service providers for reinsurance, actuarial and risk management services.

Mr Hunt met with major international reinsurers in London, which is the established world reinsurance market, and Bermuda which has become the accepted alternative market since Cyclone Katrina. Ensuring reinsurers have a good understanding of client business and risk profile is essential for their consideration of cover, premiums, terms and conditions.

United States of America

The Secretary, John Pierce travelled to the United States of America from 4 to 11 December 2005. He presented a paper at the International Monetary Fund's Performance Budgeting Seminar in Washington.

Performance budgeting is a key component of Treasury's management of the State's finances and the seminar provided the opportunity for the exchange of ideas and expertise.

Following the seminar, Mr Pierce met with representatives of the World Bank and Boston University. NSW Treasury met the additional costs associated with the trip to Boston. The IMF met all other costs.

Operations

Appendix 10

Committees & Boards

Statutory Bodies and Other Corporations	Treasury Officer/s
<ul style="list-style-type: none"> ▪ Australian Accounting Standards Board, Urgent Issues Group ▪ Australian Statistics Advisory Council (Commonwealth) ▪ Environmental Trust ▪ Internal Audit Bureau ▪ NSW Treasury Corporation ▪ Parliamentary Contributory Superannuation Scheme Trustee ▪ Rental Bond Board ▪ State Contracts Control Board ▪ Tax Hardship Review Board ▪ Fines Enforcement and Hardship Review Board ▪ Treasury Managed Fund 	<ul style="list-style-type: none"> R G Williams P Horn L Williams I Neale (Chair) J Pierce (Chair), R Carling (Deputy Chair) J Pierce (Trustee), I Neale B Waddington E Shestovsky, S Chong R Agnew R Agnew S Hunt/R Lloyd
Treasury Committees	Treasury Officer/s
<ul style="list-style-type: none"> ▪ Bank Contracts Service Level Review Committee ▪ Debt Management Committee ▪ Financial Asset Management Committee ▪ Fiscal Strategy Executive Committee ▪ HR Executive Sub Committee ▪ OFM Audit Risk Committee ▪ OFM Executive Board ▪ OFM IT Steering Committee ▪ OFM Planning Coordination Committee ▪ State Forests Scoping Study Steering Committee ▪ Strategic Capital Reform Steering Committees ▪ Treasury (OFM and OSR) Consultative Committee ▪ Treasury Managed Fund - Service Level ▪ Web Users Group 	<ul style="list-style-type: none"> H Prego, R Bach I Neale (Chair), P Horn, C Broad, C Panousis, A Waddington J Ripamonti (Secretary) I Neale (Chair), P Horn, C Broad, A Waddington, P English, C Panousis, J Ripamonti (Secretary) R Cox/P Mussared (Chair), J Pierce, M Ronsisvalle, K Cosgriff, K Schott, M Clark-Lewis, I Neale, C Broad, P Horn, G Bullivant (secretary), M Pellowe D Quinn, I Neale, R Williams, C Broad, I Rosenbaum, K Lawrence-Haynes, P Hoogland, M Clark-Lewis, E Shestovsky, L Williams, A Lester (secretary), S Power I Neale (Chair), M Ronsisvalle, K Cosgriff, R Williams, R Cox D Graham, P Blunden, S Lobo (secretary) J Pierce (Chair), P Mussared, I Neale, K Cosgriff, K Schott, M Ronsisvalle, R Williams, G Bullivant (secretary) R Williams (Chair), M Ronsisvalle, M Pellowe, A Austin, J O'Connell, S Power, C Broad, P Horn, L Stevens, M Toohey, J Waters (secretary) D Quinn (Chair), G Bullivant, H Harmstorf, Z Lejins, M Pellowe, S Power, B Waddington, R Williams J Pierce (Chair), K Cosgriff, M Ronsisvalle, K Cosgriff, I Neale, P Horn, D Graham R Williams S Hunt (Chair) L Steven (Chair), P Ang (secretary), A Lester, C Mather, R McDowell, R Sondalini, A Weaver
Non Treasury Committees	Treasury Officer/s
<ul style="list-style-type: none"> ▪ Aboriginal Affairs Chief Executive Officers Group ▪ ABS Economic Statistics User Group ▪ ARTC Financial Working Group ▪ ARTC Interagency Working Group ▪ Asset Maintenance Taskforce (Department of Education and Training) ▪ Austeel Steering Committee 	<ul style="list-style-type: none"> K Lawrence-Haynes P Horn M Ronsisvalle, Z Lejins M Ronsisvalle, Z Lejins K Cosgriff K Schott

Non Treasury Committees**Treasury Officer/s**

▪ Australian Procurement & Construction Council Leadership Group	E Shestovsky
▪ Broadband Contract Management Committee	K Schott
▪ Broadband Contract Working Group	M Toohey
▪ Broadband Evaluation Teams	M Toohey
▪ Broadband Financial Working Groups	M Toohey
▪ Broadband Risk Working Group	M Toohey
▪ Cabramatta Senior Officers Coordinating Committee on Drugs	P Blunden, C Weir
▪ CCSU Client Advisory Board	R Williams
▪ CCSU Information Technology Steering Committee	R Williams
▪ CCSU Internal Audit Committee	D Quinn
▪ CEO Counter Terrorism Coordinating Committee	I Neale, P Blunden, L Powrie
▪ Channels and Access Strategy Senior Officers Working Group	M Toohey
▪ Chatswood Transport Interchange PFP Steering Committee	D Graham
▪ Chief Executives Committee	J Pierce
▪ COAG Competition and Regulation Working Group: <i>Established in 2005 to develop competition regulation reform proposals under the National Reform Agenda</i>	P Mussared
▪ COAG Climate Change Group: <i>Established in February 2006 to progress initiatives under the National Climate Change Plan of Action</i>	R Sayers
▪ COAG Human Capital Working Group: <i>Established in 2006 to develop reform proposals under the National Reform Agenda</i>	R Cox
▪ Construction Agency Coordination Committee	S Chong
▪ Co-operative Housing Societies Standards Committee	R Anson
▪ Council on the Cost and Quality of Government	J Pierce
▪ Crown Property Portfolio Steering Committee	S Power, C Campbell
▪ Cumberland Plain Draft Recovery Plan	E Sondalini
▪ DADHC Strategic Financial Management Committee	M Ronsisvalle, K Lawrence-Haynes
▪ DET Telecommunications Project Management Group	M Toohey
▪ Economic Society of Australia (Central Council)	A Hughes (Hon Treasurer)
▪ Economic Society of Australia (NSW Branch)	S Han (Hon Treasurer)
▪ General Government Liability Management Fund Committee	J Pierce (Chair), I Neale (Deputy), K Morris (Secretary)
▪ Government Asset Management Committee	J Pierce, K Schott, C Campbell, M Goodman (Secretary)
▪ Government Asset Management Committee – Property Disposal Assessment Panel	C Campbell, L Courtney, M Goodman (Secretary)
▪ Government Asset Management Committee - Senior Officers Sub-Committee	A Megaloconomos, C Campbell (Chair), N D'Souza (Secretary)
▪ Government Asset Management Committee – TAM Reference Group	M Rodanska, B Johnson, A Megaloconomos
▪ Government Licensing Project Steering Committee	M Toohey, M Openshaw
▪ Government Wireless Senior Officers Steering Committee	P Blunden
▪ GST Administration Sub-Committee	P Mussared, R Agnew, J George
▪ GST State and Territory Industry Partnership Group	R Agnew
▪ GST State and Territory Policy Group	R Agnew
▪ Heads of Treasuries Committee	J Pierce, P Mussared
▪ Heads of Treasuries Sub Committee of Deputies	P Mussared
▪ Heads of Treasuries Accounting and Reporting Advisory Committee	M Ronsisvalle
▪ Heads of Treasuries Budget and Financial Framework Advisory Committee	M Ronsisvalle, M DiFrancesco

Non Treasury Committees

Treasury Officer/s

▪ Heads of Treasuries Insurance Issues Working Group	I Neale (Chair), S Hunt
▪ Heads of Treasuries Payroll Tax Administration Harmonisation Steering Committee: <i>Established in March 2006 to increase the inter jurisdictional consistency of administrative arrangements for payroll tax</i>	M Clark-Lewis
▪ Heads of Treasuries Specific Purpose Payments Working Group	B Freeland
▪ Human Services Chief Executive Officers	M Ronsisvalle, K Lawrence-Haynes
▪ Human Services Senior Officers Group	K Lawrence-Haynes
▪ Hunter Estuary Issues Steering Committee	K Schott
▪ Industrial Relations Steering Committee	P Mussared
▪ Integrated Ticketing Steering Committee	M Ronsisvalle, D Graham
▪ Lane Cove Tunnel Review Panel	D Graham
▪ Limitation of Council Rate Increases-Committee of Advice	B Freeland
▪ Long Bay Prison/Forensic Hospital Steering Committee	D Graham
▪ Metro Water Strategy Senior Executives Committee	L Dewar, R Edwards
▪ Ministerial Council on Energy-Standing Committee of Officials	K Cosgriff
▪ Minerals Consultative Committee	R Sayers
▪ Mobile Carriers Forum Working Group	M Toohey
▪ National PPP Forum-Interjurisdictional Working Group	D Graham
▪ Natural Disaster Mitigation Program Committee	P Blunden
▪ NDRA Commonwealth State Working Group	P Blunden, S Fury
▪ Newcastle Mater Hospital PPP Steering Committee	D Graham
▪ Newcastle Multi Purpose Terminal Steering Committee	D Graham
▪ NSW Fire Brigades Superannuation Pty Ltd	P Blunden (Statutory Bodies)
▪ NSW Government Procurement Senior Officers Committee	E Shestovsky, S Chong
▪ NSW Infrastructure Council.	J Pierce
▪ NSW Reference Group on Emissions Trading	R Edwards, M McGrath
▪ NSW Senior Officers Interagency Greenhouse Network	R Edwards, M McGrath
▪ NSW Statistical Co-ordination and User Forum	P Horn
▪ Perisher Development Initiatives Task Force Group	K Schott/Matt Roberts
▪ Photocopier and Imaging Steering Committee	M Toohey
▪ Planning Reform Reference	L Dewar
▪ Police Executive Officers Group	M Toohey
▪ Police Mainframe Replacement Steering Committee	M Toohey
▪ Population Projection Group	D Maynard
▪ Project Management Improvement Steering Committee	M Toohey
▪ Public Sector Financial Reporting Harmonisation Working Group	A Hunter
▪ RailCorp Rollingstock PPP Control Group	M Ronsisvalle, K Schott, D Graham
▪ Rail Reform Steering Committee	J Pierce, M Ronsisvalle
▪ Reconnect Computer Reuse Program Steering Committee	M Toohey
▪ SAP Integrated Steering Committee-Businesslink	M Toohey
▪ School Student Transport Scheme Policy Coordination Committee	M Ronsisvalle
▪ Social Housing PFP Steering Committee	D Graham
▪ State Emergency Management Committee	P Blunden
▪ State Fleet Advisory Board	P Blunden
▪ State Transport Property Committee	M Ronsisvalle

Non Treasury Committees**Treasury Officer/s**

▪ Steering Committee for the Review of Government Service Provision(SCRGSP)	M Ronsisvalle, A Hughes
▪ Transport Co-ordination Committee	M Ronsisvalle
▪ Transport NSW CSO Consultative Committee	M Ronsisvalle
▪ Treasury Managed Fund – Advisory Board	P English, S Hunt
▪ Treasury Managed Fund Data Warehouse Steering Committee	M Toohey
▪ ViCCU Research and Assessment Reference Group	M Toohey
▪ Water Chief Executive Officers	E Dewar
▪ Water Consultation Liaison Committee (Snowy Hydro)	B Lathwell
▪ Workcover Scheme Design Steering Committee	I Neale, K Riley

Statutory Bodies/Committees abolished in 2005-06**Treasury Officer/s**

▪ Casino Safety Net Committee	R Christ
▪ NSW Trustee Advisory Committee	R Annsion
▪ TMF Tender Committee	I Neale (Chair), C Broad, P English, J Angelakis, R Hay (Secretary)
▪ Major Projects Investment Committee	K Cosgriff (Chair), J O'Connell, F Jordan, B Lathwell (secretary)
▪ Attorney General's Department Review Steering Committee	P Blunden
▪ Australian Business Economists	P Horn
▪ CCSU Governance Steering Committee	P Blunden, K Schott
▪ Coal Industry Act Monitoring Committee	R Annsion
▪ Commerce Air Travel Contract Steering Committee	P Blunden, M Openshaw
▪ Compensation Court Closure Steering Committee	P Blunden, C Weir
▪ Critical Infrastructure Steering Committee	P Blunden
▪ Heads of Treasuries State Taxes Working Group	R Carling, R Agnew
▪ Institute of Public Administration Australia (NSW Division)	M Di Francesco (Councillor)
▪ Legal Services Review Steering Committee	P Blunden
▪ NSW Inter Agency Committee on Plumbing Regulation Reform	R Annsion, N Cowan
▪ Police Shared Services Executive Steering Committee	P Blunden
▪ Project Control Group	F Jordan
▪ Residual Business Management Corporation Process Committee	J O'Connell, B Lathwell
▪ Review of Business Stamp Duties Working Group	M Clark-Lewis
▪ Shared Ellipse Upgrade Steering Committee	P Blunden, M Openshaw
▪ The Industry, Environment & Development Task Force	F Jordan

Appendix 11 Energy Management and Performance

OFM is committed to achieving energy savings and adheres to the sustainable energy principles outlined in NSW Treasury's Energy Management Plan.

The Plan establishes accountability and responsibility for energy management. It outlines the rationale and strategies to lower the costs and usage of energy without adversely impacting on our business activities. It aims to ensure compliance with the Government's energy policy and contribute to the lowering of greenhouse gas emissions through reduced energy usage.

OFM occupies four floors of Governor Macquarie Tower (GMT). Electricity for the building is purchased under the State Contracts Control Board electricity contract from the contestable electricity market. 6% of this is from renewable sources, which also helps to reduce greenhouse gas emissions.

OFM Fuel 2005-06

	Total Energy Consumed kWh or L	Total Energy Consumed (GJ)	Annual Cost (\$)	CO2 Emissions (Tonnes)
Electricity (Black Coal)	639,379 kWh	2,301	\$60,975	611.1
Electricity (Green Power)	40,811 kWh	147	\$5,019	0.0
Petrol	36,033 L	1,232	\$41,684	81.3
TOTAL		3,680	\$107,678	692.5

OFM's energy usage in 2005-06 is not comparable with that reported for previous years.

During the year a new, more accurate approach to measuring electricity usage was adopted. Meters were installed on various floors in GMT, including some occupied by OFM to provide more precise information on usage. Previously OFM's usage was estimated by averaging total power usage in GMT according to floor space.

Independent of energy usage, electricity cost has increased by approximately 8.5% from 2004-05 to 2005-06. Petrol cost increased by 27.0%.

Appendix 12 Waste Reduction and Purchasing Policy

OFM's waste reduction and purchasing policy reflects the strategies that apply across the whole of government.

OFM uses electronic communication to reduce waste. The use of email for general communication and the intranet and internet to publish documents dramatically reduces the consumption of paper.

Printers with high environmental ratings are now the standard for use in OFM. These printers have been placed on each floor as part of our automation replacement program.

All major equipment purchases are now reviewed by our IT Strategic Committee, which stipulates good environmental ratings as a key requisite for purchasing equipment.

Recycled materials such as paper and consumables remain a key component of our procurement practices.

Promotion

Appendix 13 Treasury Circulars

Treasury Circulars can be accessed
from the OFM Website
[www.treasury.nsw.gov.au]

2005-06 Treasury Circulars		Date Issued
NSW TC 05/06	Credit Card Use – Best Practice Guide	15/08/05
NSW TC 05/07	Annual Reporting Update	16/08/05
NSW TC 05/08	Machinery of Government Changes - Application to GST and FBT Responsibilities	07/09/05
NSW TC 05/09	Applications for Government Guarantees – Analysis of Public Interest Issues	31/10/05
NSW TC 05/10	Accounting for the Goods and Services Tax (GST)	22/12/05
NSW TC 05/11	Accounting for Dividends	22/12/05
NSW TC 06/01	Procurement of Photocopier Equipment	04/01/06
NSW TC 06/02	Treasury Review of Financial Impact Statements	24/01/06
NSW TC 06/03	Total Asset Management (TAM) Policy Update	23/03/06
NSW TC 06/04	Implementation of New Employment Arrangements	31/03/06
NSW TC 06/05	New Employment Arrangements Further Advice	03/05/06
NSW TC 06/06	2005-06 Financial Reporting Requirements for the Consolidated Financial Reports of the State	16/05/06
NSW TC 06/07	Consequences of New Employment Arrangements for Fringe Benefits Tax Returns	17/05/06
NSW TC 06/08	2005-06 Financial Accounting Arrangements for the Crown Entity	29/05/06
NSW TC 06/09	AASB 119 'Employee Benefits' other than Superannuation	29/05/06
NSW TC 06/10	Accounting for Superannuation	29/05/06
NSW TC 06/11	First -Time Adoption of Australian Equivalents to International Financial Reporting Standards (AEIFRS)	15/06/06
NSW TC 06/12	Financial Reporting for NSW Government Entities including those Affected by Restructures	21/06/06
NSW TC 06/13	Financial Reporting and Annual Reporting Requirements Arising from Employment Arrangements	21/06/06
NSW TC 06/14	Mandates of Options and Major Policy Decisions under AEIFRS	26/06/06
NSW TC 06/15	Crown Contingent Liabilities and Guarantees	27/06/06
NSW TC 06/16	Rates/Indices for Measuring Provisions at Present Value	30/06/06

Promotion

Appendix 14 Publications

All NSW Treasury publications are published on the OFM Website [www.treasury.nsw.gov.au], including those issued prior to 2005-06

2005-06 NSW Treasury Policy & Guidelines Papers

NSW Treasury Policy & Guidelines Papers (TPPs) outline Government policy and/or NSW Treasury procedures for the direction or guidance of Agencies.

Date Issued

TPP05-1 August 2005	Credit Card Use Best Practice Guide A guide to assist agencies implement and manage the use of NSW Government credit cards. It replaces TPP99-2 "Review of Credit Card Use-Best Practice Guide" dated June 1999. The new guidelines should be read in conjunction with the sections of the Public Finance and Audit Act 1983 as specified in the Executive Summary. CEOs must certify in their performance review with their minister, and in the annual report, that their agency's use of credit cards has been in accordance with Premier's Memoranda and Treasurer's Directions.
TPP05-2 November 2005	Reporting and Monitoring Policy This Policy applies to all NSW Government businesses and updates monitoring and reporting practices in line with developments in Government policy and in private sector requirements and practices. Effective measuring and reporting of performance safeguards the value of the businesses and ensures accountability for performance. The Policy replaces the Monitoring Policy for NSW Government Businesses, October 1992. Major changes include increased disclosure for capital projects and an obligation to continuously disclose material information as it arises.
TPP05-3 November 2005	Valuation of Physical Non-Current Assets at Fair Value This accounting policy guides the valuing of physical non-current assets at fair value for general financial reporting, taking into account the unique circumstances of the public sector. It ensures relevant and reliable information for decision making and a consistent approach to asset valuation across the NSW Public Sector. The Policy applies to all NSW public sector entities (including Statutory State Owned Corporations) for financial years beginning on or after 1 January 2005. It supersedes the previous Policy & Guidelines Paper of the same name (TPP 03-02). It is updated for the adoption of Australian Equivalents to International Financial Reporting Standards.
TPP05-4 December 2005	Distinguishing For-Profit from Not-For-Profit Entities Assists public sector entities determine whether they are a for-profit or not-for-profit entity. This is for the purpose of preparing their general purpose financial reports in line with Australian Equivalents to International Financial Reporting Standards. The Policy applies to all NSW public sector entities (including statutory State Owned Corporations) for financial years starting on or after 1 January 2005.

2005-06 NSW Treasury Policy & Guidelines Papers continued

Date Issued

TPP06-1 January 2006	CEO Contract Guidelines for Government Businesses <p>This is a component of the NSW Government's Commercial Policy Framework, which comprises a suite of policies to replicate within government businesses the appropriate disciplines and incentives that lead private sector businesses towards efficient commercial practices.</p> <p>Guidance is provided on key terms in the employment contracts of chief executives and managing directors of State Owned Corporations and other Government businesses not covered by the Public Sector Employment and Management Act 2002. These Guidelines are based on best practice corporate governance standards in the context of Government ownership.</p>
TPP06-2 March 2006	Fringe Benefits Tax (FBT) Manual <p>This manual outlines legislation, rulings, determinations and other relevant information to assist NSW Government agencies comply with FBT requirements. The Manual outlines how to identify and value each type of fringe benefit and discusses the interaction between FBT and GST. Users should also refer to the Fringe Benefits Tax Assessment Act 1986 for specific details of the rules.</p> <p>The Manual provides useful references to the Australian Taxation Offices website and the FBT Guide for Employers. Deloitte Touche Tohmatsu Ltd assisted with the updating of the Manual which replaces the 2003 version (TPP03-01).</p>
TPP06-3 June 2006	Lessor Accounting for Prepaid Long-term Leases of Land <p>This Policy sets out the accounting treatment to be adopted by a lessor when accounting for a prepaid long-term lease of land. It clarifies how accounting standards should be applied to such leases so that a consistent approach is adopted by all NSW public sector entities (including State Owned Corporations).</p> <p>The policy, which applies for financial years beginning on or after 1 July 2005, has been updated as part of the adoption of Australian Equivalents to International Financial Reporting Standards. It replaces NSW Treasury Circular Accounting for Long-Term Leases of Land and Other Property (NSW TC 00/19).</p>
TPP06-4 June 2006	Accounting for Financial Instruments <p>Provides guidance to NSW public sector agencies (including State Owned Corporations) on the application of AASB 139 Financial Instruments: Recognition and Measurement and AASB 132 Financial Instruments: Disclosure and Presentation. Coverage includes likely classification of financial instruments; restrictions on the use of certain categories of financial instruments; derivatives and hedge accounting; and interest free and low interest loans.</p> <p>The Policy is applicable for financial years beginning on or after 1 January 2005. It supersedes previous NSW Treasury Circulars - Valuation of Non-Current Assets Other than Physical Assets (NSWTC 01/14) and Valuation of Debt (NSWTC 02/11).</p>

Promotion

Appendix 14 Publications

2005-06 NSW Treasury Policy & Guidelines Papers continued

Date Issued

TPP06-5 Financial Reporting Code for Budget Dependent General Government Sector Agencies

June
2006

The Code is applicable to all Budget Dependent General Government Sector Agencies for financial years beginning on or after 1 January 2005. It outlines the form and content of financial reports and accompanying note disclosures.

The Code has been updated as part of the adoption of Australian equivalents to International Financial Reporting Standards (AEIFRS). This edition supersedes the previous version (TPP 03-3).

TPP06-6 Accounting Policy – Guidelines for Capitalisation of Expenditure on Property, Plant and Equipment

June
2006

The Guidelines are applicable to all NSW public sector agencies (including Statutory State Owned Corporations) for financial years beginning on or after 1 January 2005. They discuss the Accounting Standard distinction between capitalising and expensing property, plant and equipment costs with a view to achieving their consistent treatment across the NSW public sector.

The Guidelines which have been updated as part of the adoption of AEIFRS replace previous Guidelines on this topic.

TPP06-7 Accounting Policy – Contributions by Owners Made to Wholly-Owned Public Sector Entities

June
2006

This policy is applicable to all NSW Public Sector entities (including Statutory State Owned Corporations) for financial years beginning on or after 1 January 2005. It provides guidance to achieve a consistent approach to accounting for "contributions by owners" (ie equity adjustments) across the NSW Public Sector.

This policy has been updated as part of the adoption of AEIFRS. It supersedes the previous policy of the same name.

TPP06-8 Accounting Policy – Accounting for Privately Financed Projects

June
2006

This accounting policy is applicable to all NSW public sector entities (including statutory State owned corporations) for financial years beginning on or after 1 July 2005.

The policy aims to ensure a consistent approach to accounting for PFPs across the NSW public sector. Such projects are often complex and may not fall within the scope of existing Australian accounting standards.

Promotion

2005-06 NSW Treasury Research and Information Papers

NSW Treasury Research & Information Papers are aimed at promoting discussion, educating or providing information on research projects undertaken by OFM officers.

Date Issued

- | | |
|---|--|
| TRP05-1
September 2005 | Performance of NSW Government Businesses 2003-04
NSW is the only Australian jurisdiction that provides a comprehensive annual report of this type. This is the fifteenth edition. Electricity, transport and water sector businesses account for around 84% of NSW Government business employment.

The electricity and water sectors contribute 80% of Financial Distributions from all the businesses. Labour productivity improvements have significantly impacted on performance. |
| TRP05-2
October 2005 | Interstate Comparison of Taxes 2005-06
This annual publication is produced with the assistance of NSW agencies and other States and Territories following delivery of State and Territory Budgets. It briefly describes each tax to facilitate interstate comparisons.

Some information is based on proposed or announced changes not yet legislated at the time of publication so relevant Acts and/or regulations should be consulted for full detail. |
| TRP05-3
December 2005 | New Schools Privately Financed Project Post Implementation Review
Reports on the outcome of the first post implementation review conducted under the Working with Government Guidelines for Privately Financed Projects. The Guidelines require post Implementation reviews of Privately Financed Projects to be initiated within 12 months of the infrastructure commencing operation.

The purpose is to assess the process and outcomes associated with formulating the project, allocating risks, the performance of the infrastructure, the delivery of the project and the management of stakeholders. |
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Treasury Operational Documents

Corporate Plan - Triennial

The Plan outlines OFM's strategic management framework and the values it applies. It is issued every three years following a fundamental planning review. It incorporates the OFM Commitment to Service.

NSW Treasury Annual Report - Annual

Prepared in accordance with the provisions of the Annual Reports (Departments) Act 1985.

Treasury Focus - Periodic

The corporate newsletter of the NSW Treasury - issues via OFM's web site.

Promotion

Appendix 14 Publications

State Financial Reports

Report on State Finances

An annual publication outlining government activities and overall financial position of the State Public Sector. The report incorporates the Statement of Budget Result, Outcomes Report and the Consolidated Financial report of the NSW Total State Sector including the NSW Public Accounts.

Monthly Financial Statements

Monthly reports on General Government finances for the year to date, published on OFM's web site.

State Budget Papers

Budget Summary

Sets out in simple graphical form the key elements of the Budget.

Budget Speech BP 1

The printed version of the speech delivered in Parliament by the Treasurer on Budget day. It sets out the Government's budgetary strategy and financial plans.

Budget Statement BP 2

Presents detailed information both on the Budget aggregates (i.e. for the General Government Sector) and on State finances more generally.

Budget Estimates BP 3 (2 volumes)

Contains detailed revenue and expense information on an agency, program and portfolio basis for the General Government Sector. Information is provided on the net cost of providing services for each General Government Budget Dependent agency's programs.

Infrastructure Statement BP 4

Provides detail of the General Government Sector and Public Trading Enterprise Sector Asset Acquisition Programs. Information is provided on an accrual basis.

Appropriation Bills BP 5

Bills appropriating money required for the recurrent services and capital works and services of Government during the financial year.

NSW Long-Term Fiscal Pressures Report BP 6

Projects the long-term fiscal position of NSW over a 40 year horizon, assuming no changes to tax or policy settings, to explore the fiscal importance of long-term historic and demographic trends.

State Infrastructure Strategy

The Strategy, which issued for the first time in May 2006, sets out the Government's infrastructure plans and priorities for the ten years 2006-07 to 2015-16. It links immediate funding with longer term infrastructure planning and identifies the main drivers of infrastructure spending – coastal population growth, increased ageing and the impact of new technology.

The Strategy will be updated every two years to monitor progress and take into account new demographic projections and any policy change.

Promotion

Appendix 15 Freedom of Information

There are no major issues to report on OFM's compliance with FOI requirements.

New Requests

FOI Requests	Personal		Other		Total	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
New (including transferred in)	179	203	26	29	205	232
Brought forward	-	-	-	-	-	-
Total to be processed	179	203	26	29	205	232
Completed	179	191	25	26	204	217
Transferred out	-	-	1	1	1	1
Withdrawn	-	-	-	1	-	1
Total processed	179	191	26	28	205	219
Unfinished (carried forward)	-	12	-	1	-	13

What happened to completed requests

Result of FOI request	Personal		Other	
	2004-05	2005-06	2004-05	2005-06
Granted in full	172	165	12	11
Granted in part	3	22	5	5
Refused	4	4	9	9
Deferred	-	-	-	1
Completed	179	191	25	26

Ministerial Certificates	2004-05	2005-06
Ministerial Certificates issued	0*	-
Formal Consultations		
Number of requests requiring formal consultation(s)	-	3
Reviews		
Number of internal reviews finalised	7	3
Number of Ombudsman reviews finalised	-	-
Number of AOT appeals finalised	1	-
Amendment of Personal Records		
Result of amendment request – Agreed	-	-
Result of amendment request – Refused	-	-
Total amendments	-	--

*Note: The 2004-05 report indicated 3 Ministerial certificates were issued. This was incorrect. No Ministerial certificates were issued. The number referred to Cabinet certificates within an Ombudsman Preliminary Inquiry.

Internal Review Results	2004-05	2005-06	2004-05	2005-06
Grounds on which sought	Personal		Other	
Access Refused	1		6	3
Deferred	-	-	-	-
Exempt Matter	-	-	-	-
Unreasonable Charges	-	-	-	-
Charges Unreasonably Incurred	-	-	-	-
Amendments Refused	-	-	-	-
Totals	1		6	3

Discounts Allowed

Type of discount allowed	Personal		Other	
Public Interest	-	-	-	-
Financial Hardship - Pensioner/Child	4		-	-
Financial Hardship - Non-Profit Organisation	-	-	-	-
Totals	4		-	-

Significant Correction of Personal Records	-	-	-	-
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FOI requests granted in part or refused

Basis for disallowing/restricting access	Personal		Other	
Section 19 (application incomplete, wrongly directed)	-	-	-	2
Section 22 (deposit not paid)	-	-	-	2
Section 25(1)(al) (unreasonable diversion of resources)	-	-	-	-
Section 25(1)(a) (exempt)	7	4	14	6
Section 25(1)(b),(c),(d) (otherwise available)	-	-	-	3
Section 25(1)(e) (documents >5 years old)	-	-	-	-
Section 24(2) (deemed refused, >21 days)	-	-	-	-
Totals	7	4	14	13

Costs and fees of requests processed

Result of FOI request	Assessed Costs		FOI Fees Received	
	Personal		Other	
All completed requests	\$5110	\$7358	\$960	\$1470

Days to process

Elapsed time	Personal		Other	
0-21 days	179	188	19	20
22-35 days	-	1	7	6
over 35 days	-	2	-	2
Total	179	191	26	28

Processing time

Processing hours	Personal		Other	
0-10 hours	179	191	26	24
11-20 hours	-	-	-	4
21-40 hours	-	-	-	-
Over 40 hours	-	-	-	-
Total	179	191	26	28

Legislation

Appendix 16

Treasurer's Legislation

- Annual Reports (Departments) Act 1985 No 156
- Annual Reports (Statutory Bodies) Act 1984 No 87
- Appropriation (Health Super-Growth Fund) Act 2003 No 75
- Australia and New Zealand Banking Group Limited (NMRB) Act 1991 No 35
- Bank Integration Act 1992 No 80
- Bank Mergers Act 1996 No 130
- Bank Mergers (Application of Laws) Act 1996 No 64
- Banks and Bank Holidays Act 1912 No 43, section 22
(remainder, Minister for Industrial Relations)
- Betting Tax Act 2001 No 43
- Canberra Advance Bank Limited (Merger) Act 1992 No 17
- Capital Debt Charges Act 1957 No 1
- Commonwealth Places (Mirror Taxes Administration) Act 1998 No 100
- Commonwealth Powers (State Banking) Act 1992 No 104
- Conversions of Securities Adjustment Act 1931 No 63
- Dartmouth Reservoir (Financial Agreement) Act 1970 No 30
- Debits Tax Act 1990 No 112
- Decimal Currency Act 1965 No 33
- Duties Act 1997 No 123
- Energy Services Corporations Act 1995 No 95
- Finances Adjustment Act 1932 No 27
- Financial Agreement Act 1944 No 29
- Financial Agreement Act 1994 No 71
- Financial Agreement (Amendment) Act 1976 No 35
- Financial Agreement (Decimal Currency) Act 1966 No 39
- Financial Agreement Ratification Act 1928 No 14
- Financial Agreement (Returned Soldiers Settlement) Ratification Act 1935 No 1
- Financial Sector Reform (New South Wales) Act 1999 No 1
- Fines Act 1996 No 99 (except parts, Attorney General)
- First Home Owner Grant Act 2000 No 21
- Fiscal Responsibility Act 2005 No 41
- Freight Rail Corporation (Sale) Act 2001 No 35
- Gaming Machine Tax Act 2001 No 72, Part 3
(remainder, jointly with Minister for Gaming and Racing,
except Part 4 and Schedule 1, Minister for Gaming and Racing)
- General Government Liability Management Fund Act 2002 No 60
- Government Guarantees Act 1934 No 57
- Government Insurance Office (Privatisation) Act 1991 No 38

Legislation

- Health Insurance Levies Act 1982 No 159
- Inscribed Stock Act 1902 No 79
- Inscribed Stock (Issue and Renewals) Act 1912 No 51
- Insurance Protection Tax Act 2001 No 40
- Interest Reduction Act 1931 No 44
- Intergovernmental Agreement Implementation (GST) Act 2000 No 44
- Internal Audit Bureau Act 1992 No 20
- Land Tax Act 1956 No 27
- Land Tax Management Act 1956 No 26
- NSW Grain Corporation Holdings Limited Act 1992 No 31
- NSW Self Insurance Corporation Act 2004 No 106
- Pacific Power (Dissolution) Act 2003 No 17
- Pay-roll Tax Act 1971 No 22
- Petroleum Products Subsidy Act 1997 No 112
- Public Authorities (Financial Arrangements) Act 1987 No 33
- Public Finance and Audit Act 1983 No 152
(except parts, Premier)
- Public Loans Act 1902 No 81
- Public Sector Employment and Management Act 2002 No 43, Chapter 7
(jointly with the Minister for Commerce; remainder Premier)
- Road Improvement (Special Funding) Act 1989 No 95
- Secondary Mortgage Market (State Equity Participation) Act 1985
No 131
- Stamp Duties Act 1920 No 47
- State Bank (Corporatisation) Act 1989 No 195
- State Bank of South Australia (Transfer of Undertaking) Act 1994 No 47
- State Bank (Privatisation) Act 1994 No 73
- Superannuation Administration Act 1996 No 39
- Superannuation (Axiom Funds Management Corporation) Act 1996
No 40
- Taxation Administration Act 1996 No 97
- Totalizator Act 1997 No 45, section 76
(remainder, Minister for Gaming and Racing)
- Totalizator Agency Board Privatisation Act 1997 No 43
- Treasury Corporation Act 1983 No 75
- Trustees Protection Act 1931 No 28
- Unclaimed Money Act 1995 No 75
- Wills, Probate and Administration Act 1898 No 13, section 61B (7) and
(8) (remainder, Attorney General)

Source: <http://www.legislation.nsw.gov.au>

Legislation

Appendix 16

The Office of State Revenue administers the Treasurer's taxation and fines legislation.

Please refer to the relevant Act or OSR's annual report if a more detailed explanation of amendments to those Acts is required.

Duties Amendment (Abolition of Vendor Duty) Act 2005

Amends the *Duties Act 1997* to abolish vendor duty and duty on the disposal of interests in land rich landholders from 2 August 2005

State Revenue Legislation Further Amendment Act 2005

Amends the following Acts:

Duties Act 1997

- Extends a duty exemption on transfers made with changing superannuation funds.
- Exempts from duty certain transfers made in connection with a home equity release scheme.
- Increases the minimum eligibility age from 16 to 18 for the First Home Plus scheme.
- Exempts from duty an assignment of a call option over property in certain circumstances.
- Extends and clarifies criteria for registering as a wholesale unit trust scheme to include those in which certain foreign entities invest, under the land rich provisions.
- Prevents an administrative provision being abused to avoid mortgage duty by artificially reducing the NSW proportion of property used as security.
- Closes the mortgage duty concession on advances connected with debenture issues.
- Extends a duty concession for insurance policies issued under the Debtor Insurance Scheme of the Stock and Station Agents Association until 31 January 2010.

First Home Owner Grant Act 2000

- Increases the minimum age for eligibility from 16 to 18 years.
- Allows an applicant who received a grant to be eligible for a further grant, if the prior grant was repaid.
- Requires the applicant must not have held an interest in residential property that the applicant used as a residence for at least six months.
- Grants the Chief Commissioner the power to vary or allow exemption from the residence requirement.
- Extends provisions for an applicant dissatisfied with a decision of the Chief Commissioner to object.

Insurance Protection Tax Act 2001

- Exempts any insurer whose policy holders are singly liable for claims under the insurance, if approved by the Treasurer.

Land Tax Management Act 1956

- Aligns the land tax exemption for primary production land with the business test in the definition of "farmland" used for council rates purposes where land has an urban or non-rural zoning.
- Limits the exemption applying to land subject to conservation agreements to those agreements which are for an indefinite period.
- Includes a number of amendments relating to unoccupied land intended to be the owner's principal place of residence.

Pay-roll Tax Act 1971

- Clarifies the employers' liability for pay-roll tax in relation to industry based long service leave and redundancy benefits schemes.
- Clarifies provisions relating to the imposition of pay-roll tax on shares and options given as remuneration to employees and directors.

Petroleum Products Subsidy Act 1997

- Authorises the Chief Commissioner to assess and recover overpayments of the subsidy, and provides objection and appeal rights to clients.
- Clarifies provisions relating to the payment and refund of petroleum products subsidies in northern NSW, and related offences.
- Requires sellers of subsidised fuel to include the subsidy rate on invoices.

Taxation Administration Act 1996

- Removes a requirement of reciprocity relating to investigations of contraventions of revenue laws of other Australian jurisdictions.
- Provides that State owned corporations (SOCs) will not be treated as members of the same group merely because of their shareholding arrangement.

Administrative Decisions Tribunal Act 1997

- Allocates the function of reviewing a decision of the Chief Commissioner to recover an amount from a person paid under the Petroleum Products Subsidy Act 1997 to the Revenue Division of the Administrative Decisions Tribunal (ADT).

Legislation

Budget Session 2006

Land Tax Management Amendment (Tax Threshold) Act 2006

Amends the *Land Tax Management Act 1956* to increase the threshold at which land tax becomes payable from \$330,000 to \$352,000 effective from the 2006 land tax year.

Duties Amendment (Abolition of State Taxes) Act 2006

Amends the *Duties Act 1997* to:

- Abolish duty on a hire of goods from 1 July 2007.
- Abolish duty on leases from 1 January 2008.
- Make changes to lease duty including transitional provisions, concessions and anti avoidance measures from 1 July 2006.
- Abolish duty on all marketable security transfers from 1 January 2009.
- Abolish mortgage duty from 1 January 2011.
- Reduce the mortgage duty rate by 50% from 1 January 2010.
- Abolish duty on some business assets (not land) from 1 July 2012.

State Revenue and Other Legislation Amendment (Budget Measures) Act 2006

Amends the following Acts:

Gaming Machine Tax Act 2001

- Changes the tax payable by registered clubs on profits from gaming machines from 1 September 2006

Land Tax Management Act 1956

- Assesses land tax liability on an average valuation of land.
- Changes calculation of the tax free threshold for land tax
- Includes minor amendments to the calculation of land tax when Crown land is leased.

Pay-roll Tax Act 1971

- Maintains the same pay-roll tax treatment for staff in certain statutory corporations who are now employees of the Crown.

Taxation Administration Act 1996

- Clarifies application of the legislation after a successful objection under the Valuation of Land Act 1916.

State Revenue Legislation Amendment Act 2006

Amends the following Acts:

Duties Act 1997

- Includes certain improvements in the unencumbered value of land for duty purposes.
- Removes limit on a concession applying in certain circumstances to cancelled transfers.
- Modifies the concession applying in certain circumstances to transfers between an apparent purchaser and a real purchaser.
- Removes a restriction on eligibility for the first home buyers duty concession where property was previously held as trustee or executor under a will.
- Repeals certain provisions to confirm that decisions of the Chief Commissioner are reviewable by the Administrative Decisions Tribunal.
- Removes some requirements and adds new conditions relating to land rich duty.
- Clarifies application of mortgage duty on debenture issues and certain insurance duty provisions.

Land Tax Management Act 1956

- Extends the principal place of residence exemption in certain circumstances and clarifies its application to companies.

Pay-roll Tax Act 1971

- Includes amendments relating to the tax payable on grants of shares or options to employees.

Taxation Administration Act 1996

- Allows the Chief Commissioner to disclose to the Department of State and Regional Development information to facilitate the pay-roll tax incentive scheme.

Petroleum Products Subsidy Act 1965

- Repeals the *Petroleum Products Subsidy Act 1965* and regulations of that Act from 30 June 2006.

State Property Authority Act 2006

Legislates for the Authority to pursue improved asset use by:

- Holding, managing, acquiring or disposing of properties, both that it owns and those of agencies;
- Carrying out, managing or participating in developing property;
- Arranging for the sharing of facilities by agencies, and
- Providing services for managing, maintaining or improving property.

The Authority can own property under its own title such as generic properties as offices, warehouses, etc usable by any agency. Iconic or specialised assets integrated with service delivery (hospitals, correctional facilities, schools) stay owned and/or run by service delivery agencies.

National parks and marine parks are excluded. Crown land remains under the Minister for Lands. The transfer of specific Crown properties to the Authority is considered on a case by case basis.

Appropriation (Budget Variations) Act 2006

Appropriates additional amounts for recurrent services and capital works and services to give effect to certain Budget variations required by the exigencies of Government.

Appropriation Act 2006

An Act to appropriate out of the Consolidated Fund sums for the recurrent services and capital works and services of the Government for the year 2006-07.

Appropriation (Parliament) Act 2006

An Act to appropriate out of the Consolidated Fund sums for the recurrent services and capital works and services of the Legislature for the year 2006-07.

Appropriation (Special Offices) Act 2006

An Act to appropriate out of the Consolidated Fund sums for the recurrent services and capital works and services for 2006-07 for the:

- Independent Commission Against Corruption
- Ombudsman's Office
- State Electoral Office
- Office of the Director of Public Prosecutions

Legislative Reviews

Review of the Public Finance and Audit Act 1983 Public Finance and Audit Regulation 2000

From 1 September 2005 the Public Finance and Audit Regulation 2005 replaced the 2000 Regulation of the same name, in accord with the staged repeal of subordinate legislation under the Subordinate Legislation Act 1989.

Schedule 1 to the 2000 Regulation included many financial report disclosure requirements which, with few exceptions, were not carried forward to the 2005 Regulation as they conflict with or duplicated Australian Accounting Standards requirements or were redundant.

During 2005-06 minor amendments to the Act and Regulation included:

- Amended terminology due to the adoption of Australian equivalents to International Financial Reporting Standards by all reporting entities in the NSW public sector.
- Amended the definitions of “authority”, “officer of an authority” and “head of an authority” to refer to the Public Sector Employment and Management Act 2002 and the Government Service.
- Amended sections 12-13 and the Regulation so “officers of an authority” may incur expenditure and authorise payment for any authority if delegation was conferred on the officers.
- Amended to ensure the schedules of applicable departments and statutory bodies are up to date.

Annual Reports (Statutory Bodies) Act 1984 and Annual Reports (Statutory Bodies) Regulation 2005

Annual Reports (Departments) Act 1985 and Annual Reports (Departments) Regulation 2005

With the staged repeal of subordinate legislation under the Subordinate Legislation Act 1989, the Annual Reports (Statutory Bodies) Regulation 2005 and the Annual Reports (Departments) Regulation 2005 came into effect on 1 September 2005.

These Regulations replaced the 2000 Regulations of the same names.

Statutory bodies no longer need to include in their annual reports a copy of their code of conduct (but Departments must still disclose this information).

All other requirements were carried forward.

During 2005-06, minor amendments were made to terminology due to the adoption of Australian equivalents to International Financial Reporting Standards by all reporting entities in the NSW public sector.

First Home Owner Grant Act 2000

Details of the review were advertised in the press and on the OSR website. Submissions were invited from key stakeholders. Ten submissions were received from representative organisations and a number of other submissions were received from the public.

The issues raised in submissions about the effectiveness of the Act related to the amount of the grant and whether the grant should be limited to new homes.

The report was tabled in both Houses of Parliament on 23 May 2006 and concluded the main objective of the Act remained valid and relevant and the terms of the Act were appropriate for securing that objective.

Legislation

Appendix 17 Annual Reporting Legislation

The Treasurer is responsible for the Annual Reports legislation that governs departments and statutory bodies.

As part of its responsibility for administering the legislation and ensuring compliance with it, OFM has conducted an annual reports review program since 1991.

This program is one of the strategies to enhance statutory compliance and the overall quality and relevance of agencies' annual reports.

The general objectives of the program are to:

- monitor compliance with annual reporting legislation; and
- promote best practice in public sector annual reporting.

NSW Treasury Circular NSWTC 06/21 summarises the results of the 2004-05 annual reports review program and identifies instances of "better" reporting practices.

Exemptions and Variations from Reporting Requirements under Acts and Regulations

Agency	Applicable Financial Year(s)	Exemption/Variation	Reason(s) for Approval
Cancer Council	2004/5	Extended financial year from 1 July 04 to 30 September 05	Final financial report.
Health Technology	2005/06	Extended financial year for a 14 month period ending 30 June 06	First financial reporting period.
Area Health Services	2004/05	Exemption from disclosure of budgeted amounts & budget review note	Restructures of Area Health Services from 1 January 05
NSW Health	2005/06 and subsequent years	Exemption to disclose the "Result for the Year" in place of "Surplus/Deficit for the Year"	Variation of Financial Reporting Code requirement only
AWT Philippines Inc	2005/06	Extended financial year to date of dissolution & exemption from preparation of final financial report	Non-trading entity in the process of being dissolved
TransGrid	2004/5	Exemption from requirement is Treasury's Asset Valuation Policy to revalue easements to fair value	Easements measured at cost as an intangible asset from 2005/06 under new Accounting Standards
NSW Grains Board (subject to scheme of arrangement)	Year ended 9 November 2000	Exemption from certain annual reporting requirements	Entity is under scheme administration & certain historic information is now difficult to obtain

Legislation

Extensions of Time Granted to Reporting Dates under Acts and Regulations

1. To Submit Financial Statements

Agency	Applicable Financial Year(s)	Exemption/Variation	Reason(s) for Approval
Goulburn Rural Lands Protection Board	2005	Extension to 13 March 2006	Computer software difficulties
Hay Rural Lands Protection Board	2005	Extension to 13 March 2006	Computer software difficulties
Gundagai Rural Lands Protection Board	2005	Extension to 13 March 2006	Computer software difficulties
Northern New England Rural Lands Protection Board	2005	Extension to 13 March 2006	Staffing difficulties
Cobar Rural Lands Protection Board	2005	Extension to 6 March 2006	Staffing difficulties
Bombala Rural Lands Protection Board	2005	Extension to 27 February 2006	Computer software difficulties
WorkCover	2004/05	Extension to 30 September 2005	Financial statements include information insurers did not lodge until mid August
Environment Protection Authority	2004/05	Extension to 22 September 2005	Additional time required to resolve reporting entity issues

2. To Submit Annual Reports

Agency	Applicable Financial Year(s)	Exemption/Variation	Reason(s) for Approval
Workers Compensation (Dust Diseases) Board	2005/06	Extension to 30 November 2006	Additional time required for audit
Charles Sturt University	2005	Extension to 31 May 2006	Additional time required for audit
Wine Grapes Marketing Board	2005	Extension to 2 June 2006	Additional time required for audit
WorkCover	2004/05	Extension to 30 November 2005	Financial statements include information insurers did not lodge until mid August
State Water Corporation	2004/05	Extension to 12 December 2005	Additional time required for audit, as a result of restructure
Game Council	2004/05	Extension to 31 January 2006	Additional time required for audit
Department of Primary Industries	2004/05	Extension to 30 November 2005	Additional time required for audit
Department of Environment and Conservation	2004/05	Extension to 12 December 2005	Additional time required to resolve reporting entity issues

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Acronyms

AEIFRS	Australian equivalents of the International Financial Reporting Standards
ANZSOG	Australian New Zealand School of Government
ATOC	Australasian Treasury Officers Conference
CCSU	Central Corporate Services Unit
CGC	Commonwealth Grants Commission
CMS	Content Management System
CMU	Corporate Management Unit
CNCOS	Controlled Net Cost of Services
COAG	Council of Australian Governments
CPF	Commercial Policy Framework
CSO	Community Service Obligation
DADHC	Department of Ageing, Disability and Home care
DPI	Department of Primary Industries
ECU	Executive Coordination Unit
ETEF	Electricity Tariff Equalisation Fund
EFD	Economic and Fiscal Directorate
FMF	Financial Management Framework
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
GGDEA	General Government Debt Elimination Act 1995
GGLMF	General Government Liability Management Fund
HFE	Horizontal Fiscal Equalisation
ICT	Information and Communication Technology
IGA	Inter-Governmental Agreement
IPART	Independent Pricing and Regulatory Tribunal
MCE	Ministerial Council on Energy
NCC	National Competition Council
NCP	National Competition Policy
NEM	National Electricity Market
NEMMF	National Electricity Market Ministers Forum
NFL	Net Financial Liabilities
NRA	National Reform Agenda
OFM	Office of Financial Management
OH&S	Occupational Health and Safety
OIM	Office of Infrastructure Management
OSR	Office of State Revenue
PAC	Public Accounts Committee
PAR	Performance Agreement and Review
PFAA	Public Finance and Audit Act
PFPs	Privately Financed Projects
PMBS	Performance Management and Budgeting System
PPP	Public Private Partnership
PSMO	Public Sector Management Office
RBD	Resources and Budget Directorate
RCD	Resources and Crown Directorate
RPD	Resources and Policy Directorate
RSP	Results and Services Plan
SFS	State Fiscal Strategy
SiCorp	Self Insurance Corporation
SOC	State Owned Corporation
SIS	State Infrastructure Strategy
SPP	Specific Purpose Payments
TAM	Total Asset Management
TMF	Treasury Managed Fund
TOES	Treasury On-line Electronic System
VFI	Vertical Fiscal Imbalance