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PREFACE

This is the twelfth edition of the *Performance of NSW Government Businesses*. It reports on microeconomic reform and the performance of NSW Government businesses.

The NSW Government remains the only Australian Government to provide a comprehensive annual report of this type.

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ABBREVIATIONS

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AGL	Australian Gas Light Company
CBD	Central business district
CCI	Current competitiveness index
CCTV	Closed circuit television
CCNCO	Commonwealth Competitive Neutrality Complaints Office
COAG	Council of Australian Governments
CSO	Community Service Obligation
DEA	Data envelopment analysis
DITM	Department of Information Technology & Management
DLWC	Department of Land & Water Conservation
EBIT	Earnings before interest and tax
FAG	Financial Assistance Grants
FreightCorp	Freight Rail Corporation
GBE	Government business enterprise
GRCI	Growth competitiveness index
GRMCo	Gas Retail Market Company
GST	Goods and Services Tax
GWh	Gigawatt-hour
HWC	Hunter Water Corporation
IPART	Independent Pricing and Regulatory Tribunal
MIG	Market Implementation Group
MU	Metropolitan urban
MWh	Megawatt-hour
N/a	Not available [or not applicable]
NCC	National Competition Council
NCP	National Competition Policy
NECA	National Electricity Code Administrator
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NMU	Non-metropolitan urban
NOPAT	Net operating profit after tax
Ntk	Net tonne kilometres
PFE	Public Financial Enterprise
PFP	Privately financed projects
PJ	Petajoule
PTE	Public Trading Enterprise
RAC	Rail Access Corporation
RBA	Reserve Bank of Australia
RFA	Regional Forest Agreement
RIC	Rail Infrastructure Corporation
RSA	Rail Services Australia
SCI	Statement of Corporate Intent
SFA	Stochastic frontier analysis
SFP	Statement of Financial Performance
SOC	State Owned Corporation
SVA	Shareholder Value Added
TCorp	Treasury Corporation
TEU	Twenty foot equivalent unit
TFP	Total factor productivity

EXECUTIVE SUMMARY

The *Performance of NSW Government Businesses* has been published annually since 1989-90. It documents the NSW Government's progress in implementing microeconomic reform.

Microeconomic reform aims to improve the efficiency with which the economy's scarce resources are used to produce goods and services. Successfully implemented, such reform will:

- increase the amount of goods and services that may be produced for a given level of inputs (improve productive efficiency); and
- direct resources to the sectors that generate the most community benefit (improve allocative efficiency).

Such progress is essential to improve the State's future economic performance, international competitiveness and societal welfare. The value of microeconomic reform may be seen in Australia's improved productivity growth in the 1990s. Multifactor productivity in the market sector grew by 1.7 per cent a year from 1993-94 to 1999-2000. This is nearly three times the rate of growth from 1988-89 to 1993-94. Commentators credit much of this improved productivity growth to the microeconomic reform of the past two decades.

This year's publication provides an update on:

- NSW Government achievements in relation to its National Competition Policy obligations;
- productivity gains by NSW Government businesses in the electricity, transport and water sectors;
- aggregate movements in the prices charged by major NSW Government businesses;
- performance indicators with respect to the finances, efficiency and service of twenty-eight NSW Government businesses; and
- other microeconomic reform initiatives.

Since last year's publication, the NSW Government has consolidated its progress in competition policy reform, particularly in the electricity, gas and water sectors.

In the electricity sector, the NSW Government has introduced arrangements to facilitate full retail contestability, to operate from January 2002. In particular, it has established the Electricity Tariff Equalisation Fund to manage retailers' wholesale price risk and enacted the *Electricity Supply (General) Regulation 2001* to complete the relevant legislative framework.

In the natural gas sector, the NSW Government is also introducing competitive supply. It adopted the *NSW Policy Framework to Support Full Retail Competition in Gas* in December 2000 and has passed legislation to protect small consumers in a competitive retail environment. The Gas Retail Market Company has been formed, through the Gas Retail Steering Committee, and business rules have been developed to govern transactions between retailers and network operators.

In the water sector, the *Water Management Act 2000* was enacted in December 2000. It has replaced a number of other statutes with a single, more comprehensive Act. The Act prioritises environmental purposes in allocating water for use. In addition, it has established a regulatory framework for water property rights, distinct from land rights, and separated water licences into access and approval components.

The National Competition Council conducted its third tranche assessment of jurisdictions' compliance with National Competition Policy in June 2001. The Council found that New South Wales had generally achieved satisfactory progress on competition reform. It recommended that competition payments to New South Wales be fully paid. Water reform progress will be the subject of further assessment.

In the six years to 2000-01, NSW Government businesses in the electricity, transport and water industries achieved a 69 per cent improvement in labour productivity. This input cost saving was largely passed on to consumers. Over the same period, dividend and tax equivalent payments remained stable, while prices charged by major Government businesses fell by 6.7 per cent in real terms in the same period. Thus, input cost savings were largely passed on to consumers rather than paid to the Government.

Recent microeconomic reform of NSW Government businesses has also resulted in:

- the formation of Rail Infrastructure Corporation (RIC) from the merger of Rail Access Corporation and Rail Services Australia. RIC now owns and maintains the NSW rail infrastructure network on behalf of the NSW Government;
- the formation of Country Energy by merging three electricity distributor-retailers: Advance Energy, Great Southern Energy and NorthPower;
- the restructuring of Pacific Power, including the transfer of generation functions and assets to Eraring Energy in July 2000. The NSW Government also intends to establish Pacific Power International and Pacific Solar as a stand-alone business and sell Pacific Power's coal subsidiary, Powercoal.

Progress has also been made in relation to other microeconomic reform initiatives. For example, the Government has issued a major policy statement in relation to private participation in infrastructure provision. It is also finalising a policy paper in relation to the pricing of and access to Government information.

The initiatives summarised above and this publication attest to the continuing interest of the NSW Government in proceeding with microeconomic reform.

1. OVERVIEW OF COMPETITION REFORM

1.1 THE RATIONALE FOR COMPETITION REFORM

The desire to maintain and improve living standards underpins all government policy in Australia. The two arms of economic policy, macroeconomic policy and microeconomic policy, operate in tandem to this end.

Macroeconomic policy influences the aggregate performance of the economy by managing fiscal and monetary variables[1]. Microeconomic policy, on the other hand, aims to improve the economy's efficiency and productivity.

Over the past two decades, gradual implementation of a wide program of microeconomic reform has enriched Australia's economic landscape. The major reforms over this time include:

- financial deregulation;
- dismantling of barriers to foreign trade;
- corporatisation and privatisation of government business enterprises;
- labour market reform; and
- pro-competitive industry and legislative reforms.

Competition reform is based on the awareness that competitive markets, properly harnessed, can deliver a more efficient allocation of resources than markets where participants exercise significant market power.

More competitive markets are expected to reduce the production costs for goods and services (improve technical efficiency). Competition also gives firms the incentive to utilise entrepreneurial flair, new technologies and innovative practices in an attempt to gain advantage over competitors (improve dynamic efficiency[2]). Under competitive markets:

- output aligns more closely with consumer demand;
- investment flows to its highest use value;
- prices reflect the true costs of production; and
- society's overall level of welfare is improved.

Competition policy enhances living standards by promoting a higher level of output and greater employment growth. In addition, it improves the sustainability of economic growth by improving the economy's responsiveness to external shocks.

The NSW Government has been actively implementing microeconomic reforms for the past two decades and competition policy reform for over a decade. In 1995, the Council of Australian Governments (COAG) agreed on a package of competition reforms known as 'National Competition Policy' (NCP), thereby committing to a more co-ordinated approach to reform.

[1] The statement of the NSW Government's fiscal strategy is contained in NSW Treasury 2001, *Budget 2001-02*, Volume 2.
[2] i.e. the speed at which firms respond to changing problems and opportunities.

1.2 PERCEPTIONS & MISCONCEPTIONS OF COMPETITION POLICY

There are general misunderstandings within the community of the scope and objectives of NCP. The Productivity Commission reports that NCP has been perceived by some as being responsible for the withdrawal or contracting out of government services; asset sales and privatisation; the demise of local businesses; the closure of bank branches; and population decline in parts of rural Australia[3].

Contrary to such perceptions, NCP does not require any of the above. The Productivity Commission's inquiry into the *Impact of Competition Policy Reforms on Rural and Regional Australia* found that:

- the forces driving change have had varied effects on Australia's regions;
- the main drivers of change have been long term forces, largely beyond the control of governments; and
- competition policy reforms have been a lesser influence, but have brought net benefits to regional as well as urban Australia[4].

The Commission further reports that of 57 regions modelled in 2001, all but one showed a forecast output gain from NCP. In most regions, employment was estimated to rise as a result of NCP or decline by an amount that could be absorbed by less than one year of recent employment growth[5].

The misconceptions about NCP reforms may be explained by difficulties in distinguishing the impacts of these reforms from those of other factors. Further, portrayals of NCP reforms frequently focus on the adverse affects. Such effects are more visible, concentrated and immediate, while the gains from NCP are often intangible, dispersed and delayed.

In addition, beneficiaries of anti-competitive markets tend to be concentrated in particular areas or industries and derive much benefit from their sheltered status. These groups are often well funded, highly organised and able to use the media effectively to communicate their interests. In contrast, losers from restrictions on competition – taxpayers, consumers and industries using inputs that are protected from competition – are diffuse. The individual loss may be small, although the total loss is generally far greater.

1.3 THE RESULTS OF COMPETITION REFORM

1.3.1 Resource Allocation Gains

Microeconomic reforms are largely directed towards improving the allocative efficiency of markets (i.e. ensuring that resources are not wasted, but flow to the highest value use).

Some allocative efficiency gains are observable as:

- telecommunications pricing better reflects costs;
- financial products and services are less cross-subsidised; and
- more choice is offered in electricity supply.

[3] Productivity Commission 1999c.
[4] Productivity Commission 1999c.
[5] Banks, G. 2001.

Allocative efficiency gains from reform are, however, frequently unobservable. Despite this, their significance should not be disregarded.

1.3.2 Productivity Gains

There has been a longstanding expectation that microeconomic reform would lead to an improvement in productivity growth. This expectation appears to have been fulfilled.

Australia's productivity growth surged in the 1990s. From 1993-94 to 1999-2000, multifactor productivity in the market sector grew by 1.7 per cent annually, nearly three times the average annual growth from 1988-89 to 1993-94 of 0.6 per cent[6]. Estimates by the Australian Bureau of Statistics (ABS) put Australia's productivity growth in the 1990s at the highest recorded level[7]. This appears to be a break from past trends. The Productivity Commission reports that the strongest productivity growth has been in the utilities, finance and insurance, mining and communication service industries[8]. Productivity gains at the industry level have been predominantly passed on in the form of lower prices[9].

These productivity gains have contributed to a faster rate of income growth. Growth in average incomes accelerated from 1.4 per cent annually in the 1970s and 1980s to 2.5 per cent in the 1990s. Faster productivity growth accounted for 90 per cent of that acceleration in average incomes[10].

Several factors would have contributed to Australia's recent economic success: for example, technological advances, globalisation and the changing nature of inputs[11]. Despite this, commentators credit much of the improved productivity growth to microeconomic reform over the past two decades[12]. The Governor of the Reserve Bank of Australia (RBA)[13], the International Monetary Fund and the Organisation for Economic Co-operation and Development concur[14]. The Productivity Commission has suggested that NCP could potentially add 2.5 per cent to the level of Australia's economic growth in the long term[15].

More broadly, microeconomic reforms have been forging a stronger, more adaptive economy. Success on this front is evident in the Australian economy's resilience to the Asian financial crisis. The maintained strong growth and exceptionally low inflation almost two years after the Asian crisis emerged was seen by the RBA as indicating the extent of improvements in the Australian economy's underlying strength and resilience[16].

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6 ABS 2000.

7 Multifactor productivity growth reached 2.5 per cent a year in 1996-97 and 1997-98 according to ABS data. Trend productivity growth accelerated in the 1990s and has been sustained at high rates for longer than any other measurable period. Productivity Commission 1999a.

8 Productivity Commission 1999a.

9 Parham, D., Barnes, P., Roberts, P. and Kennett, S. 2000.

10 Banks, G. 2001.

11 The quality of labour inputs, in particular, has changed with more extensive education. In addition, longer working hours mean that labour input may be understated.

12 Including Bean, Forsyth, Gruen and Stevens, and Richard Snape: Gruen, D. 2000.

13 Macfarlane, I. J. 2000.

14 National Competition Council (NCC) 1999a.

15 Productivity Commission 1999b.

16 Reserve Bank of Australia 1999.

The success of Australia's microeconomic reform is also evident in its improved rankings in the International Institute of Management Development's world competitiveness yearbook[17] and the World Economic Forum's current competitiveness index (CCI) and growth competitiveness index (GRCI)[18]:

- in 1997, Australia was ranked fifteenth out of forty-nine nations in the world competitiveness yearbook. By 2000, it had improved its standing to tenth place. In April 2001, Australia was ranked eleventh in the yearbook;

- in 2001, Australia had risen to ninth place in the CCI and fifth place in the GRCI, from tenth and eleventh places respectively in 2000.

1.3.3 Outcomes for Consumers

Consumers have benefited from NCP through better services and lower prices. Consumers now enjoy more flexible shopping hours and pay lower fees for some professional services. For example, conveyancing fees in New South Wales fell by 17 per cent between 1994 and 1996 following reforms to the legal profession[19].

Residential and business customers in New South Wales have benefited from average real reductions in major NSW Government business charges such as electricity, water and ports. These charges fell on average by 0.2 per cent (in real terms) over 2000-01 and 6.7 per cent (in real terms) from 1994-95 and 2000-01. In the six years to 30 June 2001, real reductions were attained in total average charges for:

- ports of 29 per cent;
- water of 23 per cent; and
- electricity of 2 per cent[20].

Competitive markets have also delivered benefits by increasing consumer choice. For example, NCP reforms have allowed larger NSW electricity customers to choose their supplier. Consequently, these customers had saved $760 million on their electricity bills and around $1.3 billion in real savings had been passed on to consumers as at November 2000[21]. The NSW Government is extending the benefits of contestability to all customers from January 2002.

A package of water reforms has promoted more efficient water use through changes to water pricing and the introduction of tradeable allocations. Consumption in some areas fell by as much as 20 per cent following the introduction of consumption-based water charges. Water wastage has thereby been reduced. In the five years to 1997-98, operating costs fell by more than 18 per cent[22].

[17] The yearbook analyses the ability of nations to provide an environment in which businesses can compete. It examines 286 separate factors, including the levels of market regulation, competition law and price control.
[18] The CCI ranks the performance of 75 countries on factors that underpin current productivity and hence economic performance. It focuses on microeconomic fundamentals, including the business environment and market structures. The GRCI measures factors that contribute to the future growth of an economy.
[19] NCC 1999a.
[20] These real price reductions are based on NSW Treasury's Government Charges Index 2000-01, which provides an aggregate measure of movements in total charges and prices levied by NSW Government businesses.
[21] Ministry of Energy & Utilities 2000.
[22] NCC 1999a.

Taxpayers have also gained in their role as owners of government businesses. As the efficiency and profitability of these enterprises has increased, they have ceased to be the drain on State Budgets that they were in the 1980s[23].

1.4 THE PUBLIC INTEREST TEST

There are occasions when the costs of the reform process may fall primarily on a particular region or industry. The reform framework is designed to take account of these costs. The NCP 'public interest test' requires governments to balance the costs and benefits of reform when applying competitive neutrality to their businesses, conducting legislative reviews and reforming public monopolies. As such, the impacts on particular regions, industries or individuals are necessarily considered. The aim is to ensure that reform is in the interests of the community as a whole[24].

The public interest test requires governments to take account of a range of specific factors. However, the list is not exhaustive. The public interest test therefore provides for consideration of unforeseen or unique factors. In its November 2000 communiqué, COAG encouraged governments to explicitly identify the impacts of reform on specific industry sectors and communities.

Traditionally, it has been incumbent upon the proponents of policy reform to demonstrate a case for change. The public interest test has reversed the traditional onus of proof. Only where it can be demonstrated that the benefits of restricting competition outweigh the costs will such restriction be supported.

The public interest test has been the subject of some discussion in recent times. In August 1999, the Senate Select Committee on the Socio-Economic Consequences of the National Competition Policy expressed concern over the inconsistent application and interpretation of the public interest test. It found confusion and misunderstanding over what constituted the 'public interest'. The Committee recommended, among other things, the use of standard numerical weightings for environmental, social and employment factors[25].

It is, however, inherently difficult to measure costs and benefits and to weigh competing factors. The factors bearing on the public interest test – especially social and environmental impacts – can not be easily quantified or valued[26], nor can standard weightings be prescribed. Both processes require judgement.

As noted by commentator Richard Mulgan, policy choices in the public interest cannot be reduced to objective, technical calculations. Requests for help with "defining" the public interest must be distinguished from the mistaken implication that the public interest is "an objective standard awaiting discovery, given sufficient technical expertise"[27].

The National Competition Council (NCC) holds the view that, in principle, all public interest considerations intrinsically carry equal weight[28]. This could be misconstrued as giving competing factors equal importance in all cases. One remedy may be, as suggested by the Productivity Commission's Chairman, to describe criteria as having equal *status*, with a low or high weighting being given to different criteria according to the degree of relevance[29].

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[23] Forsyth, P. 2000.
[24] NCC 1999b.
[25] Parliament of the Commonwealth of Australia, Senate Select Committee on the Socio-Economic Consequences of the National Competition Policy 1999.
[26] Banks, G. 2001.
[27] Mulgan, R. 2000.
[28] NCC 1999b.
[29] Banks, G. 2001.

A five year review of the terms and operation of the *Competition Principles Agreement* was completed in late 2000. The review was considered by COAG in November 2000. In relation to the public interest test, COAG retained the existing onus of proof, despite certain misgivings by some States. However, it amended the NCP framework to require:

- governments to document and publish public interest reasons supporting a decision or assessment;
- anti-competitive legislation to be reviewed through a properly constituted review process; and
- the outcomes of a review to be within a range of outcomes that could reasonably be reached on the basis of the information available.

The Productivity Commission has highlighted that an important discipline results from the requirement for governments to provide more transparent reasons for any decision to retain anti-competitive restrictions[30]. There has been debate as to whether these changes give the States more autonomy in determining which policies are in the public interest or rather, show that the States are prepared to set rigorous disciplines on themselves in applying the public interest test[31].

More recently, the Commonwealth Government has indicated that it believes that the public interest test should be altered to specifically require policies to be assessed against the interests of rural and regional communities. It has also suggested amendment of the *Competition Principles Agreement* to require governments to commit to public consultation where reform is proposed and public education where reform is implemented[32].

[30] Banks, G. 2001.
[31] Samuel, G. 2001.
[32] Commonwealth Department of Transport & Regional Services 2001.

2. NATIONAL COMPETITION POLICY

2.1 OVERVIEW

Since the 1980s, microeconomic reform has been at the forefront of many government agendas. In recognition of the benefits of a nationally co-ordinated approach to regulation and reform, in 1995 the Council of Australian Governments (COAG) committed all Australian Governments to a package of reforms named 'National Competition Policy' (NCP).

The adoption of a national, co-ordinated approach to reform seeks to overcome inconsistencies that can arise from a more piecemeal approach. It allows each jurisdiction to take advantage of the experiences of other jurisdictions and avoid duplication of processes. A national approach also acknowledges that Australia is becoming a single market, rather than a collection of separate State markets.

NCP consists of three inter-governmental agreements, discussed further below:

1. the *Conduct Code Agreement*;
2. the *Competition Principles Agreement*; and
3. the *Agreement to Implement the National Competition Policy and Related Reforms* ('the Related Reforms Agreement').

In short, the NCP reforms are focused on the following:

- extending the application of competitive conduct rules;
- prices oversight of government monopolies;
- applying competitive neutrality principles to government businesses that operate in contestable markets;
- reforming the structure of public monopolies to facilitate competition;
- reforming regulation that unjustifiably restricts competition; and
- providing third party access to significant infrastructure facilities.

Responsibility for significant elements of these reforms rests with the State and Territory Governments. However, the financial dividend from reforms accrues primarily to the Commonwealth Government through the taxation system. To distribute more evenly the gains that arise from NCP reform, the Commonwealth Government makes competition payments to the States and Territories. The payments hinge on the jurisdictions' effective implementation of NCP reforms, as assessed by the National Competition Council (NCC).

The competition payments are being spread over nine years, allocated on a quarterly per capita basis. As such, New South Wales may be eligible for some $241 million in 2001-02, $246 million in 2002-03, $252 million in 2003-04 and $258 million in 2004-05[33]. Continuation of competition payments beyond 2005-06 has been implied but not explicitly committed to by the Commonwealth Government.

[33] NCC 2001.

The NCC, in its third tranche assessment of compliance with NCP, was of the view that New South Wales had achieved sufficient progress against NCP commitments, with the exception of commitments on water reform.[34] The NCC considered that competition payments to New South Wales should be fully paid. It is, however, conducting a supplementary assessment on water reform progress and will consider this area further in the 2002 NCP assessment.

The *Conduct Code Agreement* and the *Competition Principles Agreement* require a review of the operation and terms of the NCP arrangements after their operation for five years. An intergovernmental working group conducted the review. As a result, in November 2000, COAG reviewed and agreed to vary the terms of the NCP agreements. COAG extended the reform timetables beyond the original 2000 deadline for some elements of the NCP package.

Under the amendments:

- rural water reforms are not due to be completed until at least 2005;
- the National Electricity Market is not due to be fully implemented for several years;
- the timetable for the remaining road transport reforms is yet to be developed; and
- the deadline for completion of the legislative review and reform program was extended to mid-2002[35].

Jurisdictions also agreed that the NCC would conduct annual assessments of reform implementation until at least 2005. COAG will further review the terms and conditions of the NCP agreements and the NCC's assessment role before September 2005[36].

2.2 CONDUCT CODE AGREEMENT

The *Conduct Code Agreement* requires that the Competition Code, a schedule of the *Trade Practices Act 1974*, is applied by all Australian Governments through enacting legislation. In particular, the Competition Code requires the application of Part IV of the *Trade Practices Act 1974*, which relates to restrictive trade practices and unconscionable conduct.

The NSW Government complied with this agreement by enacting the *Competition Policy Reform (NSW) Act 1995*, which has applied to all persons, unincorporated associations, corporations and professional and government agencies since 21 July 1996. Since 1 July 1997, NSW Government businesses have also come under this Act.

There are two important aspects of the Competition Code and the application of the *Trade Practices Act 1974*:

- New South Wales must notify the Australian Competition and Consumer Commission (ACCC) within 30 days of any legislation or provision in legislation which is reliant on section 51 of the Act; and

- New South Wales may, under section 51 of the *Trade Practices Act 1974*, exempt conduct that would usually be subject to Part IV of the Act. However, the Commonwealth Minister may table regulations under section 51(1C)(f) of the Act, which in effect remove the exemption. In general, the NCC will advise the Minister to approve an exemption if there are net benefits to the community and the objectives of the legislation or regulation can only be achieved by restricting competition.

[34] NCC 2000.
[35] NCC 2001.
[36] NCC 2001.

2.3 COMPETITION PRINCIPLES AGREEMENT

The *Competition Principles Agreement* lists six principles to apply to government businesses. These are designed to enhance competition in markets for goods and services. The principles stipulate:

1. independent prices surveillance of monopoly and near monopoly activities;
2. application of competitive neutrality principles to government businesses that operate in contestable markets;
3. structural reform of government businesses by separating regulatory activities from core operating activities, and for the latter, separating competitive or potentially competitive activities from monopoly activities;
4. review and, where appropriate, reform of legislation which restricts competition;
5. third party access to significant infrastructure facilities; and
6. application of the above principles to local government businesses.

Recent NSW achievements in the application of these principles are summarised below (sections 2.3.1 to 2.3.5).

2.3.1 Independent Prices Oversight

Clause 2 of the *Competition Principles Agreement* commits all jurisdictions to have an independent source of prices oversight advice in relation to all significant monopoly or near monopoly government business enterprises.

Since 1996, New South Wales has fulfilled its prices oversight obligations through the Independent Pricing and Regulatory Tribunal (IPART). IPART is the successor to the Government Pricing Tribunal, which was established in 1992.

IPART undertakes the following functions:

- setting maximum prices and reviewing pricing of scheduled NSW Government monopoly services, including electricity, gas, water and public transport;
- carrying out general reviews of industry, pricing or competition issues as required by the Premier; and
- registering agreements for access to public infrastructure assets and arbitrating disputes about such agreements.

Since 5 July 2000, IPART has assumed a utilities regulation function for electricity, gas and water under the *Independent Pricing and Regulatory Tribunal and Other Legislation Amendment Act 2000.* As such, the Tribunal:

- advises the portfolio Minister on the granting and conditions of licences;
- audits compliance with licences, taking on the functions of the electricity Licence Compliance Advisory Board and the water Licence Regulator, with the help of an advisory group; and
- imposes sanctions for breach of licence. Cancellation powers remain with the Minister.

IPART's activities in 2000-01 may be summarised as follows:

Price Regulation for:
- CityRail and State Transit Authority for rail, bus and ferry fares from 1 July 2001;
- Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council for developer charges from 1 October 2000;
- Department of Land and Water Conservation for bulk water prices from 1 July 2000; and
- Sydney Catchment Authority for medium term water supply price path from 1 October 2000.

Access to public utility infrastructure services:
- Access Arrangement and Access Arrangement Information for AGL Gas Networks' natural gas system in New South Wales – Final Decision and Approval.

Review Reports and Discussion Papers:
- Review of the Delivered Price of Natural Gas to Tariff Customers Served from the AGL Gas Network in NSW;
- Gas pricing in Albury, Wagga Wagga and Other Regional Centres in New South Wales Supplied by Origin Energy and Great Southern Energy - Issues Paper;
- Ring Fencing of NSW Electricity Distribution Network Services Providers – Discussion Paper, Draft Ring Fencing Guidelines and Draft Report;
- Review of Electricity and Gas Licensing Regimes in New South Wales – Issues Paper;
- Review of Sydney Water Corporation's Customer Contract – Issues Paper; and
- Review of System Performance Standards and Customer Contract for Sydney Water Corporation.

Other Publications:
- Water Industry Overview 2000;
- Electricity Distribution and Retail Licences: Compliance Report for 1999-2000 – Report to Minister for Energy; and
- Regulated Retail Prices for Electricity to 2004.

2.3.2 Competitive Neutrality

The principles of competitive neutrality seek to eliminate any net competitive advantage accruing to government businesses as a result of their public ownership. They thereby aim to remove potential market distortions and promote more efficient allocation of resources between public and private businesses. The principles are pertinent only where government businesses operate in contestable markets.

Typically, the application of competitive neutrality principles may require adjustment of a government business' prices to make allowance for:

- taxes that may not be paid by the government business but would be paid by a private sector competitor;
- the cost of capital; and
- any other material costs not borne by the government business purely as a result of its public ownership.

In June 1996, the NSW Government published its *Policy Statement on the Application of Competitive Neutrality*. The Statement placed the onus on government businesses to implement competitive neutrality principles from 1 July 1998, except in cases where a net cost would be imposed on the community.

The NSW Government intends to release a revised *NSW Government Policy Statement on Competitive Neutrality* in early 2002 to update the 1996 Statement in relation to:

- the Commercial Framework applying to NSW Government Public Trading Enterprises (PTEs) and Public Financial Enterprises (PFEs);
- the formalisation of competitive neutrality complaints mechanisms; and
- the release of NSW Treasury's *Guidelines for the Pricing of User Charges* which are designed to assist NSW Government businesses (that are not PTEs or PFEs) on how to price goods and services on a competitively neutral basis.

Competitive neutrality does not require privatisation of government businesses, only corporatisation where appropriate. Corporatisation involves the application of the State Owned Corporation model and the Commercial Policy Framework (discussed below).

State Owned Corporations Model

The *State Owned Corporations Act (NSW) 1989* and the *State Owned Corporations Amendment Act (NSW) 1995* provide a framework for the corporatisation of State Government businesses. Corporatisation involves the development of appropriate legal, regulatory, institutional and market frameworks. Once corporatised, government businesses become proxy public companies called 'State Owned Corporations' (SOCs).

The State Owned Corporation Model requires adherence to commercial disciplines. The businesses' shareholders consist of the Treasurer and one other Minister[37], representing the Government and more broadly the community.

Eraring Energy was corporatised on 1 July 2000. Waste Service NSW was corporatised on 1 September 2001. Following a review of its role and functions, legislation for Landcom's corporatisation was passed on 11 December 2001. The Snowy Mountains Hydro-Electric Authority is also due to be corporatised in early 2002.

Commercial Policy Framework

The Commercial Policy Framework applies to all significant PTEs and PFEs. The Framework implements:

- commercially based performance targets, dividends and capital structures;
- regular performance monitoring;
- State taxes and Commonwealth tax equivalents;
- risk related borrowing fees;
- explicitly funded 'Social Programs' (or Community Service Obligations); and
- regulation equivalent to that faced by private sector companies.

Performance Targets

NSW Government businesses have clearly defined performance targets, against which their performance is assessed. These are set out in an annual contract between the relevant business and the Government, called a Statement of Corporate Intent (SCI) for SOCs or a Statement of Financial Performance (SFP) for PTEs. The first such agreement was entered into in 1993.

[37] or potentially two or more Ministers for a company SOC.

The performance targets focus on capital structures, return on capital and dividends, economic and business assumptions. Most significant NSW Government businesses are monitored under the Shareholder Value Added (SVA) framework[38]. SVA analysis has been recently introduced to set financial targets for:

- Sydney Harbour Foreshore Authority, Public Trustee and Fish River Water Supply (in 1999-2000); and
- Parramatta Sports Ground Trust, Sydney Cricket & Sports Ground Trust, Sydney Catchment Authority and Eraring Energy (in 2000-01)[39].

Performance Monitoring

NSW Treasury has regularly monitored the financial performance of significant Government businesses since the early 1990s. The businesses provide Treasury with quarterly reports that contain information such as business plans, operating budgets, cash flow statements, income and expenditure statements, balance sheets and management accounting data. The businesses also report, on an exception basis, any risks that arise throughout the year[40].

Taxes and Tax Equivalent Payments

All major NSW Government businesses have been progressively required to pay State taxes since 1 July 1994. State taxes have been applied to most State Government businesses from 1 July 1995. All commercial Government businesses have paid State tax equivalents from 1997-98[41].

All major NSW public trading enterprises have been progressively required to pay income and sales tax equivalents to the Consolidated Fund since July 1994. All NSW Government businesses pay GST in the same manner as private enterprises. Under the National Tax Equivalent Regime, government businesses nominated by State and Territory Governments have been subject to an income tax equivalent regime, administered by the Australian Tax Office from 1 July 2001[42].

Risk related borrowing fee

NSW Government businesses benefit from the Government's triple-A credit rating. Government businesses with Government guaranteed borrowings are able to borrow more cheaply than private sector firms through Treasury Corporation (TCorp).

Since 1990, Government businesses with Government guaranteed borrowings have been required to pay a credit-rating based fee to the Consolidated Fund. The fee makes up the difference between the interest paid by government businesses and the amount a comparable private business would pay.

Equivalent Regulation

Some Government businesses enjoy exemptions from certain State legislation and regulations, as a result of their status as an entity of the Crown. When corporatised, a Government business automatically loses its status as an entity of the Crown and any related exemptions.

[38] See Chapter 5 for further details of this performance measure.
[39] NSW Government 2001.
[40] NSW Government 2001.
[41] NSW Government 2001.
[42] NSW Government 2001.

For non-corporatised businesses, efforts are being made to remove any regulatory biases. For example, under the *Plantations and Reafforestation Act 1999* public plantations now face the same regulatory environment as private plantations.

Social Program Policy

In pursuing their social responsibilities, governments may wish to use government businesses to achieve certain social goals. The NSW Government's Social Program Policy is designed to ensure that social programs meet their goals in a manner that does not place the commercial nature of the government business at risk.

The Social Program Policy provides for transparent payments from the Consolidated Fund to Government businesses that are used to achieve social goals. The relevant Government businesses are required to provide details of such Community Service Obligation (CSO) payments in their financial and annual reports.

Pricing of User Charges

The NSW Treasury released *Guidelines for Pricing of User Charges* in June 2001. The Guidelines require significant NSW Government businesses (other than PTEs and PFEs) to apply the pricing principles to all user charges.

A 'user charge' is a voluntary payment to a PTE or general government entity, paid by a consumer for services provided. It is commercial, rather than regulatory, in nature and provides an identifiable benefit to the payer.

The Guidelines recommend pricing of goods and services to cover, at a minimum, their 'avoidable costs'. These are defined as the costs that the business unit would not incur if a good or service was not produced. This approach accords with that recommended by the Productivity Commission in its *Cost Allocation and Pricing* paper[43].

Application to Government Businesses Not Subject to Executive Control

In November 2000, COAG agreed that where government businesses are not subject to executive control (e.g. universities), governments are expected to adopt a 'best endeavours' approach in applying competitive neutrality. At a minimum, governments are required to provide a transparent statement of competitive neutrality obligations to the entity in question. The NSW Government continues to encourage such businesses to comply with competitive neutrality.

Reciprocal Charging Arrangements between State Government Businesses and Local Councils

A number of concessional arrangements exist between State Government businesses and local councils. Specifically, certain State Government businesses are exempt from paying council rates and/or receive rate rebates. In addition, some State Government businesses are supplying services to local councils on non-commercial bases.

[43] CCNCO 1998.

Consequently, a Reciprocal Charging Committee is undertaking a Review of Reciprocal Charging Arrangements between State and Local Government Businesses. The Review aims to:

- inventory existing concessional arrangements between State Government businesses and local councils;
- determine the potential impact on the net revenues of the relevant businesses; and
- devise a timetable for phasing in a reciprocal charging regime, consistent with competitive neutrality requirements.

The Committee has developed the principles upon which a reciprocal charging regime would be based, compiled data on the likely financial impact of such a regime and submitted its Final Report to Cabinet. A Cabinet decision on the issue is expected in early 2002.

Competitive Neutrality Complaints Mechanism

All States and the Commonwealth were required to develop arrangements for receiving and responding to complaints, as part of the competitive neutrality obligations. The NSW arrangements consist of two stages, outlined in the *Policy Statement on the Application of Competitive Neutrality* foreshadowed for release in early 2002:

- Stage 1: the party lodging the complaint approaches the relevant government agency to clarify and attempt to resolve the matter; and

- Stage 2: the matter is raised with the Premier and referred, via the Cabinet Office, for independent assessment by a third party complaints mechanism wherever the complainant is not satisfied with the agency's response. New South Wales has two independent mechanisms: IPART for generic competitive neutrality matters and the State Contracts Control Board for complaints relating to tendering.

In June 2000, the NSW Parliament enacted the *Independent Pricing and Regulatory Tribunal and Other Legislation Amendment Act 2000*, thereby formalising Stage 2 of the complaints mechanism. The relevant sections of the Act commenced on 17 July 2000.

The Premier did not receive any new requests for competitive neutrality complaints to be referred to IPART or the State Contracts Control Board during 2000-01.

2.3.3 Structural Reform of Public Monopolies

Clause 4 of the *Competition Principles Agreement* stipulates that, before introducing competition into a market traditionally supplied by a public monopoly, governments will:

- separate regulatory functions from the public monopoly's commercial functions. This is intended to ensure that public monopolies have no regulatory advantage over rivals or potential rivals; and

- separate the public monopoly's potentially competitive elements from its monopoly elements, where there is a net public benefit. The intention is to remove cross-subsidisation from monopoly activities and the risk of unfair competition. Following restructure, the monopoly elements would be subject to prices oversight and the competitive elements to market forces. This obligation also applies before a public monopoly may be privatised.

In relation to these requirements, the NSW Government transferred the generation functions and assets of Pacific Power to Eraring Energy in July 2000. Eraring Energy was corporatised on 2 August 2000 to:

- establish a focused generation company, with clear commercial objectives;
- enable effective performance monitoring of generation activities; and
- establish governance arrangements consistent with other electricity supply participants, by subjecting the corporatised entity to the *State Owned Corporations Act 1989*, rather than the *Electricity (Pacific Power) Act 1950*[44].

The NSW Government has indicated its intention to further restructure Pacific Power by establishing Pacific Power International and Powercoal as stand alone businesses. Pacific Power International will provide energy services in Australia, New Zealand and parts of East Asia, focusing on energy project development, asset management and expert consulting. The Government is pursuing the prospect of selling Powercoal. If sold, Powercoal would continue to supply coal to two of the State's generator businesses (see section 3.6 for further discussion).

In addition, IPART is developing ring fencing guidelines for NSW electricity distributors, as required by the National Electricity Code. The Tribunal released a discussion paper and draft guidelines in September 2000 and revised draft guidelines in June 2001.

2.3.4 Legislation Review and Reform

Under clause 5 of the *Competition Principles Agreement*, all Governments agreed to review and, where appropriate, reform all legislation that restricts competition by the end of 2000. Heads of Government agreed at the COAG meeting of 3 November 2000 to extend the deadline for legislation reviews to 30 June 2002[45].

The principle underlying these reviews is that legislation should not restrict competition unless it can be demonstrated that:

- the benefits of the restriction to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

Governments are also obliged to ensure that all new legislation meets the guiding principle.

In its third tranche assessment, the NCC considered that governments had met their NCP obligations (even if they would not complete reforms by June 2002), where they had:

- presented a robust net community benefit case to support the (temporary) retention of restrictions beyond June 2002; and
- announced a transitional strategy for removing the restriction within a reasonable period of June 2002 (e.g. passed legislation)[46].

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[44] NSW Government 2001.
[45] COAG Communiqué, 3 November 2000; Prime Minister's letter to Premiers and Chief Ministers, 27 October 2000.
[46] NCC 2001.

New South Wales has made considerable progress in this area of reform. As at December 2001:

- reviews had been completed in relation to 84 Acts;
- reviews were in progress in relation to 77 Acts;
- reviews were yet to commence in relation to 7 Acts;
- review had been deemed unnecessary in relation to 3 Acts; and
- reforms were underway in relation to 25 Acts.

Legislative reviews have benefited New South Wales by reducing anti-competitive practices; streamlining administrative arrangements; reducing compliance costs; and repealing unnecessary legislation. They have also instilled a greater appreciation of the effects of regulation. Some priority areas are discussed below.

Rice Marketing

The NCC was not satisfied with NSW progress on reform of domestic rice marketing arrangements in its second tranche assessment. In 1995, a NSW Rice Review Group concluded that the community would benefit from deregulating the domestic rice marketing monopoly held by the NSW Rice Marketing Board by allowing the Board's vesting power over the NSW rice crop to expire after 31 January 1999.

The NSW Government gave in principle support for the introduction of a Commonwealth single desk export arrangement and subsequent deregulation of the NSW rice marketing arrangements. The NSW Government later elected to retain the vesting legislation until 31 January 2004. In its June 2000 supplementary assessment, the NCC concluded that New South Wales had failed to meet its NCP obligations. It recommended that NCP payments be reduced by $10 million per year from 31 July 2001, until agreement was reached on a Commonwealth reform model or repeal of domestic rice vesting was achieved[47].

On 27 March 2001, the NSW Government agreed to consultation by the Commonwealth Government with other jurisdictions on the single desk model. The agreement was conditional upon the Commonwealth noting, in the draft model, that the NSW Government considered that:

- the proposed arrangement should be of 5 years duration; and
- the Ricegrowers Co-operative Limited should have a right of veto over rice exports by other parties.

The NSW Government has confirmed its intention to deregulate its domestic rice marketing arrangements concurrently with the introduction of any jointly agreed Commonwealth export arrangements[48]. The NCC will assess rice marketing arrangements in 2002.

[47] NCC 2000.
[48] NSW Government 2001.

Grain Marketing

A review of the *Grain Marketing Act 1991* was completed in July 1999. It recommended that:

- restrictions on all domestic sales be removed for malting barley by 31 August 2001, and for all other grains by 31 August 2000;
- restrictions on export sales of feed and malting barley remain for overseas markets only where market power or access premiums can be demonstrated. This is to be reviewed again by 31 August 2004; and
- restrictions on export sales be removed for canola by 31 August 2001, for all other grains by 31 August 2000.

In June 2001, the NSW Government approved preparation of the *Grain Marketing Amendment Bill 2001* to revoke vesting rights in oats, linseed, soybean, sunflower and safflower. Barley, canola and sorghum are to remain vested in the NSW Grains Board until 30 September 2005. The NCC will assess grain marketing regulation in 2002.

Construction Services

In August 2000, the Productivity Commission completed a *Review of the Legislation Regulating the Architectural Profession* on behalf of all States and Territories, except Victoria[49]. The Commission recommended the repeal within two years of laws regulating architects and removal of the restriction on the use of the title 'architect'. It concluded that, on the balance, the costs of current regulation outweighed the benefits. A States and Territories working group is developing a national response to the review.

Legislative reviews of the *Tradesmen's Rights Regulation Act 1946* and the *Valuers Registration Act 1975* have been completed. The NSW Government has accepted the recommendations of both reviews. Legislation is being prepared to repeal each Act and to modify the system for regulating valuers.

A legislative review of the *Surveyors Act 1929* is also underway. The Issues Paper was released in December 2000.

Taxi Services

IPART reviewed the *Passenger Transport Act 1990*, upon referral from the Premier. Its Final Report was released in November 1999. IPART found that there did not appear to be significant benefits from restricting the number of taxi licences. It recommended:

- a phased approach to increase the number of taxi licences in Sydney by 5 per cent annually during 2000-05;
- deregulation of hire cars to increase competition;
- continuing fare regulation; and
- further review in 2003.

The NSW Government agreed to release 450 additional licences by December 2000. As at June 2001, 180 taxi licences had been issued[50]. The NCC will assess progress in 2002.

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[49] Productivity Commission 2000.
[50] NSW Government 2001.

Legal Services

In 2000, the *Legal Profession Amendment (Incorporated Legal Practices) Act 2000* was enacted. The Act enables solicitors to practise within corporate structures that have limited liability and are governed by the Corporations Law. New South Wales is the first Australian jurisdiction to allow such business structures[51].

The NCP review of the *Legal Profession Act 1987* also recommended that the Law Society Council's Solicitors' Rule should be reviewed. The Rule required a majority of solicitor members of multi-disciplinary practices. On 5 November 1999, the Law Society Council voted to remove the restrictions. A new rule took effect on 5 December 1999. New South Wales is the first Australian jurisdiction to permit multi-disciplinary practice, free from restrictions on profit sharing[52].

The remaining issue for the NSW Government, as highlighted by the NCC is that of monopoly provision of professional indemnity insurance. The NCC intends to assess progress on this issue in 2002.

Health services

The NSW Government is in the process of reviewing and, where applicable, reforming health services legislation. Legislative changes have been made, following legislative review, in relation to:

- *Chiropractic services* - the *Chiropractors Act 2001* was enacted in line with review recommendations. It removed some advertising restrictions and limited reserved practice to spinal manipulation.
- *Osteopathic services* - the *Osteopaths Act 2001* was passed in line with review recommendations. It mirrored changes made in chiropractic regulation.
- *Medical services* - the *Medical Practice Amendment Act 2000* was passed in July 2000 in line with review recommendations. It inserted an objectives clause, improved clarity for entry requirements and removed business and practice restrictions.
- *Physiotherapy services* – the *Physiotherapists Act 2001* was passed on 11 October 2001.
- *Psychology services* – the *Psychologists Act 2001* was passed on 11 October 2001.
- *Dental services* – the *Dental Practice Act 2001* was passed on 11 October 2001.

A review has also been completed and amendments are underway in relation to optometry services legislation. In addition, a review has been completed of legislation regulating nursing services. A national review of pharmacy regulation was also completed in February 2000. The review process has commenced for legislation governing podiatry services.

2.3.5 Third Party Rights to Negotiate Access

Under clause 6 of the *Competition Principles Agreement*, the Commonwealth Government is required to establish a third party access regime for significant infrastructure facilities, where:

- it would not be economically feasible to duplicate the facility;
- access is necessary to permit effective competition in an upstream or downstream market;
- the facility is of national significance; and
- safe use by a third party can be assured at an economically feasible cost.

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[51] NSW Government 2001.
[52] NSW Government 2001.

An exception exists if a State or Territory, in which a facility is situated, has an effective access regime (certified by the Commonwealth Minister for Financial Services and Regulation). In this instance infrastructure services covered by the certification cannot be declared under a National regime, thereby providing certainty to infrastructure users.

The rationale for access regulation stems from the natural monopoly characteristics of some infrastructure services (in particular, transmission and distribution networks). Access regulation prevents service providers from denying access to their facilities and charging monopoly prices for their services. Regulating access to significant infrastructure facilities may also avoid duplication of capital investment when existing infrastructure has capacity to cater for more customers or service providers.

In October 2001, the Productivity Commission completed a *Review of the National Access Regime*. It reported on current access arrangements for significant infrastructure facilities and avenues for improvement. The Commission released a Position Paper to facilitate consultation in March 2001[53]. In the Paper, the Commission noted the benefits of access regulation, as discussed above. It highlighted, however, that access regulation also has costs - principally, access regulation may deter investment in essential infrastructure.

The Commission cautioned that the costs of failing to invest in essential infrastructure are likely to exceed the costs of monopoly pricing - while denial of access imposes costs on the community, it does not threaten the continued availability of the essential services concerned. The Commission considered that it is crucial that access regulation give proper regard to incentives to invest.

Rail

In June 1997, the NSW Government submitted the NSW Rail Access Regime to the NCC for certification as an effective access regime. In November 1999, the Commonwealth Minister for Financial Services & Regulation certified the Regime until 31 December 2000. To date, only the NSW Regime and the Tarcoola-to-Darwin interstate rail line have been certified as effective access regimes.

The certification has now expired. The 31 December 2000 expiry date was based on the belief that national access arrangements for rail would be finalised by the end of 2000. In February 2001, the Australian Rail Track Corporation[54] submitted an access undertaking to the ACCC under Part IIIA of the *Trade Practices Act*. The ACCC released a draft determination on the Corporation’s proposed undertaking in November 2001. A final determination will be handed down in early 2002.

IPART has undertaken a review of specific aspects of the NSW Regime. The report recommended the engagement of an independent consultant to determine the value of the Rail Infrastructure Corporation’s Hunter Valley network assets. IPART provided a final report to the Minister for Transport in June 2001, based on the findings of the consultants’ report and the views expressed by key stakeholders. The Report is likely to be used to determine rail access prices for coal users in the Hunter Valley.

[53] Productivity Commission 2001a.
[54] The Australian Rail Track Corporation was established to manage the process of granting access to the Interstate Rail Network.

Gas

In 1997, the NSW Government signed the National Gas Pipelines Access Agreement, thereby committing to implement a national third party access regime within agreed deadlines. The relevant NSW legislation (the *Gas Pipelines Access (NSW) Act 1998)* commenced operation on 14 August 1998. The Act established the NSW Access Regime, replacing the NSW Interim Access Regime which had operated since August 1996.

The NSW Access Regime applies the *National Third Party Access Code for Natural Gas Pipeline Systems* ('the National Code'). The National Code allows persons to negotiate access to natural gas transmission pipelines and distribution networks, under a broad regulatory framework. In accordance with this framework, the NSW Regime comprises:

- the *Gas Pipelines Access (Commonwealth) Act 1998*; and
- the *Gas Pipelines Access (NSW) Act 1998* which consists of:
    - provisions to apply, in New South Wales, the Gas Pipelines Access Law as enacted by the *Gas Pipelines Access (South Australia) Act 1997* and establish savings and transitional arrangements and other miscellaneous amendments;
    - the Gas Pipelines Access Law; and
    - the National Code.

On 29 March 2001, the Commonwealth Minister for Financial Services and Regulation certified the NSW Regime as an effective access regime for 15 years. The certification relates to services provided by NSW gas transmission and distribution pipelines (not the production, sale or purchase of natural gas)[55]. The Minister's decision was delayed pending resolution of cross-vesting issues arising from the High Court decision in *Re Wakim: ex parte McNally*[56].

Access arrangements are in place for all NSW distribution networks. On 14 September 2000, IPART approved a revised access arrangement for the distribution networks of AGL Gas Networks Ltd, effective from 1 October 2000.

Large volume tariff customers became eligible for third party access in October 1999. Transitional arrangements were phased out and access rights phased in for all remaining customers on 1 July 2000. Notwithstanding the delay, the revised NSW timetable satisfied the Intergovernmental Gas Pipelines Access Agreement 1997 deadline of 1 September 2001[57].

[55] NCC 1999c.
[56] The *Federal Courts (Consequential Provisions) Act (NSW) 2000* has addressed the constitutional difficulties that arose from *Re Wakim.*
[57] NSW Government 2001.

2.4 AGREEMENT TO IMPLEMENT THE NATIONAL COMPETITION POLICY AND RELATED REFORMS

The *Agreement to Implement the National Competition Policy and Related Reforms* ('the Related Reforms Agreement') requires jurisdictions to implement specified reforms in the electricity, gas, water and road transport sectors in order to qualify for competition payments.

The Related Reforms Agreement also sets out the conditions under which the Commonwealth Government will make payments for satisfactory performance in implementing NCP and related reforms. In the past, NCP payments have comprised two components:

- maintenance of the real per capita guarantee of the Financial Assistance Grants (FAG) pool allocated according to a Grants Commission formula; and
- competition payments, general purpose payments allocated on a population share basis.

With the introduction of the GST on 1 July 2000, NCP payments have been reduced to competition payments alone. The FAG arrangements have been replaced with payment of GST revenue to States and Territories.

RELATED REFORMS

2.4.1 Electricity

New South Wales' NCP commitments regarding electricity arise from the *Competition Principles Agreement*, the Related Reforms Agreement and other Agreements on Related Reforms for the Electricity Sector ('the Electricity Agreements').

Firstly, clause 4 of the *Competition Principles Agreement* stipulates that before introducing competition into a market traditionally supplied by a public monopoly or privatising a public monopoly, governments will:

- remove from the public monopoly any responsibilities for industry regulation; and
- review structural and competitive arrangements in the industry.

NSW progress in this area is discussed earlier (section 2.3.3).

Secondly, the Related Reforms Agreement requires that each participating jurisdiction implement electricity reforms specified in the relevant COAG agreements, with the aim of establishing a competitive National Electricity Market (NEM) by 1 July 1999.

Thirdly, the Electricity Agreements on the structure of the electricity industry commit jurisdictions, prior to their participation in the NEM, to have:

- structurally separated generation from transmission; and
- ring-fenced the retail and distribution businesses.

In the third tranche assessment, the NCC was satisfied that New South Wales had met its 2001 electricity reform commitments.

National Electricity Market

The NEM is the market for the wholesale supply and purchase of electricity in five Australian States and Territories. The market operates with a regime of open access to the transmission and distribution networks. The National Electricity Market Management Company (NEMMCO) operates the market for trading between generators and electricity retailers.

Market rules governing the NEM's activities are laid down in the National Electricity Code. The National Electricity Code Administrator (NECA) administers the Code and ensures compliance. The National Electricity Law provides the legal basis for the market and the National Electricity Code. It also facilitates enforcement of the Code. Through the *Electricity Supply (NSW) Act 1995*, New South Wales has adopted the National Electricity Law.

The International Energy Agency released a report in July 2001, commending the progress Australia has made over the last decade with liberalising its energy markets. It observed that the NEM has led to impressive results, namely strong competition, significant price reductions and consumer choice. The Agency also noted that the pace of change had slowed in recent years and recommended Australia boost investment in the market and improve electricity interconnections between States to protect supplies and curb market power[58].

A NEM Ministers Forum has recently been established, comprising Ministers from NEM-participating jurisdictions, the Commonwealth and Tasmania. The Forum is considering issues such as impediments to investment in interconnection, transmission pricing, regulatory overlap, market behaviour and the effectiveness of regulatory arrangements in promoting efficient market outcomes. The Forum had its first meeting in June 2001. It agreed on a framework for resolving issues affecting the NEM's development, focusing on interconnection arrangements and early resolution of major reviews of the National Electricity Code[59].

Efforts to improve interconnections between States are underway. An interconnector between Queensland and New South Wales began operating on 18 February 2001. In November 2001, NEMMCO determined that an interconnector between South Australia and New South Wales would be justified. NEMMCO is also assessing a proposed interconnector between New South Wales and Victoria. Expanding interstate interconnection would allow New South Wales to more fully utilise its excess generating capacity and to export electricity to the supply-constrained southern States.

COAG made new commitments concerning energy policy and reaffirmed existing commitments regarding electricity reform at its June 2001 meeting. Specifically, it agreed to:

- establish a Ministerial Council on Energy and to provide it with a series of priority tasks, including examining the potential for harmonising regulatory arrangements and opportunities for increasing interconnection and system security; and

- an independent review of energy market directions to identify strategic issues for Australian energy markets and the policies required from governments.

[58] International Energy Agency 2001.
[59] NCC 2001.

In the third tranche assessment, the NCC considered that progress against NEM commitments had been good, but that some aspects of the current market arrangements may be acting to limit competition in the NEM. In particular, it was concerned that such impediments may exist, or emerge, in areas such as the transitional and institutional arrangements; the structure of the generation market; the framework underpinning interconnector developments; and the implementation of full retail competition[60].

Pricing regulation

The NSW Government has established the Electricity Tariff Equalisation Fund ('the Fund') to manage the wholesale price risk faced by retailers that are obliged to supply customers at regulated tariffs. The regulated tariff is calculated on the basis of the long-run marginal cost of electricity generation. Retailers contribute to the Fund if their costs are lower than the energy cost component of the regulated tariff. When wholesale prices exceed the energy cost component of the regulated tariff, the Fund is used to compensate retailers[61].

Currently, the NSW electricity distributors and retailers are required to comply with IPART's accounting separation code. The Tribunal is presently reviewing this code.

Retail Contestability

Consistent with the goals of a competitive national market, New South Wales is giving customers the ability to choose their electricity supplier ('retail contestability'). Retail contestability is being introduced in stages. Contestable supply has been available to:

- consumers of above 40 gigawatt-hours (GWh) per year since October 1996;
- consumers of above 4 GWh per year since April 1997;
- consumers of above 750 megawatt-hours (MWh) per year since July 1997;
- consumers of above 160 MWh per year since July 1998;
- customers of above 100 MWh per year since January 2001; and
- customers of above 40 MWh per year since 1 July 2001.

All other customers will be able to choose their retailer from January 2002.

New South Wales has enacted the *Electricity Supply Amendment Act 2000* to introduce arrangements for introducing full retail competition. Among other things, the Act establishes a regulatory regime for smaller customers and provides for new market rules. Before full retail competition can be introduced, arrangements for metering, customer transfer and the Electricity Tariff Equalisation Fund must be fully operational.

On 1 July 2001, the NSW Government enacted the *Electricity Supply (General) Regulation 2001*, which completes the legislative framework necessary to effectively implement full retail competition.

[60] NCC 2001.
[61] NCC 2001.

Structural reform

In August 2000, the NSW Government amalgamated Australian Inland Energy with the Broken Hill Water Board to form Australian Inland Energy and Water.

On 1 July 2001, the NSW Government formed Country Energy by merging three distributor-retailers: Advance Energy, Great Southern Energy and NorthPower. The merger was intended to enhance the scale, and hence commercial viability, of country retailing prior to full retail contestability. Country Energy will have an annual turnover of around $1 billion, supply power to some 700,000 customers, and cover 72 per cent of New South Wales.

The Snowy Mountains Hydro-Electric Authority is due to be corporatised in early 2002. The resolution of water arrangements has been a precursor to corporatisation (discussed further in section 3.1). The NSW Government has also announced its intention to sell its coal business, Powercoal (discussed further in section 3.6).

Further discussion of structural reform of the electricity sector is contained in section 2.3.3 above.

2.4.2 Gas

The NSW Government is introducing competition in the supply of natural gas. This involves a series of reforms, including:

- development of third party access regimes for transport systems, setting out terms and conditions for the use of distribution pipelines;
- the progressive introduction of retail contestability;
- regulation and monitoring of prices by IPART until effective competition is established; and
- structural reform of government gas supply businesses.

The first of these is discussed earlier (section 2.3.5). Discussion of the latter three reform areas follows.

Retail Contestability

There have been no exclusive gas retail franchises in New South Wales. Small gas customers have always therefore had notional contestable supply. However, effective contestability has been hampered by the barrier faced by new retail entrants in accessing the pipeline networks to transport gas to customers. As a result, the NSW gas market has been characterised in the past by single service providers supplying customers and operating the distribution network.

The COAG agreements do not extend to an obligation to develop or implement arrangements to support full retail competition. Notwithstanding this, the NSW Government is introducing effective contestability. The NSW gas contestability timetable is well in advance of other jurisdictions[62].

[62] IPART 2000a.

In July 1997, third party access rights were granted to large industrial customers (with an annual consumption of 100 terajoules (TJ) or more). On 1 October 1999, retail competition was introduced for consumers of more than 1 TJ per year. Since 1 July 2000, there have been no legal or regulatory barriers to contestability for consumers of less than 1 TJ per year.

The timetable for introducing full effective gas contestability was, however, delayed until 1 January 2002 to enable arrangements to be in place to support the operation of multiple retailers and the transfer of customers.

In May 1999, the Ministry of Energy & Utilities established the Gas Retail Project to facilitate and expedite the gas industry's efforts to develop rules, codes and arrangements to support full retail competition in gas.

The following progress in contestability arrangements was made in 2000-01:

- *formation of the Gas Retail Market Company* (GRMCo) through the Gas Retail Steering Committee. In December 2000, the NSW retail gas industry established GRMCo as a private company to manage, on their behalf, the development and operation of the systems necessary to facilitate a competitive gas retail market.

- *development of business rules to govern transactions between retailers and network operators*. The constitution of GRMCo binds its members to comply with the Gas Retail Market Business Rules. Released in June 2001, the Rules will govern transactions between gas retailers and network operators in the competitive market. Specifically, they will govern matters that relate to:
  - establishment of the delivery point registry and amending delivery point information;
  - collection, processing and provision of metering data;
  - nomination, data estimation, reconciliation and participant balancing;
  - accreditation and auditing requirements;
  - reporting and review; and
  - administration and compliance[63].

- *progression of the legislative and governance framework.*

- *examination of the customer protection regulatory framework.* The NSW Government adopted the *NSW Policy Framework to Support Full Retail Competition in Gas* in December 2000. Under the Framework, the NSW Government will ensure that, for a transitional period, all customers using less than 1 TJ annually whose premises are already connected to a gas network, will be able to choose a default supply contract. IPART will regulate the default contract tariffs (discussed below).

  Further, the *Gas Supply Act Amendment (Retail Competition) Act 2001* and the *Gas Supply (Miscellaneous Amendments) Regulation 2001* commenced on 1 July 2001. These are intended to protect small customers in a competitive retail environment.

Effective competition has been hindered by the inability of prospective retailers to access gas supplies from the upstream sector. The problem has, however, been reduced with the commencement of Duke Energy International's Eastern Gas Pipeline operations in July 2000. The Pipeline is expected to supply up to 60 PJ of gas annually from Bass Strait[64]. It links gas processing facilities at Longford in Victoria to consumers in Sydney, Canberra and other parts of New South Wales and Victoria[65].

The NCC has indicated that it will assess progress on full retail contestability in 2002.

[63] Ministry of Energy & Utilities 2001.
[64] IPART 2000a.
[65] NCC 2001.

Price Regulation

The *Gas Supply Act 1997* enables IPART to regulate tariffs to customers using less than 10 TJ of gas per year. On 19 February 2001, IPART released its final report on the regulation of AGL Retail Energy's tariffs. The Tribunal has replaced a price control formula with default tariffs through a set of *'voluntary pricing principles'* agreed with AGL Retail Energy. AGL Retail Energy is to propose a tariff plan with regard to the costs of supply, subject to side constraints set by the Tribunal. The tariff plan is subject to the Tribunal's final approval, and once approved, will be incorporated into the voluntary pricing principles.

Default tariffs will apply to customers who consume less than 1 TJ of gas per year (e.g. households and small businesses). All customers within this category will have the option of remaining on (or returning to) default tariffs.

The Tribunal is trying to move tariffs towards cost reflective levels but also protect customers from price shocks. The voluntary pricing principles will apply until 2003-04 but will be subject to further review. IPART will undertake a mid-term review of the voluntary pricing principles from 2002 (or under special circumstances, either at the request of AGL Retail Energy or the discretion of the Tribunal).

IPART will also apply the voluntary pricing principles to Great Southern Energy (Albury's gas supplier) and Origin Energy (Wagga Wagga's gas supplier) in the transitional period to retail contestability[66]. Due to the delay in introducing full contestability, the application of the principles to Great Southern Energy and Origin Energy is being re-examined.

Structural reforms

IPART has assumed a utilities regulation function for gas under the *Independent Pricing and Regulatory Tribunal and Other Legislation Act 2000.*

In addition, AGL is to undergo a corporate restructure before 1 July 2002. AGL is presently governed by legislation and regulations designed for a monopoly gas supplier. This framework is no longer appropriate. By July 2002, AGL will adopt a modern constitution and be fully regulated by the Corporations Law. See section 3.2 for further discussion.

2.4.3 Water

In February 1994, COAG adopted a Strategic Framework for the reform of the Australian water industry. The key elements of the package are:

- pricing reforms to achieve:
  - the adoption of consumption based pricing and full cost recovery;
  - the removal of cross-subsidies, where not consistent with efficient and effective service, and transparency where they continue to exist; and
  - positive real rates of return on written-down replacement costs of assets;
- a system of water allocations backed by separation of property rights from land title;
- allocation of water to the environment;
- trading and institutional arrangements to facilitate trading of water allocations;
- institutional separation of resource management, regulatory enforcement, standard setting and service provision; and
- commitment to public education and consultation.

[66] IPART 2000b.

In its second tranche assessment, the NCC found that New South Wales had met its second tranche reform commitments. The NCC noted, however, the failure of New South Wales to pass legislation to effect water allocation and trading reform commitments.

The NCC undertook a supplementary assessment on 30 June 2000 on this issue. It recommended that there be no reduction in NCP payments on account of the failure to pass legislation, but also indicated that unless legislation consistent with the water framework was substantially in force by December 2000, it would recommend:

- a reduction of 5 per cent in NCP payments for 2000-01 for failure to pass legislation between July and December 2000; and
- suspension of a further 5 per cent for the period January to June 2001[67].

The *Water Management Act 2000* was passed on 8 December 2000. The Act:

- formally recognises environmental water sharing provisions and provides for the management of activities that threaten waters and their dependent ecosystems;
- formally establishes a comprehensive community-based planning framework (including water management committees and the Water Advisory Council);
- clarifies and strengthens water rights; improves compliance tools and improves price efficiency.

In the third tranche assessment, the NCC found that New South Wales had made sufficient progress to receive its 2001-02 NCP payments. However, the Council expressed concern over NSW progress on water property rights. In particular, it noted:

- that NSW water sharing plans would not be available until December 2001; and
- the absence of a formal registry of water property rights.

The NCC is currently assessing progress on property rights, including the ability of third party interests listed on the register to have priority over non-registered interests. In the 2002 NCP assessment, the Council will evaluate progress against the NSW property rights timetable, including the development of water sharing plans. The NCC has stated that it will recommend a permanent reduction in payments to New South Wales in the 2002 assessment should this reform path not be adhered to[68].

Further detail regarding progress on particular reform areas follows.

Water Pricing

Full cost recovery has been achieved by most water service providers under IPART's jurisdiction. Discussion on the metropolitan urban, non-metropolitan urban and bulk water sectors follows.

<u>Metropolitan Urban Sector</u>

IPART has overseen prices in the metropolitan urban (MU) sector since 1992. The Premier has requested that IPART determine prices for the Sydney Catchment Authority for 5 years from 1 October 2000.

[67] NCC 2000.
[68] NCC 2001.

In line with the requirement for consumption based pricing, the Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council have adopted two-part tariffs. Gosford City Council and Wyong Shire Council replaced pre-paid water allowance systems with fixed service fees and charges per kilolitre in July 2000.

The NSW Government has made progress towards eliminating cross-subsidies in the MU sector. Sydney Water Corporation and Hunter Water Corporation are currently phasing out charges based on non-residential property values – the key source of the cross-subsidies – and introducing usage based charges[69].

On 12 September 2000, IPART issued a determination for water prices of the Sydney Catchment Authority. It determined that the Authority's charges to Sydney Water would be held at 1999-2000 levels in 2000-01. In the following four years to 2004-05, these charges would be maintained in real terms. Usage charges to Wingecarribee and Shoalhaven Councils would also be increased over the five years. The Authority would not, however, charge the councils a fixed access fee. IPART intends to monitor the Authority's performance and review this determination in 2002-03.

Developer charges are also being introduced to recover the full cost of water and sewerage infrastructure in new development areas. These charges have reduced the scope for cross-subsidies for new developments. IPART released a new price determination for MU developer charges in October 2000. The determination required MU service providers to detail developer charges calculations in new development servicing plans by 1 July 2001[70].

In the third tranche assessment, the NCC expressed concern that neither Gosford City Council nor Wyong Shire Council had made provisions for recovering taxes or tax equivalents. It will look for progress in the 2002 NCP assessment.

<u>Non-Metropolitan Urban Sector</u>

More than 40 per cent of NMU service providers currently apply consumption based two-part tariffs. At the time of the second tranche assessment, 51 council water businesses had not adopted a two-part tariff:

- 7 with undertakings exceeding $2 million per year ('large');
- 14 with undertakings of $1-2 million per year ('medium'); and
- 30 with undertakings of less than $1 million per year ('small').

Since then, three of the large businesses have resolved to adopt full usage pricing, three have indicated unwillingness to do so and one is reviewing its position. Four of the medium businesses have introduced pricing reform. Three of the small businesses have also resolved to introduce full usage pricing[71].

The NCC has indicated concern that Tweed Heads Council, one the largest NMU service providers, has not conducted a robust assessment of the cost effectiveness of two-part tariffs. The Council will reconsider this issue in 2002.

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[69] In 1992-93, residential customers and non-residential accounted for 64 per cent and 36 per cent of water use respectively, yet both sectors contributed 50 per cent of revenue. The cross-subsidy from the non-residential sector to the residential sector was estimated at $300 million annually. By 1999-2000, the proportion of revenue from non-residential customers had fallen to 28 per cent. The proportion of usage based revenue increased from 20 per cent to 46 per cent between 1992-93 and 1999-2000.
[70] NSW Government 2001.
[71] NSW Government 2001.

Bulk Water

Bulk water pricing reform is also being progressively implemented through IPART. Two-part tariffs are being progressively introduced for all water sources.

The Tribunal's determination for bulk water charges for 1998-99 and 1999-2000 projected charges for 2000-01 to demonstrate progress towards the target of full cost recovery by 2000-01. Consistent with these projections, IPART announced, on 13 September 2000, that bulk water charges would increase by an average of 8 per cent for 2000-01[72].

On 12 December 2001, IPART released a determination on bulk water prices, to operate from 1 October 2001 to 30 June 2004. IPART capped the annual increase in individual prices at:

- 15 per cent (plus CPI) for water from unregulated rivers; and
- 20 per cent (plus CPI) for water from unregulated rivers and groundwater sources[73].

The determination extended two part tariffs to unregulated rivers. Prices will increase annually to move closer to full cost recovery by the end of the determination period. Full cost recovery is anticipated in the majority of regulated rivers within three years.[74].

The NCC has recognised that IPART's price determinations provide a mechanism for achieving full cost recovery. However, the NCC found that New South Wales had not formally met its third tranche commitments to provide a timetable for full cost recovery in the rural water sector. It will assess progress towards full cost recovery objectives in 2002[75].

Water Allocations

The *Water Management Act 2000* establishes an allocation framework for water. Specifically, it allocates water to the environment, rural landholders and water users.

Bulk Access Regimes will dictate the volume of water available to water users after provision has been made for environmental and basic landholder rights. The Act requires the NSW Government to set an initial Bulk Access Regime by December 2001. Water classification, for the purposes of setting the initial Bulk Access Regime has been completed[76].

In relation to environmental allocations, the *Water Management Act 2000* recognises three classes of environmental water:

- *environmental health water*, to be used solely for fundamental ecosystem health;
- *supplementary environmental water*, to be used for specific environmental purposes at specific times but able to be used for non-environmental purposes at other times; and
- *adaptive environmental water*, subject to an access licence but used for environmental purposes.

The Act also links water licences (discussed below) to water management plans[77] and enables water sources to be classified by the degree of risk, stress or conservation value. Such classification will enable priorities to be set and water management plans to be developed.

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[72] IPART 2000c.
[73] IPART 2001a.
[74] IPART 2001b.
[75] NCC 2001.
[76] NSW Government 2001.
[77] NSW Government 2001.

Water sharing plans are being developed by water management bodies. Once approved, the plans will be in effect for 10 years. In the third tranche assessment, the NCC stated that New South Wales had not achieved sufficient progress against commitments on water property rights, and noted the December 2001 time frame[78].

A State Water Management Outcome Plan will set the over-arching policy context for managing the State's waters, promoting the Act's water management principles and giving effect to any Government policy relating to salinity.

In relation to rural landholders' allocations, the Act separates water rights from land title. It allocates water for domestic and stock use, harvestable rights[79] and native title rights.

In relation to water users' allocations, the Act requires water users to be licensed ('user approvals'). The Act also provides for tradeable 'access licences'. An access licence entitles its holder:

- to a share of the available water from a specified water source (the '*share component*'). This defines the maximum volume of water a user can extract; and
- to take water at specified times, rates or circumstances in specified areas/locations (the '*extraction component*')[80].

Current licences will be rolled over for new terms, once the new licensing system is in place (expected by mid to late 2002). The new terms of issue are:

- 15 years for private enterprises (e.g. irrigation businesses), to provide a longer time frame for business planning purposes; and
- 20 years for water utilities (e.g. Sydney Water Corporation, Hunter Water Corporation, local water businesses). Access licences of local water authorities will be varied every 5 years according to changes in population and associated commercial activities[81].

Water Property Rights

The *Water Management Act 2000* established a new regulatory framework for water property rights. The framework includes[82]:

- separation of water rights from land title;
- a planning framework to manage access rights and use approvals. The framework is anticipated to improve certainty about water users' access and usage rights; and
- registers of access rights and use approvals. The registers aim to protect third party interests in water rights and provide better information for water markets. The registry system should be in place by December 2002 and an interim system established by June 2002.

The relevant provisions of the *Water Management Act 2000* are likely to become operational after 2001. In the interim, the licensing provisions in the *Water Act 1912* will continue to operate.

[78] NCC 2001.
[79] a percentage of rainfall run-off captured in a farm dam.
[80] NSW Government 2001.
[81] NSW Government 2001.
[82] NSW Government 2001.

The NCC found that the NSW system of property rights did not meet the third tranche requirements. Specifically, it noted:

- that irrigators would not know their licence entitlements until December 2001 and administrative systems would not be in place until June 2002;
- lack of detail on the registry; and
- existence of transitional issues.

The NCC is currently conducting a supplementary assessment to assess the NSW response to stakeholder consultation on the registry. The NCC has stated that it will recommend an ongoing reduction in New South Wales' NCP payments if sufficient progress has not been achieved on the property rights issue, including the rights registry, by the time of the 2002 assessment.

The NCC was satisfied that New South Wales had met its institutional reform commitments for the third tranche assessment.

The Environment

The NSW Government regulates the impact of works and activities related to water use to limit the resultant environmental impacts. New approvals under the *Water Management Act 2000* aim to clarify and harmonise the approach:

- *water use approvals* aim to ensure the appropriate use of water for a particular purpose at a specified location;

- *water management work approvals* authorise the construction and use of works for water supply, drainage or flood management. They may be issued for up to 20 years;

- *controlled activity approvals* authorise the holder to construct a building, carry out work, remove/deposit material (or undertake other activities that affect the quality or flow of water) in, on or under waterfront land. They may be issued for up to 3 years;

- *aquifier interference activity approvals* authorise the holder to conduct activities that interfere with an aquifier. They are intended for activities that intersect groundwater, other than the construction and operation of bores. These approvals may be issued for up to 10 years[83].

The NCC was satisfied that New South Wales had complied with environment and water quality reform commitments for the third tranche assessment.

Consultation and Education

New South Wales is devoting considerable resources to public education on water reform. The NSW Government continues to actively consult the community through programs and communication strategies for all major water reforms (e.g. introduction of the *Water Management Act 2000*).

The NCC was satisfied that New South Wales has complied with public education and consultation reform commitments.

[83] NSW Government 2001.

3. OTHER MICROECONOMIC REFORMS

3.1 RESTORATION OF THE SNOWY RIVER

The Snowy Mountains Hydro-Electric Authority is due to be corporatised in early 2002. The resolution of water arrangements has been a precursor to corporatisation.

On 6 October 2000, the NSW, Victorian and Commonwealth Governments announced an agreement to restore the Snowy River to a long term target of 28 per cent of the river's natural flows. The Governments also agreed to secure property rights of Murray-Darling irrigators by ensuring that there were no adverse impacts on existing water rights in South Australia or on the environment of the Murray, Murray-Goulburn or Murrumbidgee river systems.

Under the agreement, the Governments aim to return 21 per cent of the river's natural flow over 10 years. The remaining 7 per cent is expected to be achieved through the development of new infrastructure projects involving the private sector.

The NSW and Victorian Governments have agreed to contribute $150 million each, over 10 years, to a jointly funded enterprise that will implement a program of capital works. The capital works are intended to achieve water savings in the Murray, Murray-Goulburn and Murrumbidgee river systems. In December 2000, the Commonwealth Government agreed to contribute $75 million, over 10 years, to the joint enterprise.

3.2 CORPORATE RESTRUCTURE OF AGL

At present, the Australian Gas Light Company (AGL) is governed by legislation and regulations designed for a monopoly gas supplier. Its constituent documents have operated since 1837. This framework is seen as no longer appropriate. The NSW Government intends to repeal the *AGL Act 1837* by July 2002. AGL will adopt a modern constitution and be fully regulated by the Corporations Law. AGL's operational arrangements will be administratively transferred to the newly constituted corporate entity.

The maximum shareholding in AGL by any person is currently restricted to 5 per cent of AGL's issued share capital. The NSW Government has agreed to remove the shareholding limitations by 1 July 2002, given the significant change in the strategic direction of AGL's businesses, energy market developments and modern corporate governance practices.

The proposed reforms will better align the regulatory framework for AGL with that of other participants in the energy market. Interim measures will be put in place to facilitate smooth transition. The measures include enforcement of the current shareholding cap pending commencement of the legislation to lift the shareholding limit.

3.3 INFRASTRUCTURE

On 5 November 2001, the Government released revised project approval guidelines and issued a major policy statement to facilitate private participation in infrastructure provision. Under the new approach to financing infrastructure:

- opportunities for privately financed projects (PFP) will be opened up, with future infrastructure projects in all sectors being considered for potential delivery by PFP;
- opportunities for PFP will be investigated where it is clear that the private sector's packaging of design, construction, financing, operation and maintenance of facilities offers better value for money than the best public sector delivery model;
- there will be limits on private sector participation, with core services being delivered by the Government. Teaching services in education and clinical services in health, for example, would be regarded as core services;
- the Government's priorities for infrastructure will be set out in a State Infrastructure Strategic Plan, which will be published annually. The Strategic Plan will be drawn from Government agencies' long-term service delivery and capital investment plans;
- the Government may consider unsolicited proposals that show an overall community benefit and are consistent with its service delivery and capital investment plans; and
- an Infrastructure Services Advisory Council, comprising senior executives from the public and private sectors, will be formed to advise the Government on PFP arrangements.

The new guidelines emphasise the following points:

- the Government will maintain an open, competitive process to provide equal opportunity for all prospective private sector participants;
- the Government will seek to optimise the allocation of risks to the public and private sectors according to which party is deemed best able to manage them. This is intended to maximise value for money over the life of the project. The revised guidelines include principles for risk allocation;
- the Public Sector Comparator will play a key role in the value-for-money test. The Public Sector Comparator represents the full long-term life-cycle costs of public sector delivery of the infrastructure and related services. The Public Sector Comparator may be disclosed prior to the call for PFP tenders in cases where this will stimulate competition;
- in calling for expressions of interest and tenders, the Government's requirements will be expressed as much as possible in terms of the outcomes sought so as to provide maximum scope for private sector innovation;
- the Government will seek to minimise the potentially high transaction costs associated with PFP projects. This includes achieving a degree of standardisation in contracts; limiting the number of short-listed proponents (normally to three); and bundling small projects to achieve critical size; and
- the Government will require the publication of a contract summary for privately financed projects. The summary will be certified by the Auditor-General and tabled in Parliament within 90 days of the contract becoming effective.

3.4 FUNDING ARRANGEMENTS FOR SAFEFOOD

The NSW Government established Safe Food Production NSW (SafeFood) in December 1998 to regulate food safety. The Government intended that SafeFood would be funded by the regulated industries. However, implementation of cost recovery proved controversial. As such, Cabinet agreed in December 2000 to an independent review of SafeFood's funding arrangements, to be undertaken by the Hon. John Kerin.

The Review was guided by an Agency Steering Committee, comprising officers from the Cabinet Office, Treasury and SafeFood. A consultant was engaged to prepare an Issues and Options Paper. Input was also provided by a Stakeholder Reference Group, which included representatives from the Australian Consumers' Association and the dairy, meat and seafood industries.

The Review consultants grouped SafeFood's activities into three categories of 'core' activities and one category of 'overhead' activities. The Review recommended that the funding of SafeFood be shared by Government and industry, the contribution of each to be determined with reference to these activities. This approach aligns with that recently adopted by the Productivity Commission in its *Draft Report on Cost Recovery*[84].

Under the proposed framework, the NSW Government would fund:

- 'Policy & Standard Setting' and 'Enforcement' activities;
- 'Consumer Information & Education' activities;
- the overheads of 'Government Requirements', 'Emergency Management Planning', 'Strategic Planning & Change Management', and 'Corporate Communications'; and
- a proportion of the remaining overheads aligned to its share of 'core' activity funding.

The Review recommended that the future funding mechanism for certain major compliance activities should be considered as part of a statutory review of SafeFood to be conducted shortly ('the section 73 review'). The section 73 review would consider whether and how to extend SafeFood's remit to include the retail and food service sectors currently covered by NSW Health and Local Government. Deferral of the funding decision on the above compliance activities to the section 73 review was intended to allow for consultation with the retail and food service sectors and local councils.

The NSW Government has accepted all of the recommendations of the Kerin Funding Review and has taken steps to implement them.

[84] Productivity Commission 2001b.

3.5 GRAIN MARKETING ARRANGEMENTS

The NCP review of the *Grain Marketing Act 1991* was completed in July 1999. The Final Report in essence recommended that:

- vesting powers and single desk selling for barley exports be retained for a further five years and then reviewed; and
- market intervention powers for other commodities be retained for one or two more years.

There was some delay in bringing acceptable proposals to Government for consideration. The NSW Grains Board experienced financial difficulties in 2000, overtaking the NCP review. As a result, in late October 2000 the NSW Government considered a number of options for the future of the Board.

Under the option that was ultimately endorsed by the NSW Government, vesting powers for export barley, domestic malting barley, canola and sorghum were to be retained for five more years, and then terminated by legislation. Other vesting powers over oats, linseed, soybean, sunflower and safflower were to be removed. See section 2.3.4 for further detail.

In addition, the Government endorsed a series of loans by the Minister for Agriculture to the Board, totalling up to $13 million, to repay outstanding 1999-2000 pool debts to growers. The Government decided to continue levying ‘authorised buyer’ fees of $1.50 per tonne on vested commodities, to be applied against repaying the loans. The fees are to terminate when the loans are repaid, or on 30 September 2005 if the loans are not repaid by then.

Grainco, a grower body based in Queensland, was appointed as sole Board agent for receiving and trading export barley, domestic malt barley, canola and sorghum in return for a $25.2 million payment. This payment was to be applied against the Board’s net debts, which were well in excess of this figure.

3.6 PROPOSED SALE OF POWERCOAL

On 24 August 2001, the Treasurer announced the NSW Government’s intention to commence the process for the sale of Powercoal. Powercoal is currently a wholly owned subsidiary of Pacific Power. It owns and operates six coal mines, employing some 1200 people in the Lake Macquarie, Central Coast and Lithgow regions.

The Government believes that the sale of Powercoal would:

- allow it to pursue a bigger share of high value export coal markets without placing the Government at financial risk; and
- provide the best means to create new employment opportunities by introducing the capital required to sustain and enhance existing mines and develop new resources.

Powercoal supplies around 33 per cent of the coal consumed by the NSW Government owned electricity generators. Long term commercial contracts are to be put in place prior to the sale to ensure a secure coal supply from the Powercoal mines to the generators.

The Government has been working with unions since April 2001 to develop an employee package. The Government will seek to protect employees’ interests and entitlements.

3.7 PROPOSED SALE OF FREIGHTCORP

In September 2000, the NSW Government announced its intention to sell its rail freight operator, FreightCorp, in parallel with the Commonwealth Government's sale of National Rail Corporation. The NSW Parliament passed legislation for the joint sale of FreightCorp on the 27 June 2001, after tabling a rural and regional impact statement on the proposed sale.

After detailed discussions, the Commonwealth, NSW and Victorian Governments agreed to the combined sale of FreightCorp and National Rail Corporation to a single purchaser. The three Governments also agreed on the following sale objectives:

- to develop a commercially sustainable and competitive freight business, able to contribute to an efficient, competitive and viable domestic freight transport industry, recognising the inherent environmental benefits of rail transport;
- to ensure that the sale process treats National Rail Corporation and FreightCorp employees in a fair manner, including the preservation of accrued entitlements;
- to ensure quality freight services to customers in regional and rural Australia;
- to divest FreightCorp and National Rail Corporation as soon as reasonably practicable in accordance with appropriate standards of probity;
- to terminate, to the extent possible, the continuing responsibilities of the shareholders consistent with each Government's responsibilities and to minimise any post sale residual risk and liabilities; and
- having regard to the above objectives, to maximise the net sale proceeds and achieve satisfactory financial outcomes for each shareholder.

The sale of FreightCorp and National Rail Corporation to a single buyer is anticipated to make rail freight more sustainable and competitive against road freight. This also has the potential to increase competitive pressures on road freight costs. This will benefit businesses and the rural communities, which rely on road and rail to transport goods to market.

Under the sale, the NSW Government is committed to:

- maintaining NSW rail lines and passenger services in public ownership;
- providing at least $1.4 billion between 2000-01 and 2005-06 to support rail freight operations in rural and regional areas, through a combination of track and product-based subsidies (an increase of $100 million on the previous 6 year program); and
- guaranteeing jobs for FreightCorp award employees for three years, as part of an employee transfer package.

Within the $1.4 billion package, the Government has allocated $260 million to non-commercial investment in country and regional rail track, including grain branch lines.

4. AGGREGATE PERFORMANCE OF NSW GOVERNMENT BUSINESSES

NSW Government businesses supplying electricity, transport and water account for some 80 per cent of all Government business employment. They also contribute approximately 80 per cent of all revenue collected by Government businesses. Improvements in labour productivity in these areas have a relatively large impact on the overall performance of Government businesses.

The following Government businesses are drawn from the above three sectors:

1. Electricity:	
a. Generators:	Macquarie Generation, Eraring Energy and Delta Electricity;
b. Distributors/Retailers:	Advance Energy, Australian Inland Energy and Water, EnergyAustralia, Integral Energy, Pacific Power, Great Southern Energy and NorthPower;
c. Transmission:	Transgrid;
2. Transport:	State Rail Authority, Rail Infrastructure Corporation (formerly Rail Access Corporation and Rail Services Australia), FreightCorp and State Transit Authority; and
3. Water:	Hunter Water Corporation and Sydney Water Corporation.

4.1 PRODUCTIVITY AND DIVIDEND/TAX EQUIVALENT PAYMENTS

The removal of restrictions on domestic competition has resulted in significant efficiency improvements with regards labour productivity. Figure 1 summarises the change in labour productivity for major NSW Government Businesses.

Figure 1: Labour Productivity for Major NSW Government Businesses

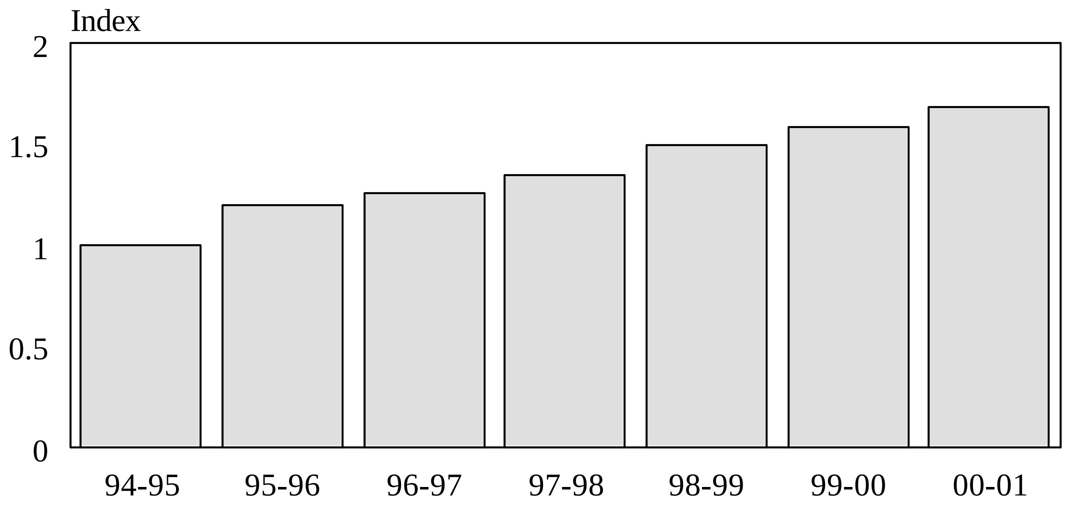


Figure 1 shows that, since 1994-95, NSW Government businesses have achieved a weighted improvement in labour productivity of 69 per cent.

Table 1: Employment, Efficiency and Output Performance of Government Businesses in the Electricity, Transport and Water Sectors

	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	% Change 1994-95 to 2000-01
Employment									
Electricity Generators	(2),(3)	5,595	3,503	3,328	3,019	2,531	2,376	1,761	(69)
Electricity Distributors		11,396	8,746	7,972	7,552	7,417	7,450	7,705	(32)
Sydney Water Corporation		5,965	5,099	4,763	4,629	4,470	3,766	3,676	(38)
Hunter Water Corporation		740	715	620	554	545	541	533	(28)
State Rail Authority	(4)	8,334	8,278	9,370	9,317	8,508	8,660	9,017	8
Freight Corp		7,389	6,976	3,525	3,115	2,528	2,265	2,131	(71)
State Transit Authority		3,818	4,101	4,303	4,305	4,369	4,690	4,754	25
		43,237	37,418	33,881	32,491	30,368	29,748	29,577	(32)
Index of Output									
Electricity Generators (Gwh)		100	105	101	103	105	108	112	12
Electricity Distributors (Gwh)		100	103	103	103	115	123	133	33
Sydney Water Corporation (properties served)		100	101	103	106	107	109	108	8
Hunter Water Corporation (properties served)		100	96	98	100	102	103	105	5
State Rail Authority (passengers carried)		100	103	106	107	109	113	122	22
Freight Corp (net tonne Kms)		100	106	76	85	85	87	92	(8)
State Transit Authority (passengers carried)		100	105	107	109	109	113	115	15
Productivity (Output relative to Employees)									
Electricity Generators		9.6	16.1	16.2	18.2	22.2	24.2	34.0	255
Electricity Distributors		3.6	4.8	5.3	5.6	6.4	6.8	7.1	97
Sydney Water Corporation		244.8	290.3	314.9	334.8	349.0	422.2	429.8	76
Hunter Water Corporation		245.9	245.6	287.9	327.8	339.1	347.9	357.8	45
State Rail Authority		29.9	31.0	28.2	28.6	32.1	32.5	33.8	13
Freight Corp	(5)	2,074.0	2,335.0	3,302.0	4,194.0	5,142.4	5,872.0	6,616.6	219
State Transit Authority	(5)	50.7	49.5	48.2	48.8	48.5	46.4	46.8	(8)
Percentage Changes (1994-95 Base Year)									
Weighted Total Output Change (%)	(6)	**100**	**103**	**100**	**102**	**109**	**114**	**121**	**21**
Total Employment Change (%)		**100**	**87**	**78**	**75**	**70**	**69**	**68**	**(32)**
Weighted Productivity Change (%)	(7)	**100**	**120**	**126**	**135**	**150**	**159**	**169**	**69**

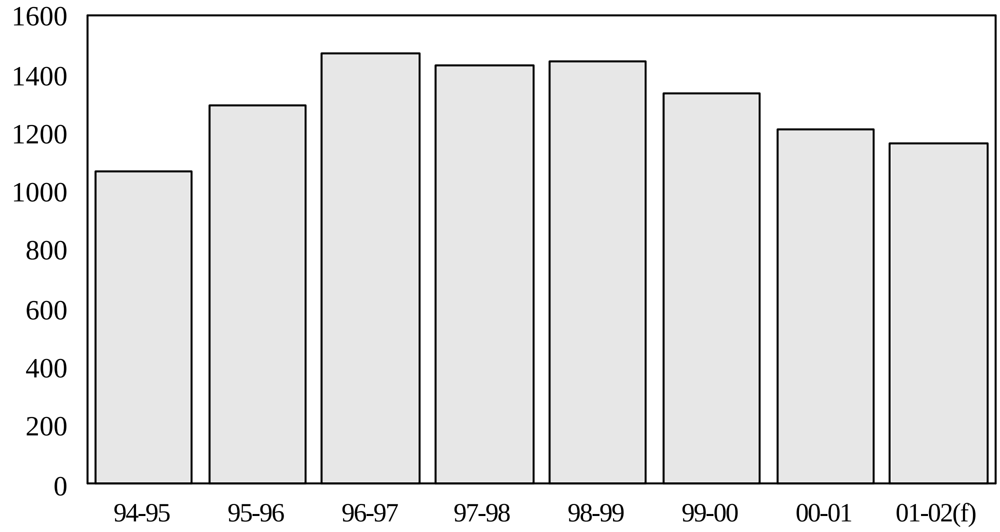
Notes
(1) Employment measured as equivalent full time persons as at 30 June
(2) TransGrid staff included in 1994-95 employment number.
(3) In 2000-01 Eraring Energy (Pacific Power's generation function) was separated from Pacific Power. Thus, the employment number for generators has declined compared to previous years, as previous years included the entirety of Pacific Power's operations, ie PowerCoal, Pacific Solar, Pacific Power International.
(4) The years prior to SRA's restructure (1995-96) exclude employees who subsequently were employed by Rail Access Corp. and Rail Services Australia.
(5) The calculation of FreightCorp's and State Transit Authorities productivity have been revised for 1998-99 and 1999-00
(6) Output weighted by the 1994-95 dollar value of output from each agency.
(7) Average productivity of each agency weighted by final year employment.

From Table 1 it can be identified that significant efficiency improvements have been achieved since 1994-95 by:

- Electricity Generators and Distributors of 255 per cent and 97 per cent respectively;
- FreightCorp of 219 per cent;
- Sydney Water Corporation of 76 per cent;
- Hunter Water Corporation of 45 per cent; and
- State Rail Authority of 13 per cent.

Only State Transit has not achieved an improvement in labour productivity over the period, although the 8 per cent decline over six years is marginal.

Figure 2: Dividend and Tax Equivalent Payments from Non-Budget Sector Enterprises (2000-01)



Source: NSW Treasury (2001) *Budget Paper 2001-02*, Volume 2

Figure 2 (Dividend and Tax Equivalent Payments) demonstrates that the input cost savings shown in Table 1 have largely been passed on to consumers (rather than being paid as dividends to Government).

4.3 THE GOVERNMENT CHARGES INDEX

Micro-economic reform initiatives such as National Competition Policy, the corporatisation of NSW Government businesses and deregulation of energy markets have delivered significant benefits to the people of New South Wales. These benefits include:

- sustainable reductions in NSW Government business charges;
- higher real incomes and economic prosperity;
- enhanced consumer choice and welfare; and
- a more dynamic, competitive and productive NSW economy.

The reform process has also resulted in significant distributional impacts within industries such as electricity, freight rail, water and gas. This has been mainly due to improved operating efficiency in most NSW Government businesses and progressive removal of cross-subsidies between customer groups. NSW Government businesses now price their products and services on a more rational and efficient basis.

The Government Charges Index (GCI) provides a broad measure of the performance and impact of micro-economic reforms on major NSW Government businesses. In this regard, the GCI provides an aggregate assessment of movements in the charges and prices levied by NSW Government businesses.

In compiling the GCI, a weight is applied to the revenue of each NSW Government business to reflect its relative contribution to total revenue. For this year's publication, the GCI has been re-weighted to reflect total revenues received by NSW Government businesses for the

1998/99 financial year. The 1998/99 financial year has been selected to align the GCI with the base year that is currently applicable to the Australian Bureau of Statistics' Consumer Price Index (CPI).

In future publications, the GCI's base year will be re-weighted in accordance with changes in the CPI's base year. Periodic re-weighting is necessary to maintain relevancy in the face of changing prices, customer demands and structural adjustments in the NSW economy.

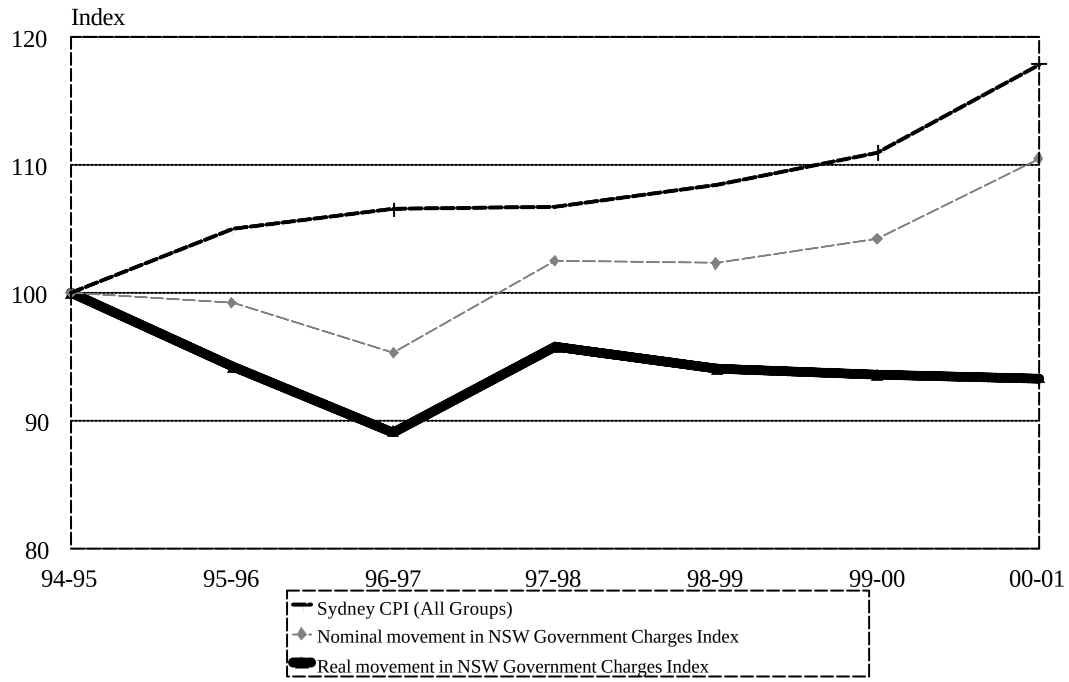
The GCI has also been re-calculated over financial years 1997/98 to 1999/00 to correct for inconsistent reporting in the historical data for one of the NSW electricity businesses. Accordingly GCI outcomes reported in this year's publication will differ from GCI outcomes of previous publications as a result of these changes.

As illustrated in Figure 3, upwards pressure in the GCI for 2000/01 came from *The New Tax System*, which was introduced by the Federal Government on 1 July 2000. Downwards pressure in a variety of contributing sectors saw the GCI fall overall by 0.2 per cent in real terms over the 2000/01 financial year. Over the six years from 1994/95, the GCI has fallen by 6.7 per cent in real terms.

Private businesses in NSW have benefited from real reductions in major NSW Government business charges such as electricity, water and freight rail. These reductions have stimulated a greater level of business competitiveness and investment in NSW. Residential customers have also experienced real reductions in their utility bills. In addition, residential customers have a greater ability to control the size of their utility bills because prices more closely reflect the quantity of goods consumed.

The introduction of full retail contestability in the electricity market from 1 January 2002 is expected to deliver further price savings to customers. Residential and small business customers will have the choice of negotiating their own supply arrangements with electricity retailers or remaining on standard supply contracts with regulated terms and conditions.

Figure 3: The Government Charges Index



5. PERFORMANCE MEASUREMENT OF NSW GOVERNMENT BUSINESSES

Section 6 of this publication records standard financial, service quality and efficiency performance measures for NSW Government business enterprises (GBEs). However, it can be difficult to gauge GBEs' performance on these measures alone since GBEs may:

- not trade in competitive markets (e.g. electricity distribution); and
- be sheltered from the disciplines of the stock exchange.

Consequently, Treasury has developed additional regimes to assess the performance of GBEs, discussed below. Performance indicators can help to:

- make GBEs accountable to Parliament, customers and the general public;
- promote surrogate, or 'yardstick', competition in service delivery to inform managers of reasons for poor performance; and
- assess potential improvements in productivity and to guide structural change.

NSW Treasury has used several techniques to measure the productivity or efficiency of GBEs and, in combination, test the robustness of the benchmarking exercise. Each technique uses assumptions. These need to be taken into account when interpreting the results. The techniques include:

1. partial productivity measures;
2. data envelopment analysis (DEA);
3. stochastic frontier analysis (SFA);
4. total factor productivity (TFP); and
5. shareholder value added (SVA).

5.1 PARTIAL PRODUCTIVITY MEASURES

Partial productivity measures are often used because they are simple to calculate and readily understood. The measures are usually the ratio of an output (e.g. electricity supplied) to an input (e.g. employees) or the unit cost of an output. Partial productivity measures are the main indicators of efficiency of government services used in this report. IPART has used partial productivity measures to help set revenue or price caps for several government services, including electricity, water and rail.

Partial productivity measures need careful interpretation because for GBEs that deliver several services, they do not consider the various trade-offs between outputs and inputs. Using several measures can better indicate performance, but the usefulness of this approach is limited if the measures move in different directions. Consequently, Treasury and other government agencies (e.g. IPART) are beginning to apply techniques that provide broader measures of productivity or efficiency.

5.2 DATA ENVELOPMENT ANALYSIS

DEA is a mathematical programming technique that combines measures of organisations' inputs and outputs to produce a single measure of productivity for each organisation relative to observed best practice within the sample. The technique allows environmental factors that influence performance but cannot be controlled by management (e.g. climate and population density) to be taken into account. Treasury used DEA to help in the restructure of electricity distribution industry. IPART used it to assist in revenue caps for electricity distributors.

DEA has several limitations. The efficiency measures can be sensitive to data outliers, resulting in apparent low efficiency of some businesses. Outliers may arise from data errors or random events. DEA measures are also sensitive to the sample size and the number of variables included in the benchmarking exercise. The apparent efficiency of organisations can increase if too many variables are included in an analysis with a relatively small sample.

5.3 STOCHASTIC FRONTIER ANALYSIS

A statistical technique, SFA differs from DEA in several respects. SFA measures of efficiency are less likely to be distorted by outliers in the data. This reduces the likelihood of measurement errors or random events influencing the results. Furthermore, statistical tests can help to assess the extent of the inefficiency in service delivery. But, unlike DEA, SFA requires an assumption about the process of converting the inputs into outputs. Consequently, misspecification error may arise in the analysis. IPART used SFA to help set the revenue caps for electricity distribution.

5.4 TOTAL FACTOR PRODUCTIVITY

TFP measures the productivity of an organisation by constructing index numbers for the ratio of the aggregated outputs to the aggregated inputs. Prices are required to combine the outputs into a single measure of output and inputs into a single measure of input. Unlike DEA and SFA, TFP cannot decompose productivity into efficiency and technological change. Treasury has used TFP to help assess the performance of public transport and electricity supply businesses. IPART used the technique to help set the revenue caps for electricity distributors.

5.5 SHAREHOLDER VALUE ADDED

SVA is a value-based measure of business performance that indicates whether a government business is generating or eroding value (its worth to shareholders).

SVA measures the business' net operating profit after tax (NOPAT), net of a capital charge for the equity and debt capital employed, based on the business' weighted average cost of capital (WACC). Where the NOPAT exceeds the capital charge, the business is creating value for its shareholders. Conversely, where NOPAT falls below the capital charge, the business is effectively destroying shareholder value.

6. PERFORMANCE OF NSW GOVERNMENT BUSINESSES 2000-01

The information in the following tables and graphs is consistent with annual reports and has been audited. The preceding commentary on 2000-01 performance was prepared and authenticated by the businesses. The Treasury is not in a position to fully validate the statements made in the commentary.

ELECTRICITY

Advance Energy

Australian Inland Energy

Delta Electricity

Energy Australia

Eraring Energy

Great Southern Energy

Integral Energy

Macquarie Generation

NorthPower

Pacific Power

Transgrid

Ian Brooksbank
Interim Finance Manager – Bathurst
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132 795

ADVANCE ENERGY

Advance Energy is a dynamic State Owned Corporation. It provides energy solutions to customers in New South Wales, Queensland, Victoria and the Australian Capital Territory. Its mission is to be the service provider of choice in the Australian energy industry.

Advance Energy provides electricity and other energy services to 120,000 franchise customers in the central and far western area of the State. Advance Energy distributes across an area of 167,000 square kilometres, spanning:

- 725 kilometres from Bathurst and Mudgee in the east to Cobar in the west; and
- 450 kilometres from Coonamble in the north to Lake Cargelligo and Cowra in the south.

Advance Energy has total assets of $419 million and annual sales revenue of more than $265 million. Advance Energy has developed a strong commercial culture by focusing on customers, business success, safety, teamwork, community responsibility and continuous improvement. The corporation's long-term credit rating of AA affirms its strength.

Advance Energy has responded successfully to the competitive challenges of the National Electricity Market. It was the first energy company in New South Wales to secure a major contestable customer outside its franchise area. Since then, Advance Energy has acquired more than 410 sites outside its franchise area and increased its contestable load by more than 90 per cent.

In 2000-01, Advance Energy had a 10 percent increase in earnings before interest and tax on the back of increased sales revenue and attention to costs. However, this improvement was offset by a $14 million increase in interest costs resulting from borrowings undertaken to affect the Capital Restructure Policy in July 2000. Thus the operating result for 2000-01 declined by $11.2 million.

Advance Energy's franchise domestic customers and commercial customers have enjoyed real price reductions of 11.0 per cent and 14.7 per cent respectively from 1996 to 2001. Contestable customers have likewise benefited from the deregulated environment with significant price reductions. This reflects the company's commitment to pass on the benefits of electricity reform to its customers.

Customer satisfaction in the corporation is high in both the contestable and non-contestable segments. In a survey conducted by UMI Industry Research, Advance Energy was rated second nationally for overall consumer satisfaction in the contestable market. Its score of 73.5 per cent was only marginally behind the leader. Within the non-contestable market, a survey by Frank Small and Associates rated Advance Energy's overall customer satisfaction at 84 per cent. It found that over 52 per cent of non-contestable customers were extremely satisfied with the service provided by Advance Energy.

Advance Energy actively encourages the use of renewable energy and is an approved Sustainable Energy Development Authority (SEDA) retailer. Advance Energy promotes the use of environmentally responsible energy to all customers, including solar energy products and renewable energy sources.

Advance Energy merged with NorthPower and Great Southern Energy to form Country Energy on 1 July 2001.

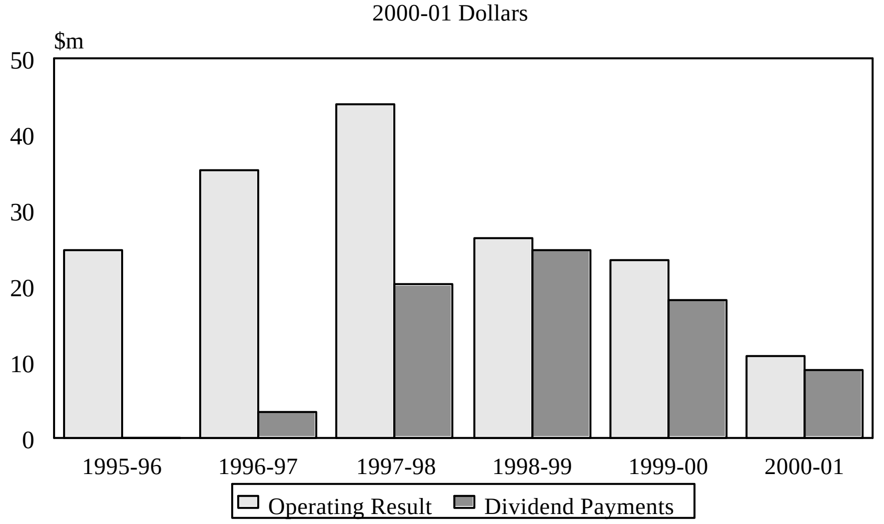
ADVANCE ENERGY

	(1)	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency							
Employment	(2)	549	504	533	554	592	614
Output per Employee (GWh)	(3)	3.4	4.1	4.4	4.9	4.7	5.5
Customers per Employee	(4)	196.3	220.4	226.0	219.1	208.3	197.7
Operating Cost Per Unit Sold ($/MWh)	(5)	30.3	22.6	27.5	24.4	24.9	16.3
Operating Cost Per Customer ($)	(6)	524.9	416.6	532.4	539.7	566.1	449.9
System Loss Index (%)	(7)	6.3	6.9	7.3	5.9	5.8	3.4
Average Lost Time	(8)	10.4	4.9	11.1	6.5	8.3	7.8
Lost Time Injury Frequency Rate	(9)	27.0	28.8	28.9	19.4	19.8	11.0
Service							
No. of Customers		115,735	116,538	118,068	120,057	118,622	119,808
Output (GWh)		1,995	2,141	2,268	2,637	2,708	3,298
Supply Reliability (Min)	(10)	285.0	218.9	293.0	168.0	195.7	327.0
Real Price Index	(11)	100.0	97.1	93.3	86.4	98.2	79.5
Customer Satisfaction Index							
Domestic		76.8	78.0	n/a	84.0	84.0	82.0
Business		74.7	77.0	n/a	73.5	81.4	79.4
Finances	(12)						
Operating Result ($m)	(13), (17)	24.6	35.3	44.0	26.4	23.3	10.7
Return on Assets (%)	(14), (18)	7.6	10.2	11.6	7.3	6.4	6.8
Pre Tax Return on Net Assets	(15)	9.7	13.6	17.6	10.1	8.8	13.6
Return on Equity (%)	(16),(18)	8.9	9.2	15.9	7.6	8.3	13.0
Gross External Debt ($m)		31.1	34.0	44.2	46.5	51.5	248.4
Debt to Equity Ratio (%)		12.3	13.1	17.7	17.8	19.5	314.0
Times Interest Earned		10.5	11.6	15.7	8.4	7.9	1.6
Financial Distribution ($m)							
Dividend Payment		0.0	3.4	20.1	24.8	18.1	8.9
Corporate Tax Equivalent		0.0	4.4	-3.3	0.0	0.0	0.0
Payment of Capital from Equity		44.9	0.0	11.7	0.0	0.0	0.0

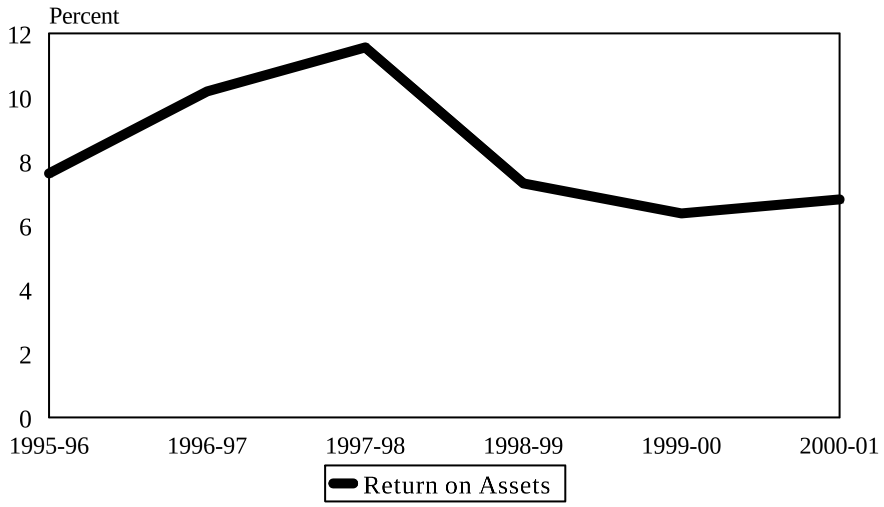
Notes
Nr Not reported
n/a Not available

1. All dollar amounts reported in 2000-01 dollars.
2. Average full time equivalent staff.
3. GWh sold per average number of all employees.
4. Average number of customers per average number of all employees.
5. Operating costs including depreciation, excluding financing costs per MWh sold.
6. Operating costs including depreciation, excluding financing costs per average number of customers.
7. Energy purchased less energy sold divided by energy purchased.
8. Average lost days per employee per year.
9. Number of lost time accidents per million hours worked.
10. Average minutes per customer per year without supply including planned and unplanned outages.
11. Assumes 1995-96 is the base year.
12. All financial indicators are consolidated. The results reflect the electricity supply and non supply energy services businesses. The 1995-96 results have been recorded exclusive of an abnormal expense of $19.7 million for restructuring costs as a result of industry reform
13. The result reflects profit before tax but does not include abnormal items.
14. Earnings before interest and taxation divided by total assets at 30 June.
15. Operating profit before taxation dividend by net assets at 30 June.
16. After tax profits divided by equity at 30 June.
17. The Operating result for 1998-99 is less than 1997-98 due to: Major one-off capital contributions lifting the 1997-98 figure significantly higher average purchase price for energy in 1998-99; and the higher depreciation expense in 1998-99.
18. The difference in Return on Assets and Return on Equity between 1997-98 and 1998-99 was primarily due to the higher 1997-98 Operating Result (see footnote 17)

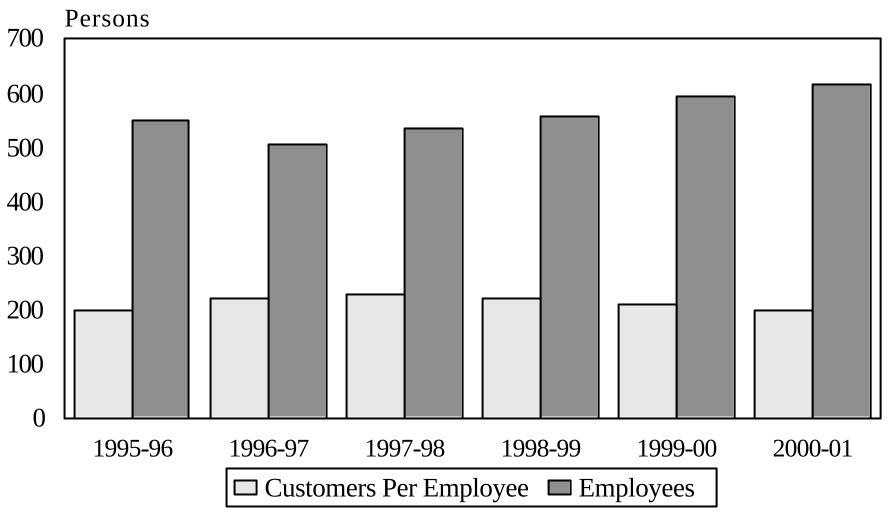
Operating Result and Dividend Payment



Financial Performance



Customers and Employees



AUSTRALIAN INLAND ENERGY AND WATER

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AUSTRALIAN INLAND ENERGY AND WATER

Australian Inland Energy and Water (AIEW) has assumed the operations of the former Australian Inland Energy and the Broken Hill Water Board. The NSW Government formalised the merger with the passage of an Act of Parliament, proclaimed 15 December 2000.

AIEW provides energy services to about 19,000 customers in Far West New South Wales in a supply area of 155,100 square kilometres, with the main administrative office located in Broken Hill. The customer base is predominantly domestic, small rural and small commercial. Water operations are centred around Broken Hill, also including Menindee, Silverton, the Umberumberka and Stephens Creek Reservoirs and catchment areas, the Yancowinna catchment area, the settlement of Sunset Strip and the Menindee-to-Stephens Creek pipeline. Approximately 10,000 properties and a population of around 24,000 are served by AIEW's water reticulation system. In Broken Hill, sewerage services are available to 9,830 premises, which represents 99 per cent of properties connected to the water supply system.

In addition to finalisation of the merger, the NSW Government has also sanctioned AIEW's entry into regional development initiatives. Accordingly, Australian Inland Infrastructure has been established to pursue regional development objectives, subject to shareholder approval on a case-by-case basis. The direct involvement of AIEW in the future growth and development of the Far West is a significant move forward for the local community and its workforce in particular. While regional development initiatives will not come at the expense of financial objectives of AIEW, there will be increased interaction between regional authorities, business and community organisations to ensure that the proposed activities are in step with local needs and aspirations.

In 2000-01, Australian Inland Energy and Water's operating result declined by around $5 million to $4.4 million. This decline resulted from reduced margins in electricity sales and a shift in resources from capital-related infrastructure works to maintenance works.

Other Highlights during 2000-01 included:

- work proceeding on the construction of the 220kV/22kV substation at Balranald;
- the receipt of a $1 million grant from the Australian Greenhouse Office and a $250,000 grant from the Sustainable Energy Development Authority for construction of a 1-2 MW Solar Power Station in Broken Hill;
- a $75,000 grant from the Australian Cooperative Research Centre for Renewable Energy to trial a new battery storage system ideal for remote and rural areas;
- planting of saltbush in Balranald as part of a carbon sink pilot project;
- continued key community and cultural sponsorships; and
- continued high representation at industry meetings.

Of significance during the year, was the appointment of AIEW by the NSW Government as the key Government point of contact for Mineral Sands developments in New South Wales.

AIEW is also able to offer customers in Broken Hill a one-stop-shop for the supply of electricity and water services, bottled gas (via the business alliance with Kleenheat Gas) and internet services.

AUSTRALIAN INLAND ENERGY AND WATER

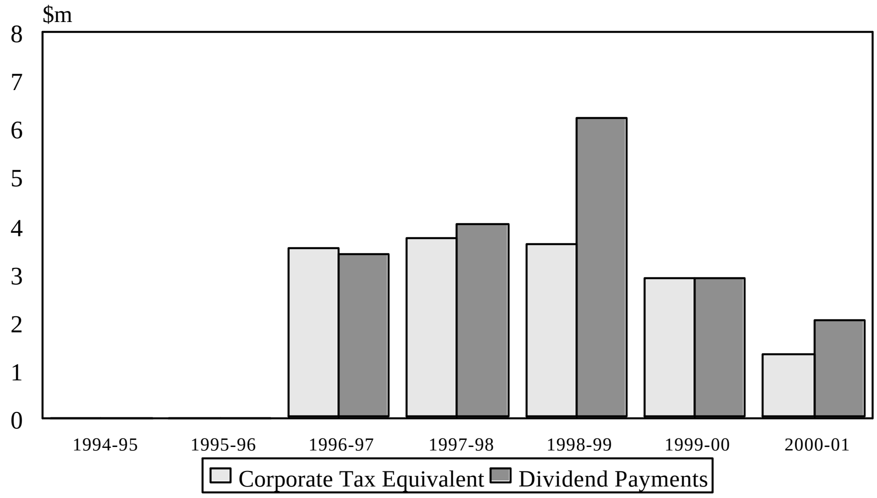
	(1)	1994-95*	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01**
Efficiency								
Employment	(2)	61	94	98	105	107	108	118
Output per Employee (GWh)	(3)	4.6	4.7	4.0	3.7	3.5	3.1	3.7
Customers per Employee	(4)	187.2	197.4	198.2	181.5	177.2	175.2	160.2
Operating Cost Per Unit Sold ($/MWh)	(5)	19.8	25.2	27.2	28.7	31.1	37.3	31.8
Operating Cost Per Customer ($)	(6)	483.6	599.8	551.8	578.4	621.5	669.9	731.3
System Loss Index (%)	(7)	3.0	12.4	5.3	3.8	11.7	17.5	15.4
Average Lost Time	(8)	44.3	23.9	17.5	10.4	12.3	10.0	14.9
Lost Time Injury Frequency Rate	(9)	72	28	37	32	32	38	20
Service								
No. of Customers		11,671	18,924	19,128	18,981	18,944	18,896	18,902
Output (GWh)		284	364	386	384	379	340	435
Supply Reliability (Min)	(10)	369.0	161.0	382.0	319.0	221.0	212.0	364.0
Real Price Index	(11)	100.8	100.0	99.4	93.8	87.9	93.9	90.3
Customer Satisfaction Index								
Domestic		73.2	71.5	n/a	n/a	n/a	n/a	n/a
Business		69.1	69.6	n/a	n/a	n/a	n/a	n/a
Finances	(12)							
Operating Result ($m)		0.1	(10.8)	11.3	12.1	13.8	9.8	4.4
Return on Assets (%)	(13)	0.4	(21.5)	19.1	18.7	20.1	13.8	6.5
Pre Tax Return on Net Assets	(14)	0.4	(25.8)	25.2	24.5	26.3	17.7	8.4
Return on Equity (%)	(15)	0.4	(25.8)	17.4	17.0	19.5	12.6	6.0
Gross External Debt ($m)		n/a	n/a	n/a	n/a	n/a	n/a	n/a
Debt to Equity Ratio (%)		n/a	n/a	n/a	n/a	n/a	n/a	n/a
Times Interest Earned		n/a	n/a	n/a	n/a	1.0	n/a	n/a
Financial Distribution ($m)								
Dividend Payment		n/a	n/a	3.4	4.0	6.2	2.9	1.5
Corporate Tax Equivalent		n/a	n/a	3.5	3.7	3.6	2.9	1.3
Payment of Capital from Equity		0.0	0.0	0.0	0.0	0.0	0.0	0.0

Notes:
n/a Not available
* 1994-95 figures are for Broken Hill Electricity
* * 2000-01 figures are for Electricity Operations only.

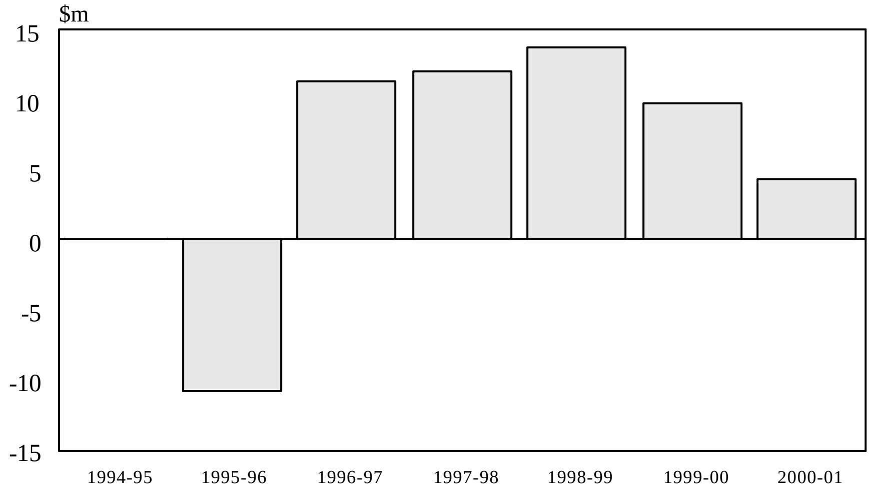
1. All dollar amounts reported in 2000-01 dollars.
2. Full time equivalent staff at 30 June.
3. GWh sold per average number of all employees.
4. Average number of customers per average number of all employees.
5. Operating costs including depreciation, excluding financing costs per MWh sold.
6. Operating costs including depreciation, excluding financing costs per average number of customers.
7. Energy purchased less energy sold divided by energy purchased.
8. Average lost hours per employee per year.
9. Number of lost time accidents per million hours worked.
10. Average minutes per customer per year without supply including planned and unplanned outages.
11. Assumes 1995-96 is the base year.
12. All financial indicators are consolidated. The results reflect the electricity supply and non supply energy services businesses.
13. Earnings before interest and taxation divided by total assets at 30 June 1998.
14. Operating profit before taxation dividend by net assets at 30 June 1998.
15. After tax profits divided by equity at 30 June 1998.

Financial Distribution

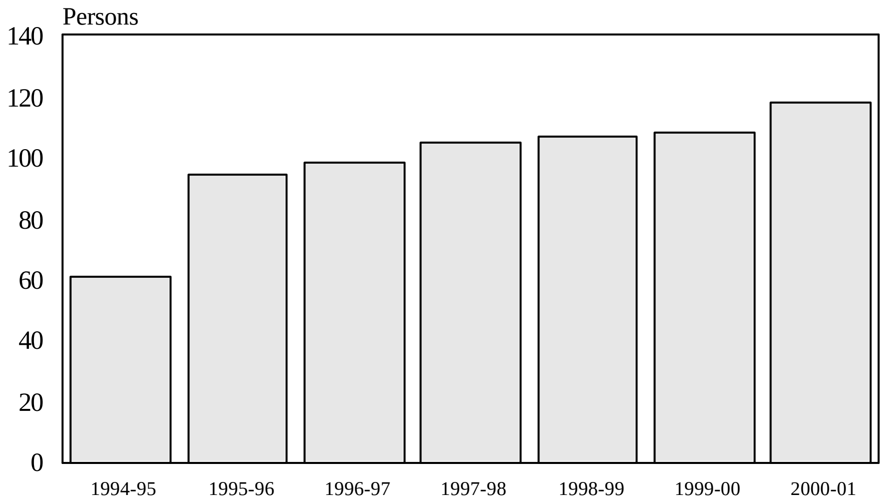
2000-01 Dollars



2000-01 Dollars



Employees



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DELTA ELECTRICITY

Delta Electricity operates a diversified portfolio of generation assets. The majority of Delta's generation capability derives from coal fired power stations located near Lithgow and on the Central Coast. Total generating capacity is 4,240MW. Delta also operates two mini-hydro generators and biomass co-firing activities. The organisation had another successful year achieving an increase in net profit before tax for the third successive year while at the same time positioning itself to meet future market and environmental challenges.

Financial Outcomes

Delta Electricity achieved a net profit before tax of $188.1 million in 2000-01, up 33.2% on 1999-00. This increased profit figure is attributable to higher prices in the electricity market as well as efficiency gains and improved plant performances that translated into increased generation levels. The increased profit resulted in a $96.7 million dividend to the shareholder. A capital restructure resulted in a $380 million return of equity to the shareholder financed by debt. This had a major impact on Delta's Debt to Equity (190.3%) and Return on Equity (34.6%) ratios for 2000/01.

Plant Reliability

During the year, there was a substantial decrease in the forced outage rate of plant due to a number of strategies. The resultant increase in availability enabled greater flexibility in operating the generation portfolio to maximise opportunities presented by the National Electricity Market (NEM). Vales Point, Mt Piper and Wallerawang power stations all surpassed expectations.

National Electricity Market (NEM)

The NEM continued its evolution during the year, providing both opportunities and challenges to all market participants. Of significance, the interconnector between Queensland and New South Wales was commissioned enabling a transfer of electricity between the two states, new generating capacity of 1,105MW was installed, summer demand reached new records, and annual energy growth averaged 3.2%.

Environment

Delta Electricity achieved full compliance with licence conditions during the year. The organisation's commitment to addressing environmental issues was evidenced with Delta taking a leading role in signing the Federal Government's Generator Efficiency Standard.

A component for improving Delta's environmental performance is the development of renewable energy alternatives that are commercially viable. During the year, Delta:

- progressed studies jointly with NSW Sugar Milling Co-operative, into the generation of renewable electricity using sugar cane fibre (bagasse) as the major fuel;
- commissioned a mini-hydro plant on Chichester Dam; and
- successfully trialed the co-firing of renewable biomass fuels at Wallerawang Power Station.

The Future

The longer-term success of Delta will be based upon investment in its people; strengthening customer relationships; and reliability, availability and cost competitiveness of both existing and new plant. Through its business planning processes, Delta has initiatives and strategies in place to ensure long term sustainability.

DELTA ELECTRICITY

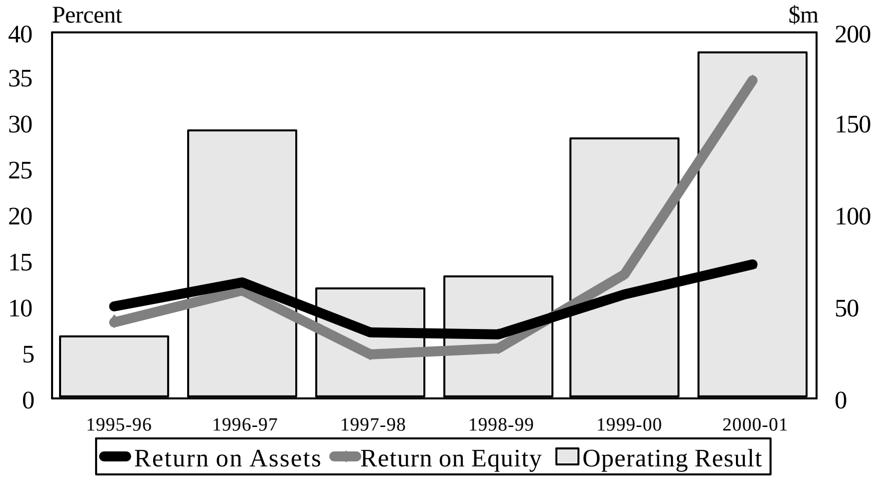
	(1)	1995-96*	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency							
Employment		1,248	1,091	1,032	822	792	782
Output per Employee (GWh)	*(2)*	13.6	17.3	18.6	24.3	25.9	27.1
Lost Time Injury Frequency Rate		n/a	15.9	14.6	5.7	11.8	7.0
Service							
Output (GWh)	*(2)*	16,917	18,839	19,224	20,006	20,484	21,163
Finances							
Operating result ($m)	*(3)*	32.9	145.4	59.9	66.0	141.2	188.1
Return on assets (%)	*(2)*	10.0	12.5	7.1	7.0	11.2	14.5
Return on equity (%)	*(2),(3)*	8.3	11.8	4.8	5.3	13.4	34.6
Gross external debt ($m)		745.4	578.3	465.9	457.7	373.3	730.9
Debt to Equity Ratio (%)		98.2	73.4	58.8	57.8	46.2	190.3
Times interest earned		2.5	3.9	2.3	2.7	4.9	6.1
Financial Distribution ($m)							
Dividend Payment (Cash)		0.0	110.6	97.7	29.5	34.7	96.7
Corporate Tax Equivalent (Cash)		2.6	90.9	6.1	0.0	0.0	17.2

Notes:
- * Operations for the 1995-96 financial year on commenced on 1 March 1996.
- (1) All dollar amounts reported in 2000-01 dollars
- (2) Annualised for the period 1 March 1996 to 30 June 1996.
- (3) Excludes Abnormal Items Years 2 and 5

DELTA ELECTRICITY

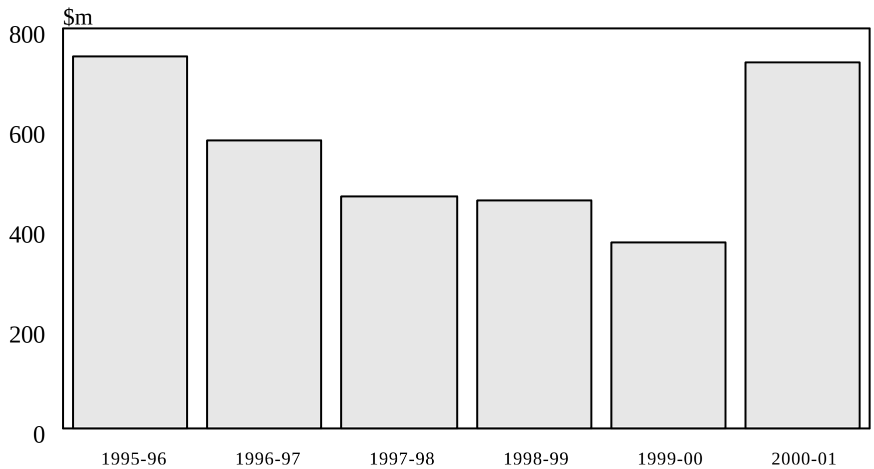
Financial Performance

2000-01 Dollars



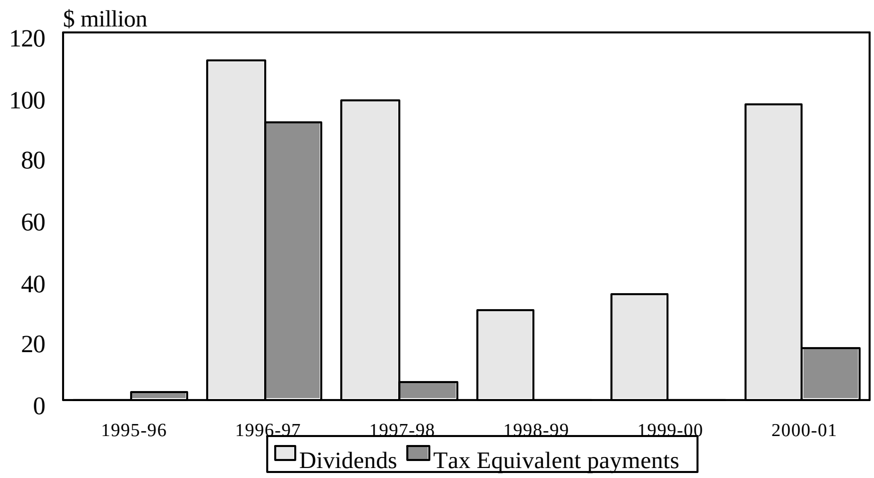
Gross External Debt

2000-01 Dollars



Financial Distributions

2000-01 Dollars



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ENERGYAUSTRALIA

EnergyAustralia is one of Australia's largest energy services companies. Its' vision is to maximise value for customers, the community and shareholders by becoming the leading Australian multi-utility company. Satisfying customers is EnergyAustralia's focus for the next stage of full retail contestability.

EnergyAustralia delivers safe, reliable electricity and gas services to over 1.4 million customers (or over 3 million people) and a range of other products and services both nationally and internationally. EnergyAustralia owns and operates the electricity distribution franchise network that covers one of the most diverse and complex customer bases in Australia. This franchise covers an area of some 22,275 square kilometres from the Royal National Park south of Sydney to Port Stephens in the north, west to the municipality of Auburn and northwest to the upper Hunter Valley. The franchise area includes the Sydney and Newcastle Central Business Districts and commercial operations such as mining, oil refining, shipping and aviation. In addition to its' franchise customer base, EnergyAustralia operates in the National Electricity Market and has contestable customers in New South Wales, Queensland, Victoria, South Australia and the Australian Capital Territory.

With revalued assets of over $5 billion and annual revenue in excess of $2 billion, EnergyAustralia ranks as one of Australia's largest 100 companies. EnergyAustralia achieved sound financial results for 2000-2001 including an Earnings Before Interest and Tax (EBIT) result of $321 million which was 5% higher than the financial target agreed with their shareholders.

EnergyAustralia's operating result in 2000-01 was $160.8 million, down from last year's result. EnergyAustralia's profit decline resulted from actuarial adjustments to employee costs, which increased by $34.5 million, along with higher interest and depreciation charges. The increased charges resulted from a higher valuation of assets and increased debt, following the shareholder's decision to restructure EnergyAustralia's equity.

Other key events and highlights during 2000-2001 included:

- EnergyAustralia being the official energy partner of the Sydney 2000 Olympics and Paralympics and its network management and operational support, including achieving 100% network reliability;
- Significant progress on developing and delivering the information systems to support full retail contestability. Full retail contestability is due to commence in January 2002 for electricity and July 2002 for gas. Large gas and electricity customers are already contestable;
- Entering the gas retail market and securing both supply and customers in NSW;
- Continuing growth in new areas, and innovating to gain market share whilst ensuring strategies remain consistent with market developments; and
- Retail and external businesses contributing significantly to the EBIT results. This was the 3rd successive year that the retail business exceeded its sales targets.

ENERGYAUSTRALIA

	(1)	1997-98	1998-99	1999-00	2000-01
Efficiency					
Employment	*(2)*	3,017	3,089	3,282	3,384
Output (GWh) per employee	*(3)*	7.3	7.5	7.4	7.5
Customers per employee	*(4)*	453	448	428	422
Operating cost per unit sold ($/MWh)	*(5)*	28.4	28.4	27.1	24.6
Operating cost per customer ($)	*(6)*	412	425	423	455
System loss index (%)	*(7)*	5.0	5.0	4.5	4.5
Days sick leave per employee		6.7	5.8	6.0	6.8
Lost time injury frequency rate	*(8)*	10.2	8.0	6.4	8.2
Service					
Output delivered (GWh)		22,067	23,064	24,364	25,276
Supply reliability (minutes off supply)	*(9)*	101.0	97.0	87.0	101.0
Real price index	*(10)*	73.9	72.4	71.0	65.1
Customer satisfaction index	*(11)*				
domestic		97.0	97.0	97.0	97.0
business		89.0	92.0	87.0	87.0
Finances					
Operating result ($m)	*(12)*	388.0	282.9	337.7	160.8
Return on assets (%)	*(13)*	12.4	10.9	11.3	7.2
Return on equity (%)	*(13)*	14.7	11.2	18.6	8.4
Gross external debt ($m)	*(14)*	1,433.0	1,409.6	1,110.5	2,166.9
Debt to equity ratio (%)	*(13)*	82.6	79.7	59.5	110.7
Times interest earned		3.4	3.7	5.3	2.3
Social programs ($m)	*(15)*	28.5	31.0	28.0	26.1
Financial distribution ($m)					
corporate tax equivalent		81.4	94.8	68.8	43.3
dividend payment		196.6	150.9	195.8	92.8
capital repayment	*(16)*	0.0	0.0	0.0	1130.0
Net cash from sales of PPE ($m)	*(17)*	35.0	6.5	10.6	12.0

Notes:

* EnergyAustralia was formed from a merger of Sydney Electricity and Orion. Figures for these entities are available in earlier publications.

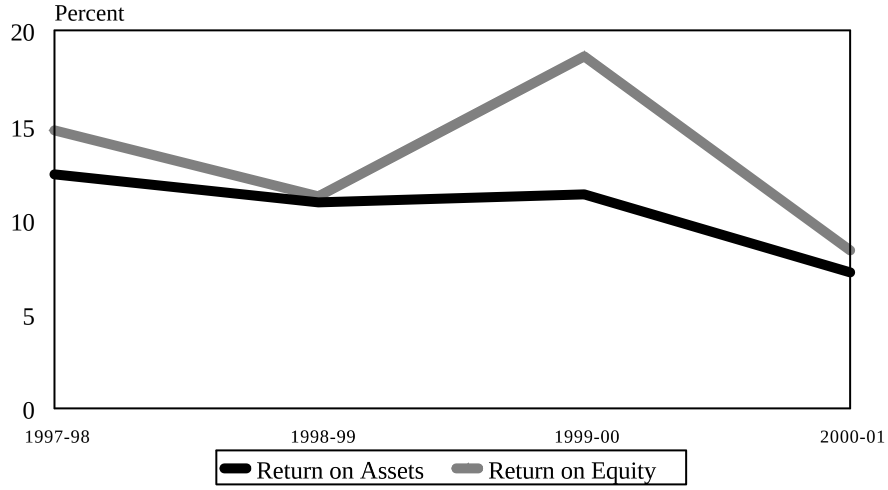
n/a Not available

The productivity measures may be distorted by the various businesses of EnergyAustralia.

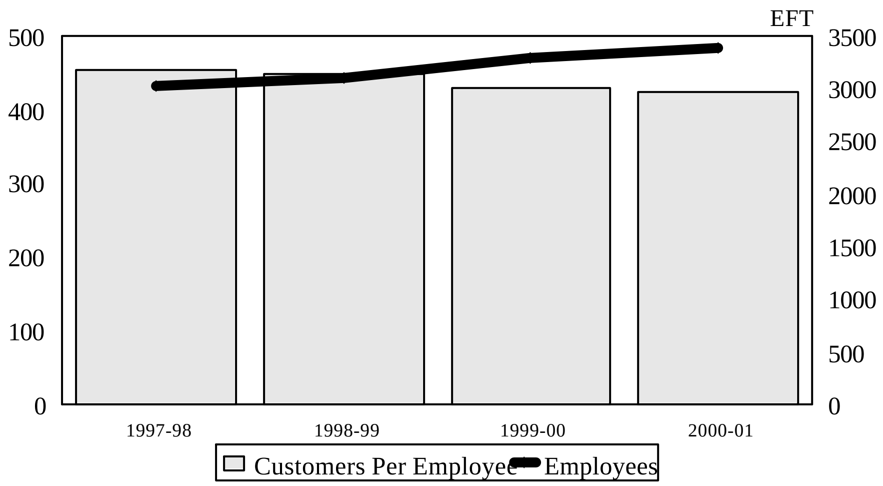
1. All dollar amounts reported in 2000-01 dollars.
2. Full time equivalent (FTE) staff at end of financial year (FY).
3. GWh measured as bulk supply points less distribution losses divided by the FTEs at FY end.
4. Number of franchise customers divided by FTE's at FY end.
5. Total Operating Costs (including depreciation, excluding interest) divided by megawatt hours (MWh) delivered.
6. Total Operating Costs (including depreciation, excluding interest) divided by franchise customers at FY end.
7. Estimate
8. Number of new Lost Time Injuries per million hours worked.
9. Standard SAIDI figure (average minutes without supply per year per network customer). includes planned and unplanned outages. It excludes Major Natural Events ie storms, momentary and interruptions caused by TransGrid, directed load shedding and momentary events from system operations.
10. Based on average price for all accounts.
11. Results from 1997/98 are based on the top 3 boxes of a 5 point scale and are not compareable with earlier surveys. This measure was changed to reflect the new industry structure and business needs.
12. Operating surplus calculated before dividends, Electricity Development Fund (EDF) contributions, tax equivalent payments and capital contributions, and social programs (excluding EDF contributions), and financial transfers.
13. Asset revaluation in 2000-01 may make comparisons between years misleading.
14. Includes loans, leases, EDF loans and long term creditors.
15. Includes Pensioner Rebates, Traffic Route Lighting Subsidies.
16. The 2000-01 figure represents an equity restructuring payment made to NSW Treasury on 14 July 2000.
17. Total proceeds from sales of fixed assets, ie Property, Plant and Equipment (PPE).

ENERGYAUSTRALIA

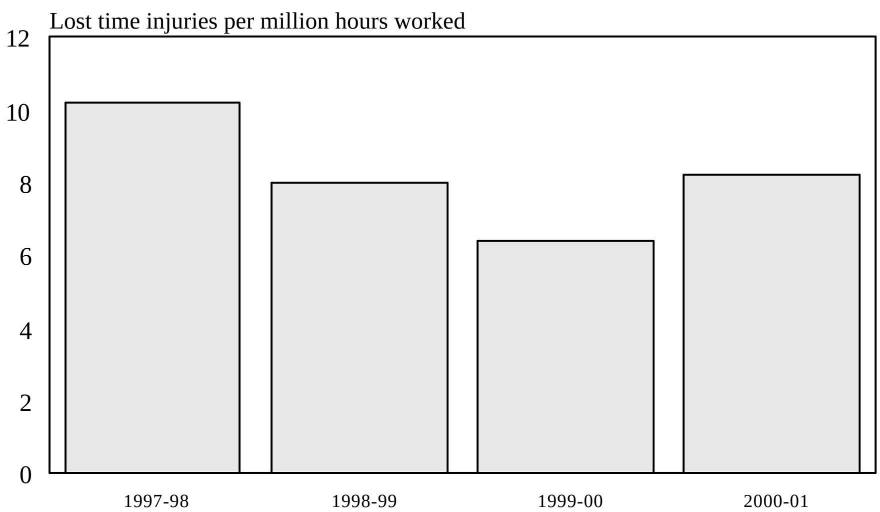
Financial Performance



Customers and Employees



Lost Time Injury Frequency Rate



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ERARING ENERGY

Eraring Energy was formed as a State Owned Corporation on 2 August 2000 following the restructure of Pacific Power and the transfer, by Ministerial Order, of the assets, rights and liabilities associated with Pacific Power's generation business.

Eraring Energy operates as a wholesale electricity trader in the National Electricity Market. Eraring Energy aims to extract the maximum value from its existing assets and to attain commercial success in the National Electricity Market.

The Eraring Energy Group comprised the following businesses during 2000-01:

- **Eraring Parent Entity** – produces and competitively trades electricity in the National Electricity Market from a portfolio of coal-fired, hydro, wind and gas generation; and
- **Pacific Western Pty Limited** – a wholly owned subsidiary company, providing operating and maintenance services to Western Power.

Financial Outcomes
The Eraring Energy Group performed strongly over 2000-01, achieving a consolidated net profit of $38.4 million. Shareholder distribution of $26.6 million exceeded expectations.

Plant Reliability and Safety
Eraring Energy's generation assets delivered high levels of availability, reliability and efficiency. In addition, the Eraring Power Station site maintained its 5-star safety rating over the year.

Fuel Supplies
Securing flexible arrangements with coal suppliers is a significant goal for Eraring Energy. Eraring Energy is presently pursuing such arrangements with coal suppliers.

Environment
Eraring Power Station utilises world class technology to minimise emissions, recycle wastes (e.g. ash and effluent) to reduce costs and provide environmental benefits. The environmental protection systems at hydro and gas turbine stations make those sites some of the best-protected facilities of their type in Australia.

In addition, Eraring Energy has the ability to supply renewable energy, as defined by the *Renewable Energy (Electricity) Act (Cth) 2000*. Eraring Energy is also considering the expansion of its renewable generation plant.

The Future
Eraring Energy aims to continue efficient production and competitive trading of electricity in the National Electricity Market from its portfolio of generation assets.

ERARING ENERGY

	(1) (2)	2000-01
Efficiency		
Employment		367
Output (GWh) per employee	*(3)*	38.1
Lost time injury frequency rate		7.9
Service		
Output (GWh)	*(3)*	14,245
Finances		
Operating result ($m)		38.4
Return on assets (%)	*(3)*	6.3
Return on equity (%)	*(3)*	4.3
Gross external debt ($m)		248.9
Debt to equity ratio (%)		28.0
Times interest earned		1.9
Financial distribution ($m)		
corporate tax equivalent	*(4)*	7.1
dividend payment		19.5
capital repayment		

Notes:

n/a Not available

(1) Eraring Energy was established on 2 August 2000

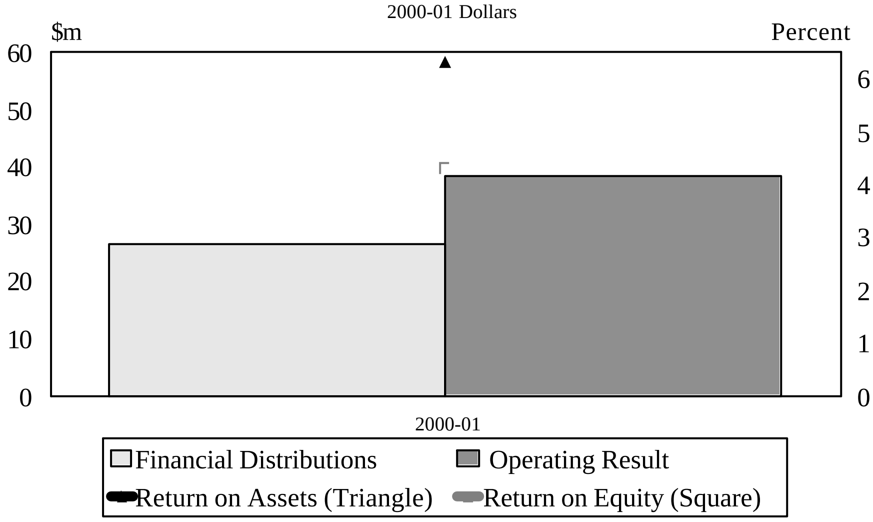
(2) All dollar amounts reported in 2000-01 terms

(3) Annualised

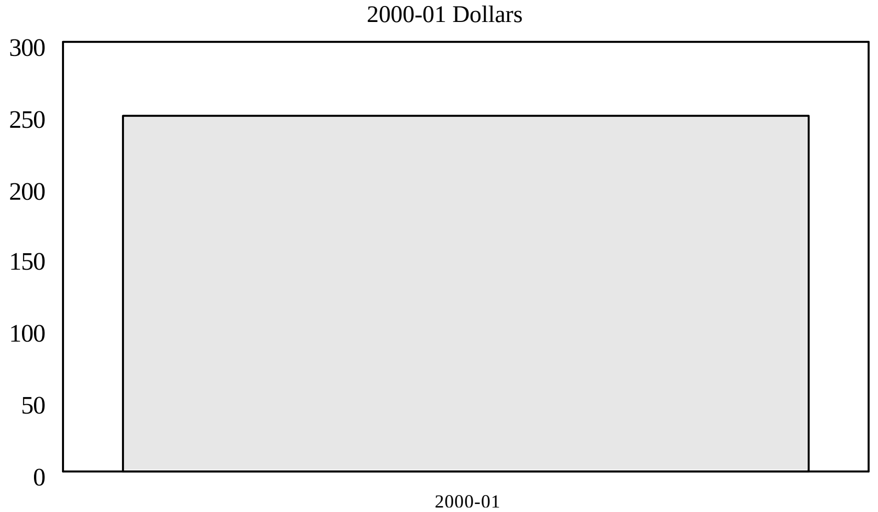
(4) Based on income tax payable

ERARING ENERGY

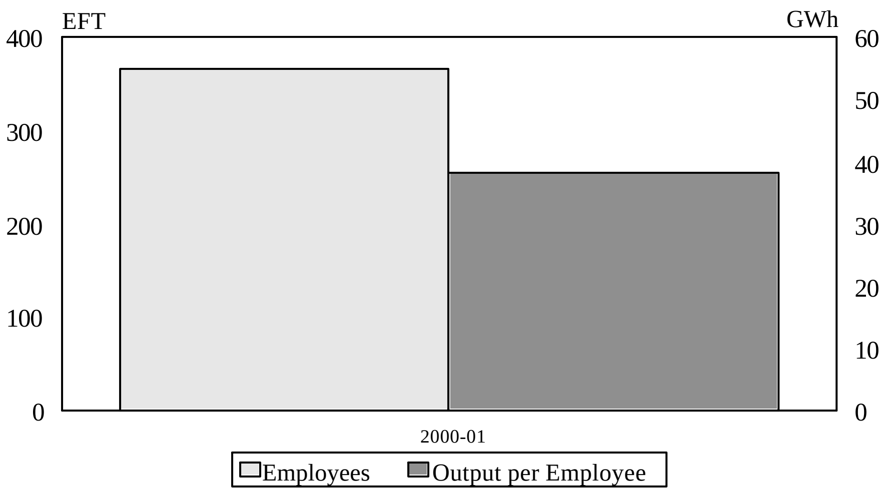
Financial Performance



Gross External Debt



Employment and Labour Efficiency



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GREAT SOUTHERN ENERGY

Great Southern Energy was established as a State Owned Corporation on 1 March 1996. It amalgamated nine distribution authorities throughout southern New South Wales. Great Southern Energy delivers electricity, gas and energy services to over 230,000 customers, covering an area of 175,840 square kilometres.

Great Southern Energy's structure consists of the following five divisions:
- Retail;
- Networks;
- Corporate Services;
- Corporate Development; and
- Holding Company.

Results for 2000-01 were substantially down as compared to previous years. Increased competition in the electricity market, increased operating costs and increases in long term debt and associated interest payments caused Great Southern Energy's earnings to decline sharply.

Despite this decrease in earnings, Great Southern Energy continued its policy of increasing capital expenditure programs over previous years. In particular the gas networks business continued on with numerous capital programs in the southeast of New South Wales.

Great Southern Energy's operating profit before tax and capital contributions for the year ending 30 June 2001 was $1.56 million (compared to $67.85 million in 1999-2000). Return on net operating assets was 1.7 per cent, down on the previous year's result of 16.2 per cent. The financial distribution to the NSW Government by Great Southern Energy for the year ending 30 June 2001 was $46.3 million (compared to $53.9 million in 1999-2000).

Great Southern Energy merged with NorthPower and Advance Energy on 1 July 2001 to form a new entity called Country Energy. Country Energy's distribution boundaries will cover over 70 per cent of New South Wales. The merger of the three distributors will enable Country Energy to be a competitive force in the deregulated electricity market.

GREAT SOUTHERN ENERGY

	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment	*(2)*	1070	901	776	720	717	706	733
Output per Employee (GWh)	*(3)*	2.6	3.5	4.1	4.9	5.0	5.5	5.9
Customers per Employee	*(4)*	174.4	243.6	304.2	309.4	315.7	323.4	322.4
Operating Cost Per Unit Sold ($/MWh)	*(5)*	26.6	22.1	18.6	19.4	17.6	20.8	24.2
Operating Cost Per Customer ($)	*(6)*	353.2	318.1	275.0	304.3	279.4	351.8	440.6
System Loss Index (%)	*(7)*	7.4	6.8	6.3	4.3	7.7	4.9	6.6
Average Lost Time	*(8)*	96.4	94.6	85.3	118.7	95.1	n/a	n/a
Lost Time Injury Frequency Rate	*(9)*	n/a	47.7	39.2	31.5	6.8	4.8	4.2
Service								
No. of Customers		188,949	219,512	223,303	226,218	226,828	230,102	231,966
Output (GWh)		3,177	3,159	3,380	3,505	3,600	3,900	4,222
Supply Reliability (Min)	*(10)*	194.1	186.0	134.6	188.9	214.0	221.0	232.0
Real Price Index	*(11)*	n/r	100.0	99.3	95.6	93.2	88.8	83.7
Customer Satisfaction Index	*(12)*							
Domestic		74.6	76.6	n/a	n/a	n/a	n/a	n/a
Business		73.6	73.5	n/a	n/a	n/a	n/a	n/a
Finances	*(13)*							
Operating Result ($m)		21.4	23.9	42.1	83.9	74.9	69.3	1.6
Return on Assets (%)	*(14)*	3.4	4.6	7.3	13.1	11.9	10.7	4.6
Pre Tax Return on Net Assets	*(15)*	3.8	6.0	9.5	20.4	18.1	16.2	1.7
Return on Equity (%)	*(16)*	3.8	5.2	10.3	10.7	11.4	9.7	-1.6
Gross External Debt ($m)		0.5	67.8	102.1	100.8	97.8	94.6	410.9
Debt to Equity Ratio (%)		0.2	17.2	25.0	24.5	23.7	22.1	446.1
Times Interest Earned		-	13.3	9.7	13.1	10.8	10.3	1.1
Financial Distribution ($m)								
Dividend Payment		0.0	0.0	10.5	27.9	43.4	38.6	37.0
Corporate Tax Equivalent		0.0	0.0	3.3	24.3	22.4	18.7	9.3
Payment of Capital from Equity		0.0	61.8	0.0	0.0	0.0	0.0	0.0

Notes:

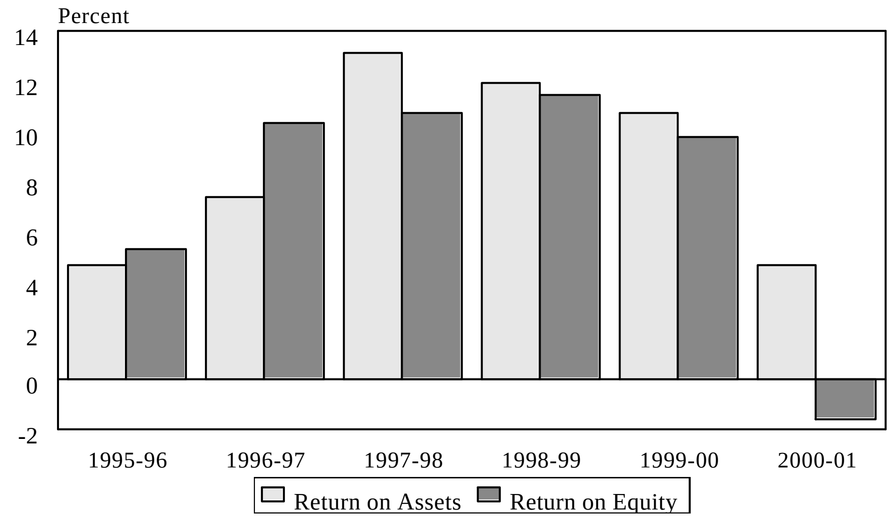
n/a Not available

n/r Not reported

The above financial data includes Gas operations - care should be taken when looking at the operating costs per MWh and per Customer as these figures will include Gas operating costs.

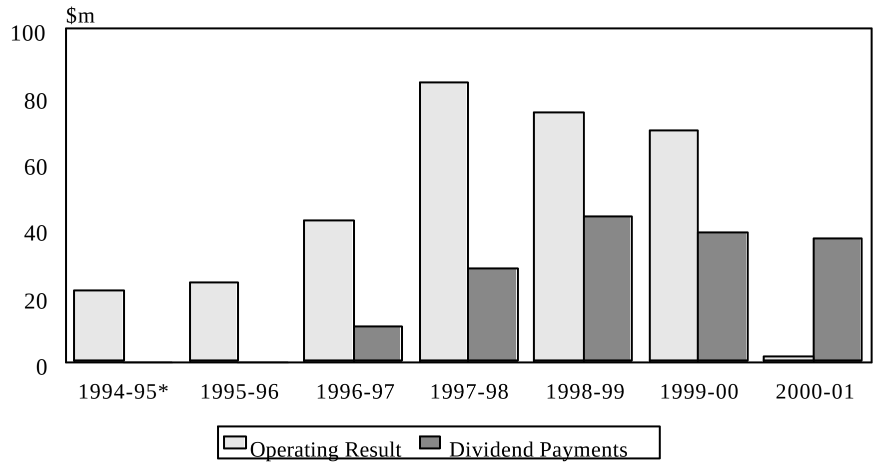
1. All dollar amounts reported in 2000-01 dollars.
2. Full time equivalent staff at 30 June.
3. GWh sold per average number of all employees.
4. Average number of electricity customers per average number of all employees.
5. Total operating costs (includes depreciation for 1998-99 only) and excluding financing costs per MWh sold.
6. Total operating costs excluding depreciation and financing costs per average number of customers. The methodology for calculating operating costs per customer was standardised for all distributors in 1998-99. Standardisation effected a change in the manner Great Southern Energy previously calculated its operating costs per customer. The result was an increase of $103 from 1997-98 to 1998-99, which is not reflective of what actually occurred.
7. Energy purchased less energy sold divided by energy purchased.
8. Average lost hours per employee per year.
9. Number of lost time accidents per million hours worked.
10. Average minutes per customer per year without supply including planned and unplanned outages.
11. Assumes 1995-96 is the base year.
12. Not Reported - internal committee has been established to review the issue.
13. All financial indicators are consolidated, reflecting both electricity supply and non supply energy services businesses.
14. Profit before tax, dividends, abnormals, capital contributions and interest expense divided by total assets at 30 June.
15. Profit before taxation, dividends, abnormals and capital contributions divided by total equity at 30 June.
16. Treasury SCI formula - Profit before taxation, dividends, abnormals and capital contributions divided by average net operating assets (less tax & dividend Prov. and loans) at 30 June.

Financial Performance



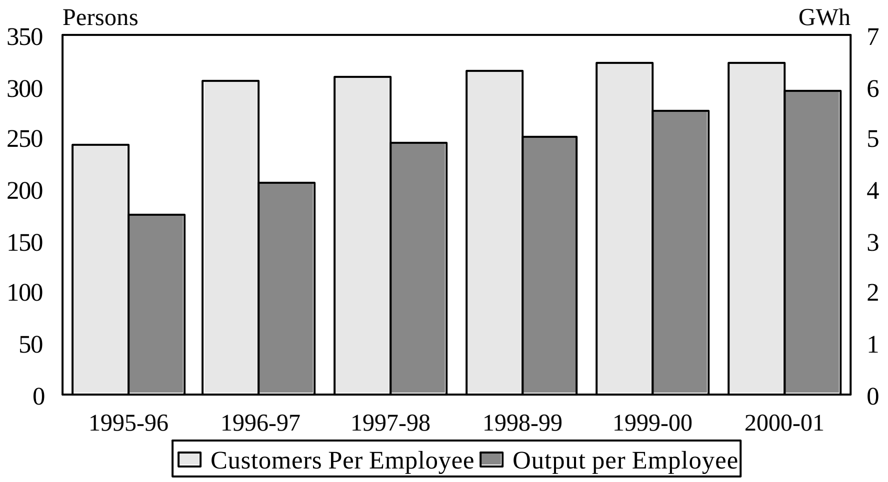
Operating Performance and Financial Distribution

2000-01 Dollars



* 1994-95 figures for Combined Operators

Customers and Labour Efficiency



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INTEGRAL ENERGY

Integral Energy supplies electricity to over 770,000 residential and business customers in the Illawarra, Western and South Western Sydney.

Integral Energy is a NSW State-owned corporation, incorporated under the *Energy Services Act 1995.* It operates with a targeted customer focus within the terms and conditions of the *Electricity Supply Act 1995*.

Integral Energy was formed on 1 October 1996. Its formation followed the merger of the former Prospect Electricity and the majority of Illawarra Electricity, as part of the NSW Government's reforms of the electricity industry.

The company produced a strong financial performance during 2000/2001, exceeding all of the financial performance outcomes to which it agreed in its Statement of Corporate Intent. Integral Energy recorded a net profit before tax of $104.2m in 2000/2001. This represents an increase of $22.3m or 27% from the previous year. Budgeted net profit before tax for the year was $22.7m.

The 2000-2001 financial year produced the following results for Integral Energy:

- presented a $69.3m distribution to its shareholder, the NSW Government;
- despite four major storms, performed strongly in the key area of reliability of supply;
- embarked on an ambitious program of capital investment in the supply network to further improve safety and reliability;
- completed a major organisational restructure in order to build sustainable commercial success for the organisation in a demanding market;
- finalised the organisation's business plan and strategies for 2001-2004;
- overcame serious customer billing problems through a broad-based recovery team;
- responded well to the demands of the first tranche of Full Retail Contestability in NSW, and prepared strongly for remaining tranches;
- maintained industry leadership with a reduction of 4.0m tonnes of greenhouse gas emissions;
- made a successful transition to the new Federal tax system and the introduction of the GST;
- helped deliver a trouble-free Olympic Games, with no power outage recorded at any site within our franchise area;
- simplified the organisation's tariff structure by introducing a flat rate general supply tariff, removing the minimum consumption charge, and introducing a System Access Charge;
- centralised the finance operations to improve reporting to the Board and shareholder;
- centralised human resources functions to achieve a more consistent approach to recruitment, retention, recognition and reward strategies;
- reduced lost time accidents (LTAs) from 48 in 1999-2000 to 43 in 2000/2001;
- further developed the organisation's code of ethics as a guide to employee attitudes and behaviour; and,
- hosted the NSW Electricity Supply Industry's safety field days event at Penrith.

INTEGRAL ENERGY

	(1)	1994-95*	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment	(2)	3,127	2,294	2,157	2,039	1,845	1,668	1,765
Output per employee (gwh)	(3)	3.6	4.5	5.1	6.0	6.9	7.9	8.8
Customers per employee	(4)	222.6	263.9	325.2	349.1	385.3	422.0	443.4
Operating cost per unit sold ($/mwh)	(5)	30.9	28.4	27.6	25.0	23.8	25.3	25.6
Operating cost per customer ($)	(6)	297.6	480.2	435.1	428.3	433.0	463.5	507.5
System loss index (%)	(7)	5.6	5.0	6.6	4.6	5.6	5.5	5.0
Days sick leave per employee	(8)	6.2	6.3	6.1	4.2	4.4	5.0	6.1
Lost time injury frequency rate	(9)	81.5	20.8	9.7	12.2	13.1	14.2	12.8
Service								
Output (gwh)	(10)	12,163	12,092	11,410	12,579	13,346	13,896	15,100
Supply reliability (min)	(11)	400.0	132.0	100.0	139.4	137.7	123.7	136.3
Real price index (1989-90 Base Year)		88.3	83.7	80.4	75.1	73.6	64.6	56.1
Customer satisfaction index								
domestic	(12)	74.6	75.7	80.0	87.5	80.0	78.0	n/a
business	(13)	73.8	74.4	80.0	80.0	77.5	74.0	n/a
Finances								
Operating result ($m)	(14)	107.3	82.4	126.0	122.6	58.3	35.2	74.2
Return on net operating assets (%)	(15)	4.5	6.2	10.9	10.5	7.3	5.8	7.6
Return on equity (%)	(16)	4.1	5.8	11.8	11.2	5.5	3.4	6.1
Gross external debt ($m)	(17)	296.5	831.2	780.5	753.6	762.5	744.8	908.3
Debt to equity ratio (%)	(18)	11.9	94.0	101.3	96.7	102.4	91.4	78.3
Times interest earned	(19)	19.6	4.2	2.8	2.8	2.1	1.5	2.0
Social programs ($m)	(20)	17.1	14.6	14.1	14.3	14.2	14.2	14.2
Financial distribution ($m)								
corporate tax equivalent	(21)	32.7	0.0	0.0	15.8	0.0	0.0	16.5
dividend payment		30.1	31.0	106.3	101.8	49.9	31.6	52.8
payment of capital from equity	(22)	0.0	570.5	38.9	0.0	0.0	0.0	200.0
Asset sales ($m)	(23)	13.9	20.3	18.2	26.7	22.3	21.3	15.9

* Figures for 1994-95 drawn from combined operations of Illawarra and Prospect

Notes:

N/a Nort Available

(1) All dollar amounts are reported in 2000-01 dollars

(2) Full time equivalent staff as at 30 June.

(3) GWh sold per average number of electricity employees. Average staff numbers calculated by taking current and prior year fulltime equivalents and dividing by two. 1996/97 and 1997/98 have been restated to be consistent with this definition.

(4) Average customers per average No. of electricity employees.

(5) Operating expenditure including depreciation, but excluding interest, divided by number of units sold. All Prospect figures have been restated on the basis of this formula. All Integral Energy figures have been restated, except for 1995/96.

(6) Operating expenditure including depreciation but excluding interest, per average number of customers. All figures have been restated on the basis of this formula.

(7) Energy purchased less energy sold divided by energy purchased.

(8) Total sick leave days per average no. of electricity employees

(9) Number of lost time accidents per million hours worked.

(10) Electricity Sales (GWh) and excludes accruals and off peak bulk transfers. Output for 1997/98 slightly adjusted.

(11) Average minutes per customer per year without supply including planned and unplanned outages

(12) & (13) From 1997/98, figures are based on a new customer satisfaction study specifically commissioned to meet Integral Energy's business needs. The research in 1998/99 was conducted by AC Nielsen with results presented in December 1998. The study provides a score out of 100 to indicate the positive perception of customers to the service provided by distributors. Results prior to 1997/98 are not comparable.

(14) Prior to 2000/01 the operating result was calculated before abnormals,capital contributions and income tax attributable to profit. Prospect results are restated on the basis of this formulae, as was the 95/96 Integral result. The Illawarra results are unchanged. In 2000/2001 the operating result was calculated before capital contributions and income tax. Abnormals are no longer applicable from 1 July 2000 due to changes in Australian Accounting Standards.

(15) Return on net operating assets is calculated by taking the operating result and adding back the net interest expense over average net operating assets. The net operating asset figure is total assets less investments, current payables, current deferred tax liabilities, current provisions and current other liabilities.

(16) Return on equity is calculated as operating result less interest income, over average equity. Equity is calculated by deducting interest bearing debt from net operating assets in (15) above. Asset revaluation in 2000-01 make comparisons of some financial ratios between years misleading.

(17) Gross external debt is equivalent to interest bearing debt made up of the net value of current and non-current loans and bank overdraft.

(18) Gross external debt/total equity (net assets).

(19) Times interest earned calculated by adding the net interest expense to the operating result above over the net interest expense.

(20) Based on reimbursement of CSOs.

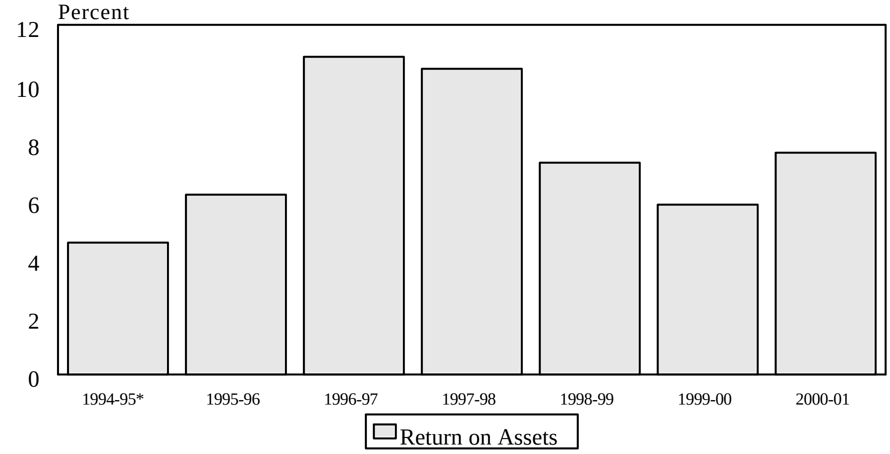
(21) Corporate tax equivalent based on income tax equivalents attributable to operating surplus prior to 1995/96. From 1995/96 onwards it has been based on the income tax payable (after taking in to account deferred income tax and future income tax benefits). As a result figures prior to 1995/96 are not comparable.

(22) Involves a special payment to the Government.

(23) Total proceeds from asset sales converted to 2000-01 dollars

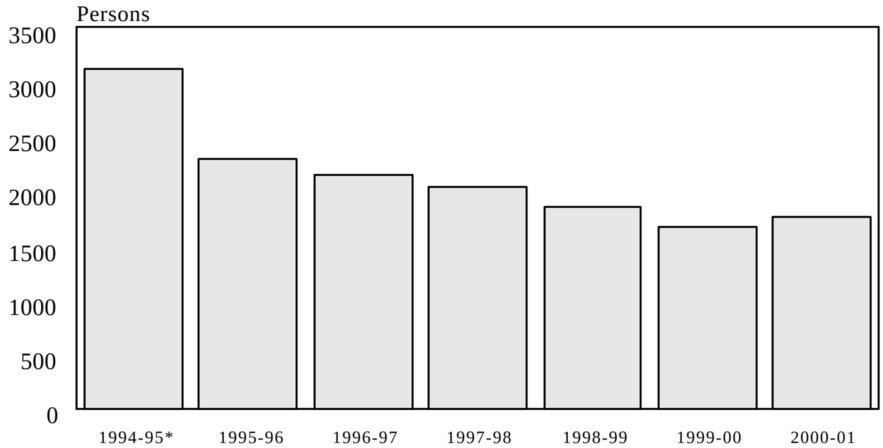
INTEGRAL ENERGY

Financial Performance



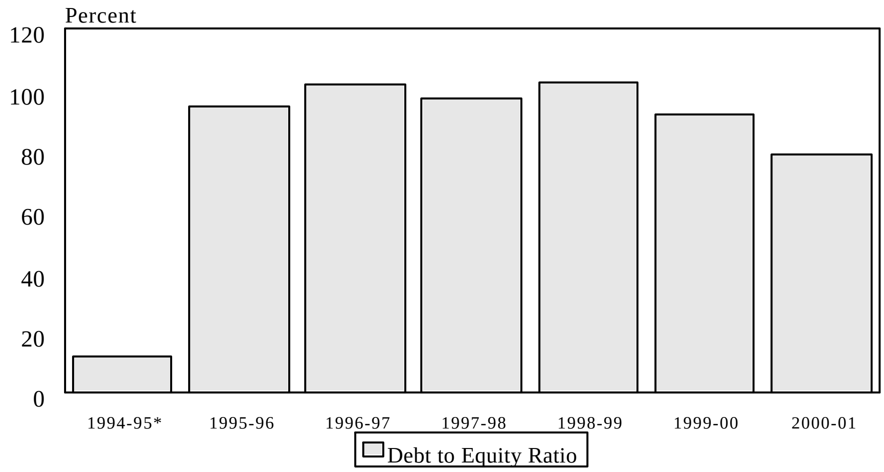
* 1994-95 average figure for Prospect and Illawarra

Employment



* 1994-95 average figure for Prospect and Illawarra

Capital Structure



* 1994-95 figure the average for Prospect and Illawarra

Macquarie Generation

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MACQUARIE GENERATION

Macquarie Generation owns and operates the Bayswater and Liddell power stations, near Muswellbrook in the Upper Hunter Valley. Coal is the primary fuel, obtained from plentiful high grade coal reserves of regional mines. The stations have a combined capacity of 4,640 MW, making Macquarie Generation the largest capacity electricity generator in the National Electricity Market.

Intense competition in the National Electricity Market has continued. The vesting contracts were terminated on 31 December 2000 and replaced with the arrangements under the Electricity Tariff Equalisation Fund. The Corporation's sales revenue in 2000-01 increased by 12 per cent to $809 million. The average net selling price for the Corporation rose by 5 per cent and sales volume increased by 5 per cent. The average NSW pool price increased by 33 per cent to $37.69/MWh due to the further maturity of the National Electricity Market. The Corporation's earnings before interest and tax (after abnormal items) increased by 52 per cent to $213 million.

The Bayswater and Liddell power stations continued to record high levels of efficiency, availability, reliability and safety during 2000-01. Improved efficiency levels were evident across the board: the EBIT to sales ratio improved by 40 per cent; production volume per employee improved by 6 per cent; and EBIT per employee improved by 54 per cent.

Net borrowing costs fell by 8 per cent to $69 million. Macquarie Generation's debt increased by $190 million in April 2001 as the result of a Capital Restructure Policy, undertaken by its shareholders. The Corporation repaid $68 million in debt during 2000-01 as part of an ongoing debt repayment program.

A total repayment of equity of $240 million was requested and made to the shareholders during the financial year as part of the Capital Restructure Policy.

Net profit before tax increased by a significant 120 per cent due to: increased average NSW pool prices of 33 per cent; increased sales volume of 5 per cent; increased total revenue of 8 per cent; a reduction in net borrowing costs of 8 per cent and; a reduction in other expenses from ordinary activities of 2 per cent.

The lower operating costs include a fall in fuel costs of 1 per cent.

Income tax expense included a credit adjustment of $6 million from the restatement of the deferred tax balances due to the reduction in corporate tax rates from 34 per cent to 30 per cent.

Macquarie Generation's operating profit after tax for 2000-01 was $103.6 million, a 75 per cent increase on 1999-00. Its after tax return on equity was 15 per cent, a 137 per cent increase on 2000-01.

Macquarie Generation has formulated strategic objectives, which recognise the evolving regulatory, social and technological factors impacting upon the industry. The Corporation's 2001-02 Business Plan once again reflects its pursuit of value-adding operating and growth strategies.

MACQUARIE GENERATION

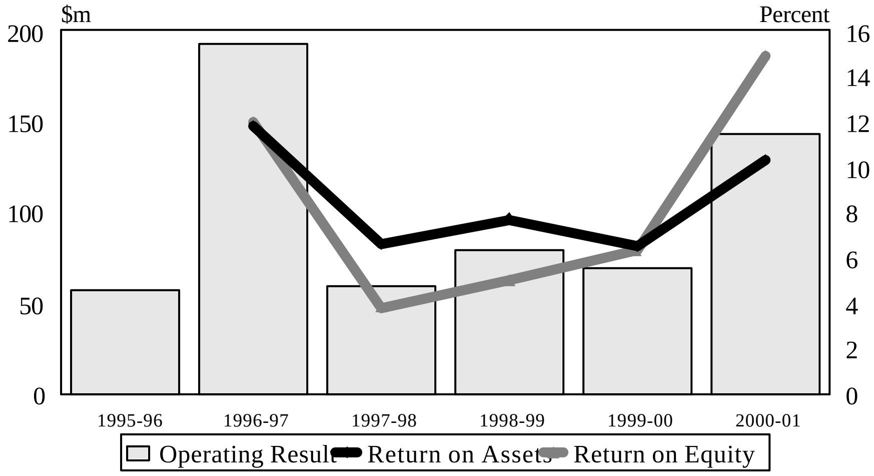
	(1), (2)	1995/96	1996/97	1997-98	1998-99	1999-00	2000-01
Efficiency							
Employment		826	799	688	630	624	612
Output per Employee (GWh)		n/a	27.2	30.4	34.0	37.4	39.5
Lost Time Injury Frequency Rate		n/a	12.4	10.1	4.6	13.4	6.5
Service							
Output (GWh)		n/a	23280	22738	22764	23447	24405
Finances							
Operating Result ($m)		56.8	192.4	59.5	79.5	69.1	143.2
Return on Assets (%)		n/a	11.8	6.6	7.7	6.5	10.3
Pre Tax return on net assets (%)		n/a	18.8	5.8	7.9	6.9	20.6
Return on Equity (%)		0.0	12.0	3.8	5.0	6.3	14.9
Gross External Debt ($m)		1602.0	1141.7	1136.0	1017.2	867.7	939.1
Debt to Equity ratio (%)	(3)	60.6	52.7	52.6	50.1	46.5	57.5
Times Interest earned		2.2	2.8	1.6	2.0	2.3	3.1
Financial Distribution ($m)							
Dividend payment		27.9	138.4	38.7	43.5	42.5	59.0
Corporate Tax equivalent	(4)	20.4	69.3	0.0	0.0	0.0	0.0
Payment of capital from equity		0.0	0.0	0.0	0.0	0.0	240.0

Notes:

n/a Not Available
(1) Macquarie Generation was established on 1 March 1996. Only four months data is applicable for the 1995/96 year return analysis ratios.
(2 All figures are reported in 2000-01 dollars.
(3) Refers to the ratio of debt to the sum of debt and equity.
(4) Based on income tax payable after taking into account deferred income tax and future income tax benefits.

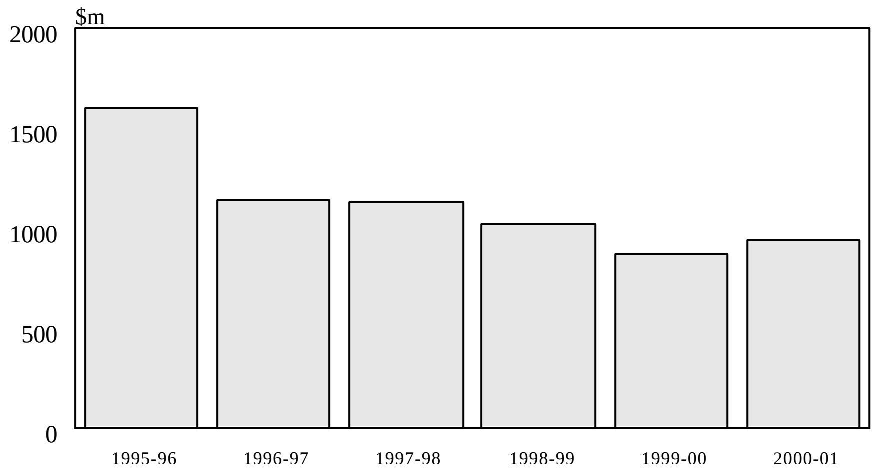
Financial Performance

2000-01 Dollars



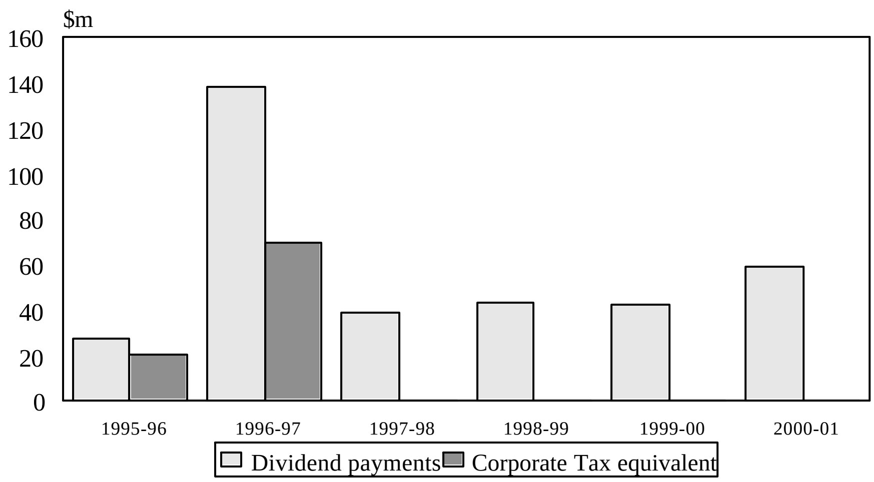
Gross External Debt

2000-01 Dollars



Financial Distributions

2000-01 Dollars



NorthPower
beyond energy

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NORTHPOWER

NorthPower was a State owned corporation constituted by the *Energy Services Corporation Act 1995.* Geographically, NorthPower was the largest NSW electricity distributor at 30 June 2001. It administered a network distribution area of 230,000 square kilometres across northern New South Wales.

NorthPower's core business was to provide energy services to 377,000 residential, commercial and industrial customers. In addition to its Northern New South Wales franchise customer base, NorthPower operated in the National Electricity Market and had contestable customers in New South Wales, Queensland, Victoria, South Australia and the Australian Capital Territory.

At 30 June 2001, NorthPower, including its subsidiary Emmlink, held assets totalling $1,212 million and had Operating Revenue for the 2000-01 year of $670 million.

The Operating Revenue included Electricity Sales of $618 million (up $11 million on the previous year). Of this revenue sales franchise electricity constituted 53%, contestable electricity 41%, network use of system changes and monopoly fees constituted 5% and Emmlink constituted 1%.

NorthPower had Earnings (before interest and tax) of $19 million for the year, a decline from last year's earnings of $56 million.

This result was impacted by a number of factors, primarily as a result of the formation of Country Energy. Impacts included a write-down of property, plant and equipment assets ($37 million), Country Energy establishment provision ($18 million) and provision for remedial works ($2 million).

The NorthPower Earnings result for the 2000-01 year, without the impact of the above factors, would have been $76 million, which was in line with budget expectations.

Key highlights for 2000-01 included:

- the attainment in July 2001 of a 5 Star Grading, the highest grading possible, from the National Safety Council of Australia for NorthPower's Occupational Health and Safety performance;
- the continued implementation across the various NorthPower regions of 'Rapid Response', which deployed trained technicians, equipped with leading edge mobile technology, to respond rapidly when energy supply problems occur;
- the performance of our staff in restoring the power supply and assisting the community during the major North Coast floods in the Richmond, Tweed and Clarence River systems with the Lismore and Kempsey Central Business Districts flooded and also flooding around Grafton – in total NorthPower covered 31 of 46 Local Government areas declared natural disaster zones; and
- the continued improvements to the NorthPower network through strategic capital works programs.

NorthPower merged with Advance Energy and Great Southern Energy to form Country Energy on 1 July 2001.

NORTHPOWER

	(1)	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency							
Employment	*(2)*	1,536	1,160	1,126	1,114	1,094	1,104
Output per Employee (GWh)	*(3)*	n/r	2.8	3.7	3.9	5.1	5.9
Customers per Employee	*(4)*	215.3	247.7	301.2	318.8	332.9	342.8
Operating Cost Per Unit Sold ($/MWh)	*(5)*	n/r	27.2	32.3	33.4	30.0	28.6
Operating Cost Per Customer ($)	*(6)*	n/r	0.3	0.4	0.4	0.5	0.5
System Loss Index (%)	*(7)*	n/r	1.9	1.9	1.9	1.9	1.9
Average Lost Time	*(8)*	11.9	12.1	5.3	19.8	12.4	11.2
Lost Time Injury Frequency Rate	*(9)*	115.0	47.0	3.5	7.2	4.1	9.5
Service							
No. of Customers		330,673	337,053	351,533	362,587	372,558	380,928
Output (GWh)		n/r	3,285	4,136	4,393	5,591	6,567
Supply Reliability (Min)	*(10)*	264	186	225	257	236	154
Real Price Index	*(11)*	n/r	100	99	94	87	86
Finances	*(12)*						
Operating Result ($m)		23.9	42.9	71.3	42.9	93.7	-19.4
Return on Assets (%)	*(13)*	5.8	7.7	9.0	4.4	4.6	1.6
Pre Tax Return on Net Assets	*(14)*	5.9	9.8	12.6	5.2	10.9	-4.2
Return on Equity (%)	*(15)*	5.9	5.7	6.9	2.7	11.2	-3.0
Gross External Debt ($m)		165.4	154.2	151.8	181.5	239.6	546.6
Debt to Equity Ratio (%)		40.9	35.1	26.9	22.2	27.8	117.4
Times Interest Earned		8.2	4.1	7.1	5.1	4.5	0.6
Financial Distribution ($m)							
Dividend Payment		7.1	19.9	64.2	37.0	33.7	12.0
Corporate Tax Equivalent		0.0	0.0	0.0	6.5	15.2	12.2
Payment of Capital from Equity		0.0	0.0	0.0	0.0	0.0	0.0

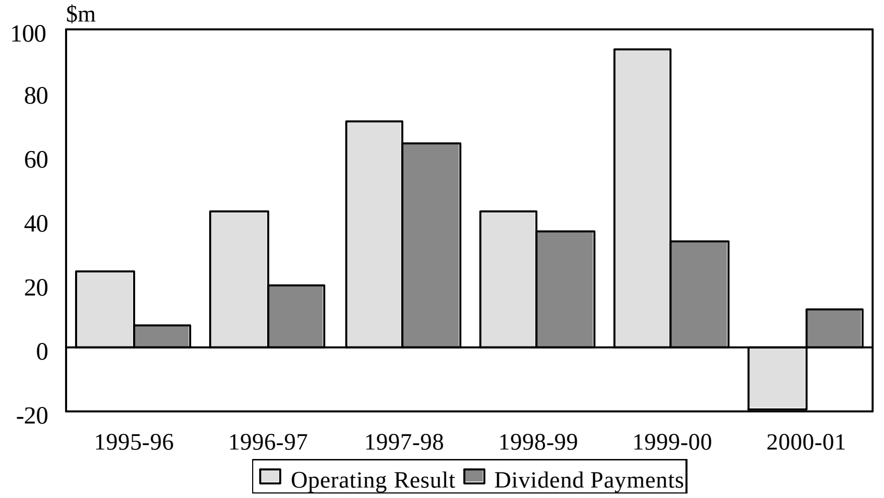
Notes:

n/r Not reported
n/a Not available
(1) All dollar amounts reported in 2000-01 dollars
(2) Full time equivalent staff at 30 June.
(3) GWh sold per average number of all employees.
(4) Average number of customers per average number of all employees.
(5) Operating costs including depreciation, excluding financing costs per MWh sold.
(6) Operating costs including depreciation, excluding financing costs per average number of customers.
(7) Energy purchased less energy sold divided by energy purchased.
(8) Average lost hours per employee per year.
(9) Number of lost time accidents per million hours worked.
(10) Average minutes per customer per year without supply including planned and unplanned outages.
(11) Assumes 1996-97 is the base year.
(12) All financial indicators are consolidated, including non-supply energy services businesses.
(13) Earnings before interest and taxation divided by total assets at 30 June.
(14) Operating profit before taxation dividend by net assets at 30 June.
(15) After tax profits divided by equity at 30 June.

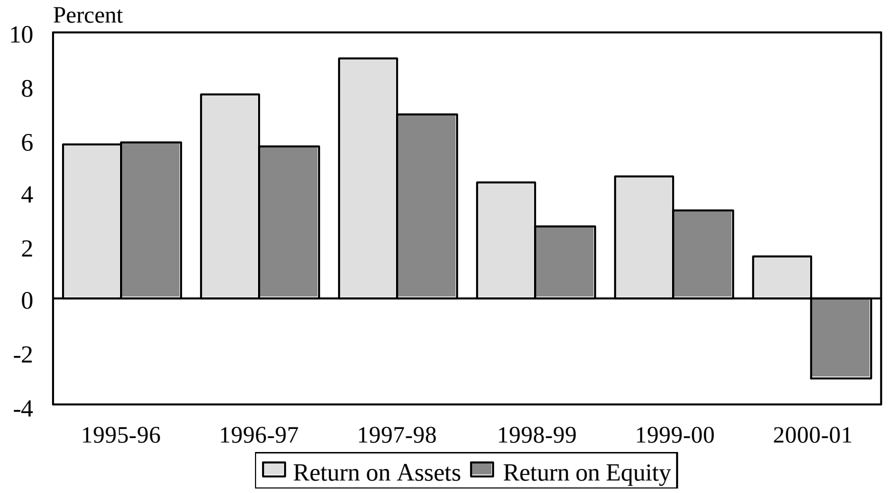
NORTHPOWER

Operating Performance and Financial Distributions

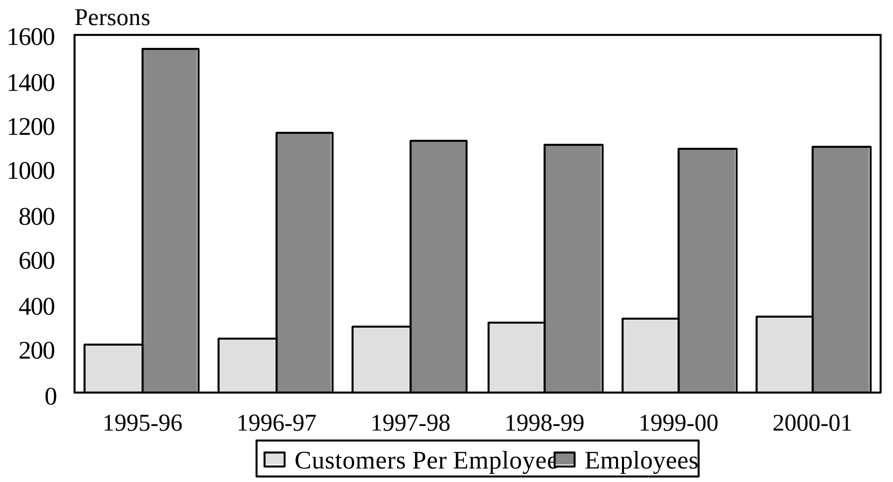
2000-01 Dollars



Financial Performance



Customers and Employment



PACIFIC POWER

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PACIFIC POWER

Pacific Power's generating assets, rights and liabilities were transferred to Eraring Energy, a State Owned Corporation, on 2 August 2000. The Government has announced its intention to further restructure Pacific Power and establish Pacific Power International and Powercoal as separate stand-alone businesses, with the intention being to privatise Powercoal.

Pacific Power Group consists of the following businesses:

- **Pacific Power International –** an engineering business that provides a complete range of solutions to the power generation industry. Pacific Power International's primary assets are the expertise and intellectual property that enable the business to provide solutions to its customers;
- **Powercoal** – produces and sells coal to the domestic and export markets; and
- **Pacific Solar -** researches, develops and commercialises photovoltaic solar cells.

The Pacific Power Entity (including Pacific Power International and Pacific Power Corporate) achieved an operating loss before tax and dividends of $15.9 million. This net result incorporated significant items ($74.9 million), including superannuation, long service leave and mark to market of debt transferred to Eraring Energy, associated with Pacific Power Corporate. Below budget performance was largely due to actuarial assessments for superannuation and long service leave. These were partially offset by a significant improvement in revenue contribution from the Snowy Mountains Hydro-Electric Authority and above budget assets sales.

The consolidated entity (including the Pacific Power Entity, Powercoal and Pacific Solar) made a net operating loss before tax of $35.1 million in 2000-01. The result included several one-off significant items ($84.2 million), including superannuation and long service leave following actuarial reviews, mark to market of debt transferred to Eraring Energy and the divesting of renewable projects.

Capital expenditure was $2.4 million. This was lower than expected and was largely due to the divesting of renewable projects (including Coal Bed Methane, Biomass and Hot Rocks) and reduced motor vehicle purchases.

Following the establishment of Pacific Power International and Powercoal as stand-alone businesses, Pacific Power will be wound up. This is planned to occur during the 2002-03 financial year.

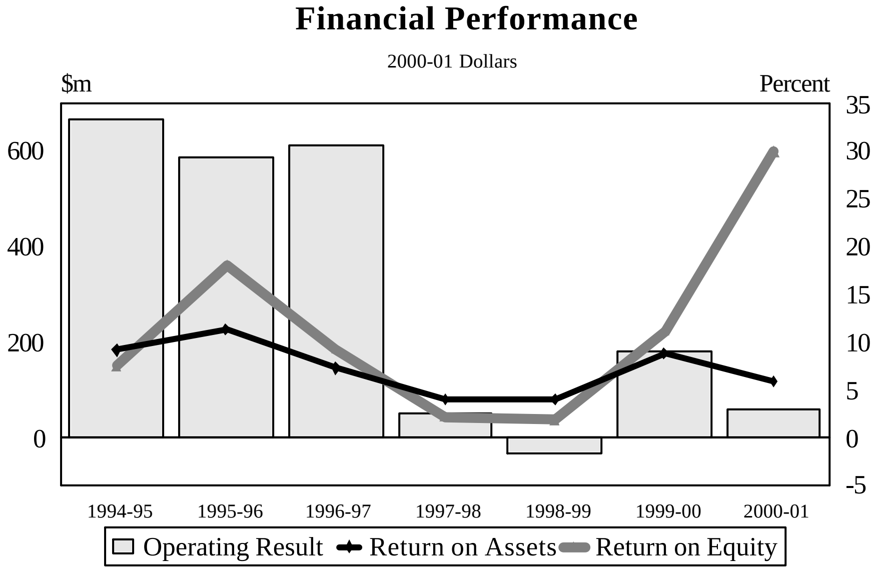
PACIFIC POWER

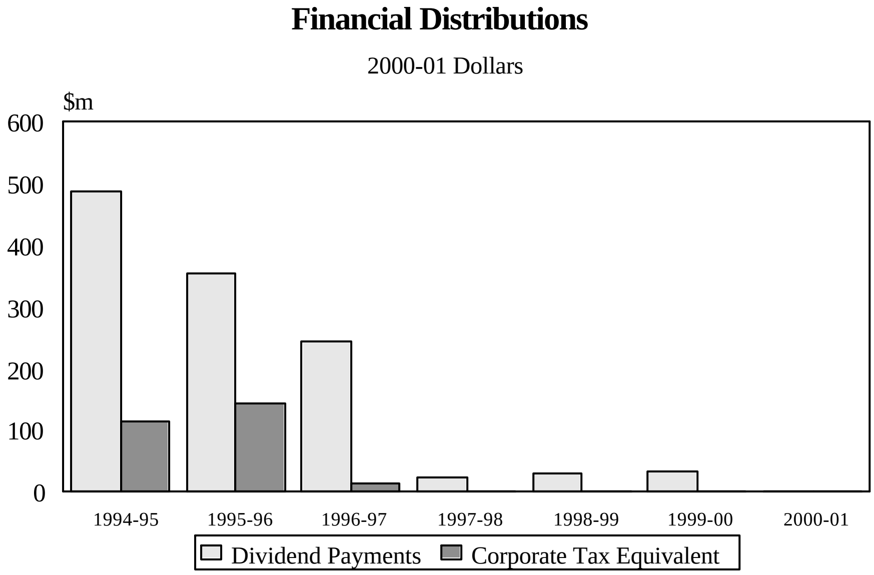
		1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment		4,316	1,432	1,381	1,299	1,079	960	479
Output per Employee (GWh)	*(1)*	11.91	9.21	9.17	9.62	12.39	14.25	n/a
Lost time Injury Frequentcy rate		10.58	5.36	1.81	6.91	8.77	4.70	8.00
Service								
Output (GWh)	*(1)*	51,422	13,187	12,667	12,498	13,369	13,683	n/a
Finances								
Operating result ($m)	*(2), (6),(10)*	664.2	586.0	610.9	48.4	-35.2	177.5	59.0
Net Assets ($m)	*(9),(11)*	4,740	1,001	1,147	1,152	1,081	1,089	198
Return on assets (%)	*(3), (7) ,(8)*	9.1	11.3	7.2	3.9	3.9	8.7	5.7
Pre Tax Return on Net Assets (%)		0.1	0.6	0.5	0.0	0.0	0.2	0.3
Return on operating assets (%)	*(3),(7),(8)*	9.3	14.7	10.1	5.0	4.8	11.3	9.0
Return on equity (%)	*(3),(7),(8)*	7.4	18.0	9.2	2.1	1.8	11.1	29.9
Asset sales ($m)		25.9	25.0	187.1	29.8	24.0	8.5	16.1
Gross external debt ($m)	*(9)*	2,744.2	593.0	750.9	788.0	720.3	614.2	-
Debt to equity (%)		55.0	59.2	65.5	68.4	66.6	56.4	0.0
Times interest earned	*(7) ,(8)*	2.6	3.2	2.3	1.4	1.3	2.8	8.3
Internal funding ratio (%)	*(4)*	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dividend payments ($m)	*(5)*	486.0	354.6	243.5	24.3	30.1	33.6	0.0
Corporate tax equivalent ($m)		116.0	143.5	14.7	0.0	0.0	0.0	0.0
Social programs ($m)		9.4	1.8	1.0	0.9	0.4	0.0	0.1
Payment of Capital from Equity		0.0	0.0	0.0	0.0	0.0	0.0	0.0

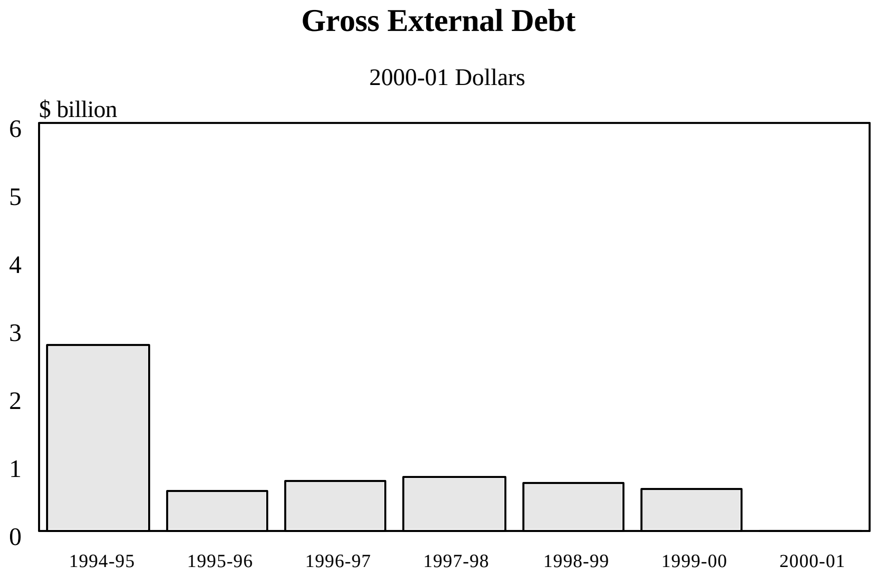
NOTES
All dollar amounts reported in 1998-99 prices.
Includes superannuation abnormal item and profit on sale of the Pacific Power Building.

(1) In 2000/01 Pacific Power ceased generation activities following the formation of Eraring Energy as a separate entity
(2) Operating surplus before dividends, corporate income tax payments, and extraordinary items and after abnormals and contributions & subsidies.
(3) An asset revaluation was undertaken in 1993-94.
(4) The proportion of funds for capital works internally sourced.
(5) Excludes tax equivalent payments.
(6) 1997/98, 1998/99 - Includes superannuation abnormal item.
(7) 1997/98, 1998/99 - Excludes superannuation abnormal item.
(8) 1999/00 - Excludes abnormal gain of $53,384,991.
(9) 1999/00 - Includes loans to and receivables from Subsidaries of $92.2 million .
2000/01 - No External Debt as Pacific Power did not finance on behalf of Powercoal
(10) 2000/01 - Excludes Superannuation ($42.1m), Long Service Leave ($5.3 m), Mark to Market of Debt transferred to Eraring Energy ($27.5 m) and Income Tax Expense ($53.0 m)
(11) 2000/01 - Net assets reduced due to assets transferred to Eraring Energy.
(12) In 2000/01 Pacific Power ceased generation activities following the formation of Eraring Energy as a separate entity

PACIFIC POWER







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TRANSGRID

TransGrid manages the State's high voltage electricity transmission network. Its prime objectives are to provide a safe, reliable, environmentally effective and economic bulk electricity network service to its customers and the community. One of its major achievements during the year was the completion of the Queensland Interconnector one year ahead of schedule.

TransGrid was established on 1 February 1995 under the *Electricity Transmission Authority Act 1994*. It was established as part of the restructure of the State's electricity supply industry, to promote greater competition. On 14 December 1998, TransGrid was corporatised under the *Energy Services Corporations Amendment (TransGrid Corporatisation) Act 1998*. TransGrid is responsible for:

- operating, and maintaining the State's high voltage transmission network;
- planning new transmission network investments; and
- coordinating the transmission of electricity between transmission networks.

TransGrid manages assets of $2.5 billion. As at the 30th June 2001, it had a debt of $1,284 million, 946 staff and an annual turnover of $365 million. TransGrid achieved a pre-tax profit from ongoing activities for 2000-01 of $91.4 million, equivalent to a rate of return on assets of 6.7 per cent. Debt levels and returns fluctuate around these levels depending on the organisation's position in its capital investment cycles.

A target rate of 2.1 per cent real reduction in TransGrid's controllable costs is set for the 2001-02 financial year. TransGrid achieved real controllable cost reductions of 9.4 per cent for the 2000-01 financial year. The cost reduction program to date has achieved real reductions in controllable costs approaching 50 per cent.

TransGrid has a significant network enhancement program in progress. During the year, supply in central western and south western NSW was reinforced by the construction of a 132kV/66kV/11kV substation at Molong and a 220/22kV substation at Balranald. Supply reinforcement to major areas of the State over the next five years includes:

- construction of a 330kV cable from Sydney South substation;
- construction of a new 330/132kV Indoor Substation within the Sydney Central Business District (CBD);
- construction of the Coffs Harbour-Kempsey 132 kV line; and
- reinforcement of the Armidale-Liddell transmission system in northern NSW.

TransGrid seeks to manage its existing business efficiently by adopting best practice operations and maintenance procedures, identified through participation in international benchmarking studies. TransGrid's future direction will be defined by:

- a strong commercial focus;
- the seeking of opportunities to develop partnerships with customers and suppliers; and
- the active development of its business in a number of new arenas, such as telecommunications, contestable network extensions, provision of consultative and training services, and participation in interstate and international engineering projects.

TRANSGRID

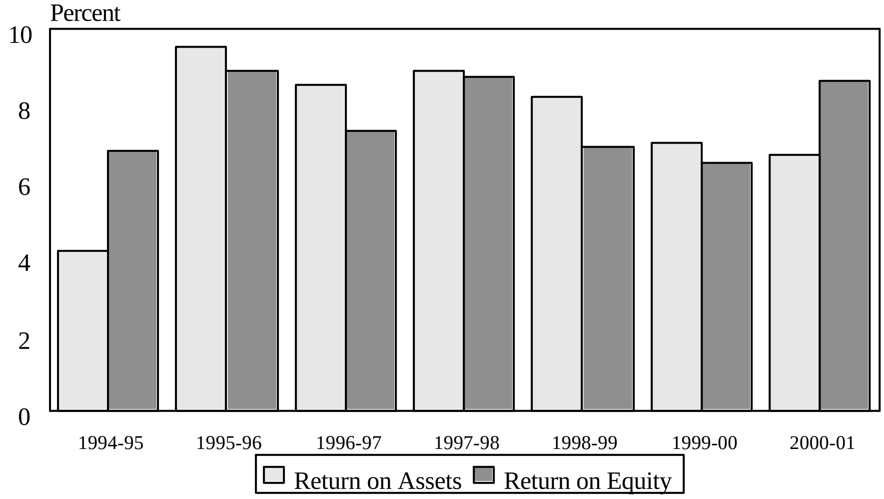
	(1)	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-00**	**2000-01**
Efficiency								
Employment		1,295	1,265	1,083	1,043	1,023	976	946
Average Lost Time		9.0	21.1	8.9	14.2	7.0	6.9	10.9
Lost Time Injury Frequency Rate		6.0	8.0	6.9	6.7	5.4	8.3	6.3
Service								
Supply Reliability (min)		4.36	0.56	1.59	1.21	0.97	4.23	0.67
Finances	*(2)*							
Profit From Ongoing Activities ($m)		32.3	107.6	86.7	105.9	95.5	92.5	91.4
Return on Assets (%)		4.2	9.5	8.5	8.9	8.2	7.0	6.7
Return on equity (%)		6.8	8.9	7.3	8.7	6.9	6.5	8.6
Gross external debt ($m)		1117.1	1002.7	943.8	871.5	830.1	885.5	1284.0
Debt to equity (%)		99.8	83.3	79.8	71.4	60.8	62.36	121.06
Times Interest Earned		1.8	1.9	1.7	2.0	2.0	2.2	2.2
Financial Distribution ($m)								
Dividend payment	*(3)*	19.3	67.2	60.8	54.8	58.8	58.0	0.0
Corporate Tax equivalent		8.1	24.3	12.8	23.9	21.9	20.0	15.2
Payment of Capital from Equity		0.0	0.0	0.0	0.0	0.0	0.0	260.0

Note:
N/a Note Available

(1) All figures are reported in 2000-01 dollars
(2) 1994-95 figures are annualised and based on 5 months of data.
(3) Dividend payout ratio excludes tax equivalents.

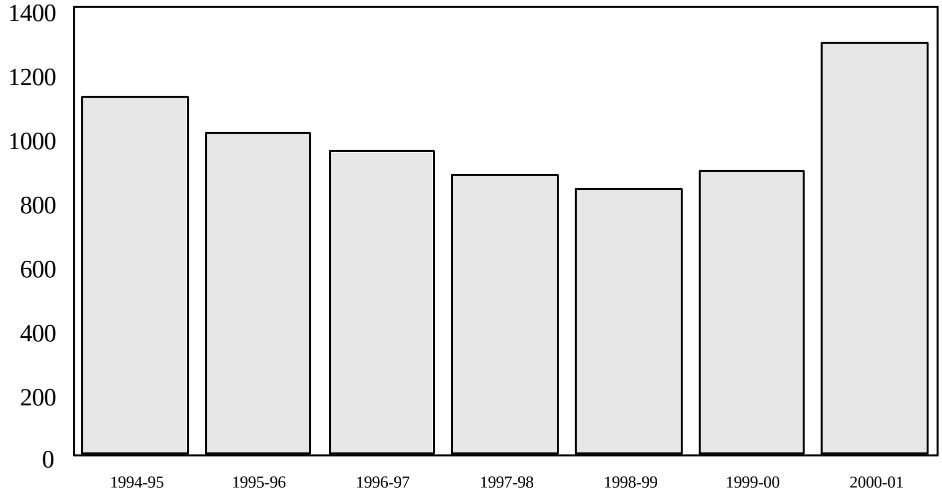
TRANSGRID

Financial Performance

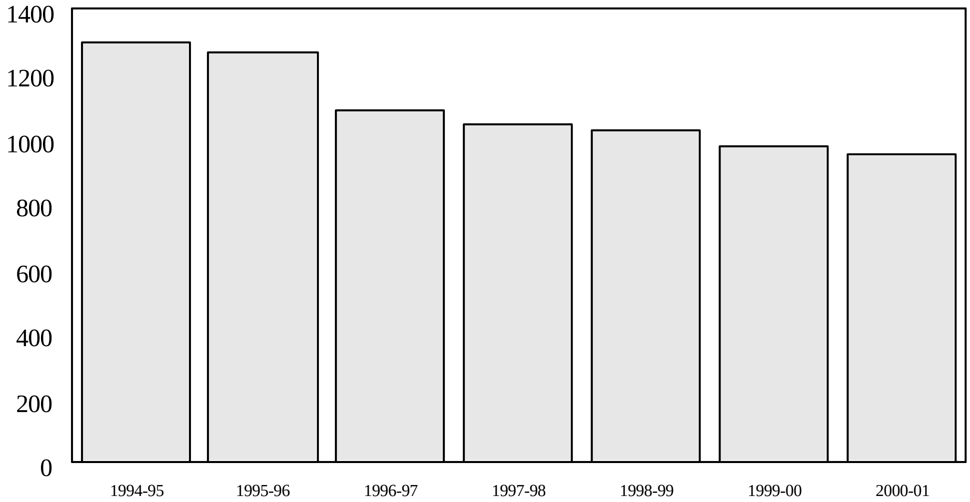


Gross External Debt

2000-01 Dollars



Employment



WATER

Hunter Water Corporation

Sydney Water Corporation

Australian Inland Energy and Water (see Electricity section)

Mr Kevin Young
Manager, Corporate Planning & Government Regulation
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HUNTER WATER CORPORATION

Hunter Water Corporation is the water and wastewater service provider to the Lower Hunter region. Its service area covers around 5,400 square kilometres and the Local Government areas of Maitland, Cessnock, Port Stephens, Lake Macquarie and Newcastle. The Corporation serves almost half a million people, occupying over 190,000 properties.

The major undertakings of Hunter Water Corporation (HWC) are the collection and delivery of water and the collection, transport, treatment and disposal of wastewater. Two key instruments set the framework for HWC's operations:

1. the Statement of Corporate Intent, which sets out HWC's corporate objectives; and
2. the regulatory framework, by which the Government regulates HWC to protect consumers and the environment. It includes:
   - an Operating Licence which specifies required service standards;
   - wastewater system licences (transport and treatment) issued by the Environment Protection Authority under the *Protection of the Environment (Operations) Act 1997.*
   - a Water Management Licence issued by DLWC, specifying the terms and conditions under which the Corporation has access to raw water;
   - independent annual auditing of performance against the Operating Licence; and
   - independent prices oversight by IPART.

HWC has pursued reform since the early 1980s. In 1982, 'user pays' pricing was introduced. Since then, cross-subsidies have been progressively eliminated. HWC's pricing structure has two components: a fixed charge that reflects service availability and a usage charge calculated on the amount of water used. In 2000-01 a typical householder's bill fell by around $5 in real terms. Over the last decade, water and sewer charges per customer have fallen in real terms by around 30 per cent while performance against key customer system standards (e.g. water quality, sewer overflows) has been either maintained or improved.

Improved price performance has been made possible by HWC's continued pursuit of operational and capital cost savings. The emphasis on usage-based charging is continuing, with two effects:

1. the maintenance of a strong price signal. This has enabled HWC to achieve a sustained reduction in water consumption over the past 19 years; and
2. the reduction in fixed charges and emphasis on usage charges has meant small businesses have greater scope for controlling the costs they incur. HWC's price reforms have boosted the region's economy by reducing charges to the business sector.

In 2000-01, HWC's operating result declined from $43 million to $30 million. This was primarily the result of abnormal increases in superannuation liabilities, but also included insurance claims that would previously have been covered by HIH Ltd. The abnormal superannuation expense represented the change in HWC's estimated liability with respect to defined benefit superannuation funds. In recognising HWC's changed liability, $11.6 million was included as income in 1999-2000, whilst an expense of $1.6 million was included in 2000-01, representing a turnaround of $13.2 million.

In 2000, IPART published a 3-year pricing determination, in force until 2002-03. The determination provided for real reductions of 1.5 per cent per year over 3 years and introduced a new cost-reflective water price for large industrial customers (using over 50,000kl/yr). The new price (effective from 1 July 2001) passes on the savings from the ability to supply these customers with large volumes of water without using a large share of the distribution system.

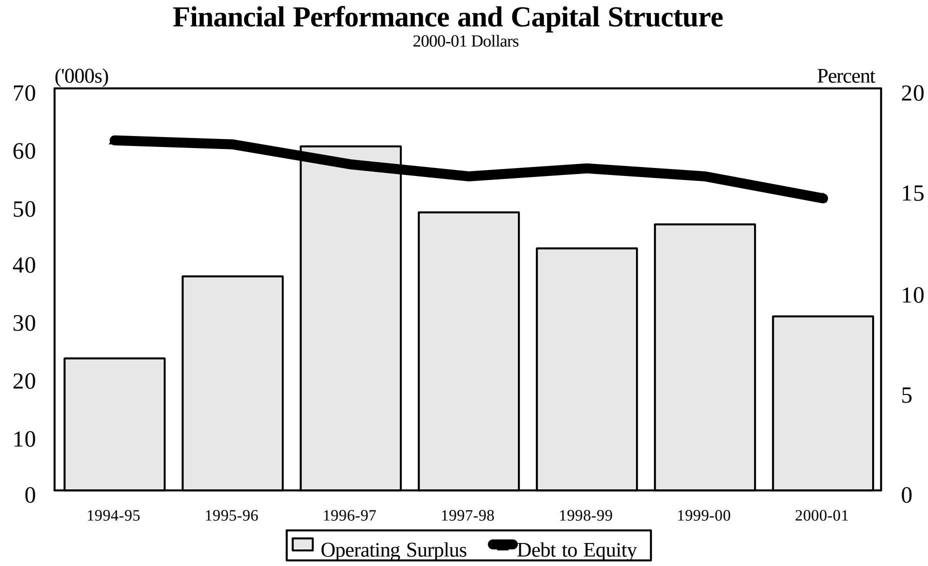
HUNTER WATER CORPORATION

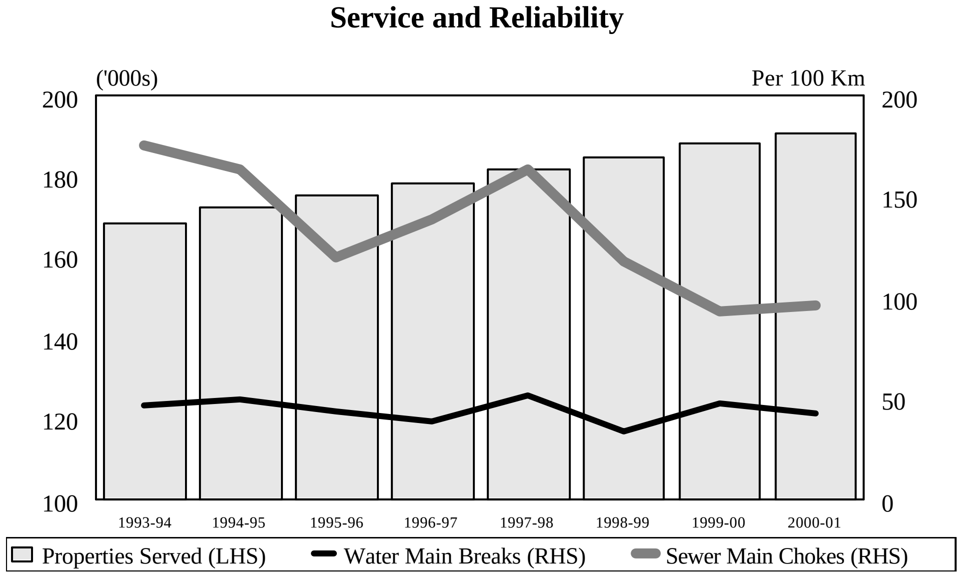
	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment	(5), (10)	767	715	620	554	545	541	533
Employees per thousand properties		4.5	4.1	3.5	3.1	2.9	2.9	2.8
Labour cost per property ($)		230.6	215.5	188.0	179.8	163.6	158.1	143.7
Operating cost per property ($)	(2a)	401.6	369.0	381.5	327.1	308.0	303.9	287.7
Total cost per property ($)	(2b)	759.0	615.8	618.3	553.1	520.3	512.2	480.7
Average revenue per property ($)	(13)	763.5	704.8	712.7	727.4	676.3	636.6	604.9
Outstanding accounts ($m)		1.5	1.8	2.4	2.2	3.0	2.3	2.2
Hours lost to industrial disputes per employee		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lost time frequency rate	(3)	18.2	18.3	23.7	16.8	11.6	12.9	16.0
Service								
Properties served (000)	(4)	172.3	175.6	178.5	181.6	184.8	188.2	190.7
New housing lots served		3,986	3,374	2,900	3,115	3,185	3,390	2,565
Megalitres supplied (000)		73.9	74.9	74.2	80.6	76.0	76.6	76.5
Unsewered lots (000)		17.4	15.6	14.3	14.0	14.3	13.9	13.3
System reliability:								
Water main breaks per 100 km		49.5	44.3	39.3	52.0	34.4	48.0	42.8
Sewer main chokes per 100 km		164.0	120.5	139.0	163.3	118.2	93.0	96.3
Average response time:								
- water main breaks (hrs)	(6)	n/a	1.4	1.2	1.4	1.4	1.2	1.4
- sewer main chokes (hrs)	(6)	1.3	1.4	1.2	1.0	1.2	1.1	1.2
Compliance with standards								
1) water quality								
- microbiological (%)		96.9	97.9	98.7	98.7	98.4	99.2	98.6
- physical / chemical (%)		97.7	99.5	99.8	99.0	99.5	99.6	99.5
2) waste water quality (%)	(7)	98.0	100.0	100.0	100.0	100.0	100.0	99.8
Real price index	(8)	79.5	70.7	68.3	66.9	65.6	64.3	63.3
Finances								
Operating result ($m)	(9)	23.0	37.1	60.0	48.4	42.1	46.3	30.2
Dividend payments ($m)		20.5	33.2	39.3	43.1	48.9	29.7	30.0
Asset sales ($m)		6.6	5.5	4.3	4.0	1.4	3.7	1.2
Return on assets:								
- total (revalued) (%)	(11)	3.5	3.1	4.0	3.5	3.1	3.6	2.8
- core (revalued) (%)	(12)	3.6	3.2	4.4	3.9	3.3	3.7	3.1
Return on equity (%)		12.8	23.1	10.3	8.2	7.4	8.1	5.7
Gross external debt ($m)		100.3	96.5	94.7	92.9	91.4	88.9	83.7
Debt to equity (%)		17.4	17.2	16.2	15.6	16.0	15.6	15.7
Times interest earned		2.8	6.0	8.6	7.3	6.5	7.6	5.5
Social programs ($m)		9.1	9.0	9.0	9.1	8.9	8.8	8.5

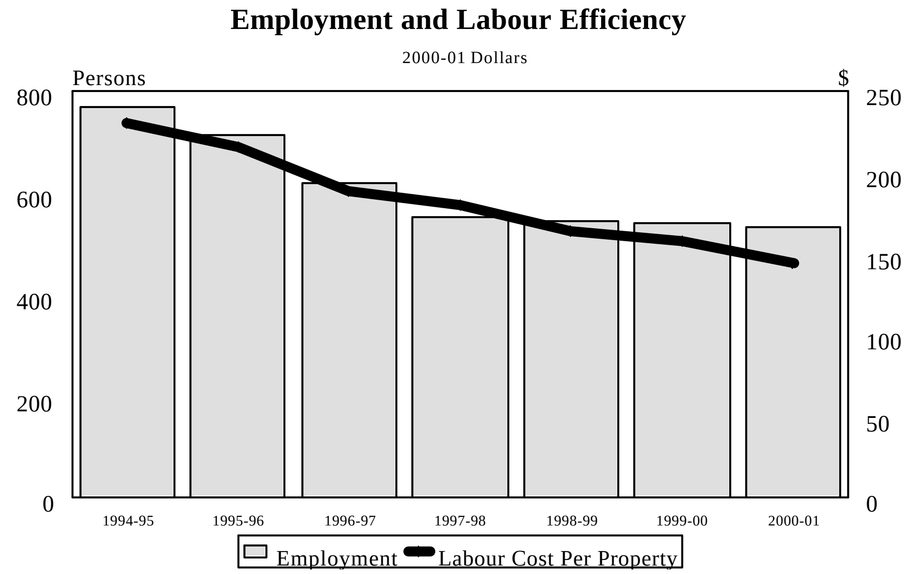
Notes

n/a Not available.
f Forecast
(1) All dollar amounts reported in 2000-01 dollars. All revenue forecasts are based on the recent IPART determination and an estimated CPI .
(2a) For 1997/98 onwards excludes 'cost of external sales' of Hunterwatertech following the sale of Hunter Water's wholly owned subsidiary in June 1997.
(2b) Annual depreciation charges reduced from 1995/96 following a reassessment of average remaining useful lives.
(3) (Lost time injuries x 1,000,000)/no. of hours worked.
(4) Properties connected figures exclude unconnected vacant lands.
(5) Projected figures not available. Employee numbers are Equivalent Full Time at 30 June.
(6) Response time to Category 1 jobs, excluding unconnected vacant lands.
(7) Proportion of waste receiving secondary treatment.
(8) Derived from information supplied for Government Charges Index. Excludes the special Environmental Levy which was reduced by 50% for 1996/97.
(9) The operating result for 2000/01 is lower than preious years due to a range of both operational and non-operational factors. It includes abnormal increases in provisions for superannuation liabilities, insurance claims that would previously have been covered by HIH and lower water sales. Consequently, the rate of return ratios show a similar decline. Includes abnormal income from unread meters of $10.748M in 1996/97.
(10) Employment numbers in 1996/97 and onwards do not include Hunterwatertech employees following its sale in June 1997.
(11) Operating result plus depreciation divided by total assets.
(12) Operating result plus depreciation divided by fixed assets.
(13) 1999/2000 revenue reflects the downsizing of BHP. (1996/97 revenue excludes abnormal unread meter income of $10.748m).

HUNTER WATER CORPORATION







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SYDNEY WATER CORPORATION

The year 2000-01 saw a continuation of Sydney Water's strong financial performance, with key targets met or exceeded. The solid results were achieved against a background of increased regulatory pressures, operating and financial ramifications of higher standards for drinking water and waste water and the drive to make Sydney Water a more efficient and more effective organisation.

Operating profit before capital contributions totalled $148.9 million and return on net operating assets increased to 2.4 per cent. This represents a considerable improvement on the previous year's result. Excluding the impacts of an adverse superannuation movement, as advised by the Superannuation Administration Corporation, all financial targets agreed with the shareholders were met and overall performance exceeded expectations.

Sydney Water strives to be a world class performance water service provider that enjoys the trust and support of the communities it serves and whose people take pride in their contribution to its success. During the 2000-01 year, Sydney Water focused on achieving its vision by becoming more innovative in all facets of its operations.

Progress has been made in the development of e-Business interactive options for customers, such as Quick Check, Property Link and B-pay.

The Olympic and Paralympic Games period presented a major challenge to Sydney Water. The Corporation had to service a population of over 4.7 million, expanded by 725,000 visitors during the two week Olympic Games period alone. The Corporation successfully met the challenge through the commitment and dedication of its workforce and positive relations with key stakeholders.

Water conservation and efficiency continued in 2000-01 through the Every Drop Counts program. By installing water saving devices and becoming more efficient in outdoor water use, households can achieve on average a 10 per cent saving in their water use.

Sydney Water introduced a Works and Asset Management System that records and monitors all emergency and planned works for improved delivery of the maintenance program to better protect public health, the environment and the drinking water system.

As well as enhanced maintenance of existing infrastructure, 2000-01 saw continued significant investment in new infrastructure. Over $430 million was invested in capital works projects during the year to cater for population growth and to meet customer expectations and community demands.

Two important regulatory changes occurred in 2000-01. First, under the *Protection of the Environment Operations Act 1997*, Sydney Water is now required to hold twenty-eight Environment Protection Licences for the sewerage system under its responsibility. The licences, issued by the Environment Protection Authority in 1999-2000, came into effect in 2000-01. Sydney Water has performed well in its first year licence reporting.

Second, IPART became Sydney Water's Licence Regulator, in addition to its role as Sydney Water's Economic Regulator. This change will assist Sydney Water in becoming more focused on integrating price and service outcomes, to the benefit of its customers.

SYDNEY WATER CORPORATION

	(*)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment	(1)	5,965	5,099	4,763	4,629	4,470	3,766	3,676
Operating cost per property ($)	(2)	514.3	476.5	473.1	473.9	497.5	528.7	476.6
Employees per thousand Properties		4.1	3.4	3.2	3.0	2.9	2.4	2.3
Revenue collection as a percentage of revenue billed (%)		99.0	98.0	98.0	98.5	98.3	98.2	98.2
Capital works expenditure:								
actual / estimated (%)		65.0	84.3	68.7	89.0	101.5	100.7	101.6
Time lost to unplanned absences (%)		4.0	3.4	3.2	2.8	2.8	3.0	2.4
Injury incidence rate	(3)	5.3	4.9	4.4	3.7	3.8	3.3	11.9
Injury frequency rate	(3)	28.2	28.5	25.5	21.4	21.8	18.2	2.2
Service								
Million properties served	(4)	1.5	1.5	1.5	1.5	1.6	1.6	1.6
New properties served (000)		27.2	25.0	22.9	23.1	28.1	30.5	20.5
Megalitres supplied (000)		569.0	551.0	588.0	620.0	600.0	602.0	625.0
Capital works contracted out		100.0	100.0	100.0	100.0	100.0	100.0	100.0
System reliability:								
Mainbreaks per 100 km								
Mainbreaks/Leaks per 100 km	(11)	26.5	20.3	46.5	48.5	43.2	40.7	37.9
Sewer chokes per 100 km								
Sewer chokes/Collapses per 100 km	(11)	87.6	69.1	80.4	112.0	80.9	62.5	70.1
Water resource management:	(5)							
Quality guidance compliance (1980)	(6)							
- health (%)	(12)	95.0	96.9	99.1	99.8	97.0	99.7	99.8
- aesthetics (%)	(13)	98.0	98.8	98.7	99.5	99.5	98.9	99.9
Waste water management:								
Solids removed (%)		45.0	55.0	60.0	60.0	60.0	60.0	60.0
dry tonnes of sludge per day								
- disposed to ocean		0.0	0.0	0.0	0.0	0.0	0.0	0.0
- recycled		89.0	104.0	113.0	102.0	108.0	99.0	111.5
Pollutants discharged to								
Nepean/Hawkesbury system (kg/day)	(7)							
- nitrogen		1,726.0	1,898.0	1,708.0	1,684.0	1,689.0	1,481.9	1,412.0
- phosphorus		93.0	93.0	59.0	65.0	47.0	38.1	33.0
- ammonia		151.0	137.0	50.0	57.0	76.0	56.7	48.0
Real price index	(8)	87.1	75.2	75.3	76.4	73.1	73.2	71.3
Finances								
Operating result ($m)		134.4	173.0	231.4	268.6	140.3	140.0	148.9
Return on total assets (%)								
total		2.0	2.0	2.5	2.6	1.8	2.1	2.4
core		2.0	2.2	2.5	2.6	1.8	2.1	2.4
Return on shareholders funds (%)		1.0	1.1	1.1	1.4	1.4	1.3	1.4
Asset sales ($m)		97.8	51.7	32.1	7.7	22.8	28.0	12.0
Gross external debt ($m)		2,068.7	1,972.2	1,931.0	1,925.6	1,890.9	1,838.7	1,867.5
Debt / equity		16.0	16.0	16.0	16.0	16.0	18.0	18.0
Times interest earned		1.6	1.8	1.9	2.1	1.4	1.9	2.0
Financial distribution ($m)	(9)	123.8	148.2	173.8	358.5	176.2	223.4	142.5
Community service obligations ($m)	(10)	80.2	92.1	104.1	99.2	114.4	93.2	73.3

Notes:

n/a Not Available

(*) All dollar values are reported in 2000-01 prices.

(1) Employment figures reflect Full Time Equivalents (FTE) and do not include contractors.

(2) Operating costs for 1999/00 include the cost of bulk water purchases from the Sydney Catchment Authority which commenced operations this year.

(3) The definitions for these two indicators are as follows:
Injury Incidence Rate = the number of occurrences of injury or disease for each one hundred workers employed.
Injury Frequency Rate = the number of occurrences of injury or disease for each one million hours worked.

(4) The definition of serviced properties was amended to focus on customers instead of rateable properties in 1994/95. The most significant change involves the acknowledgment of individual flats as one property instead of just the whole block of flats as one customer.

(5) The figures represent the percentage of samples that have physical characteristics within parameters stated in the 1980 NHMRC guidelines. Sydney Water meets those guidelines if in excess of 90% of samples fall within those parameters. With regard to Fluoride - substantial increases in the No. of fluoride faliures was due to Prospects' Water Filtration Plant closing down during the Water Quality Incident August 1998. To track water supply - agreed by DoH and expert Panel. From 1/7/1999, Sydney Water's Operating Licence will be measured against the 1996 DWQ guidlelines.

(6) National Health and Medical Research Council's (NHMRC) 1980 Australian Drinking Water Guidelines. As noted above, from 1/7/1999, Sydney Water's Operating Licence will be measured against the 1996 Drinking Water Quality Guidelines, as such Sydney Water no longer collects data on the basis of 1980 Guidelines. Thus data from 1999/00 onwards will not be directly comparable with previously reported data.

(7) The parameters used to calculate the sewage discharge figures prior to 1993/94 differ from those applied since, making it impossible to draw valid conclusions based on comparisons with current years.

(8) Derived from information supplied for the Government Charges Index. Only relevant for residential charges.

(9) Since 1993/94 Financial Distribution includes tax equivalent payments.

(10) Forecasts excluding any potential reimbursement for sewer backlogs.

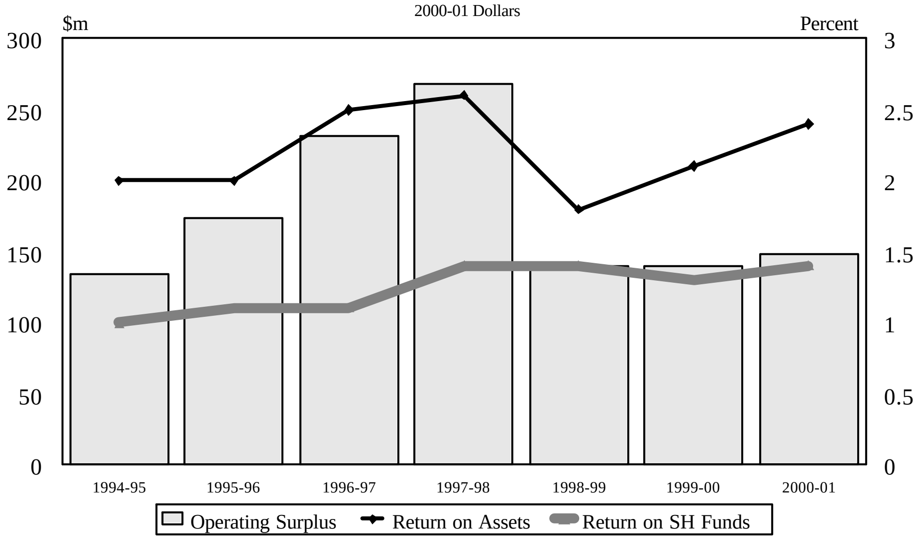
(11) As a result of improved data collection and quality mechanisms put in place lat year, the data shown in the tables for the years 1996/97 to 2000/01 have been amended to relect a change in definitions of breaks to align the definition with those of WSAA for Breaks/Leaks, Chokes and Collapses.

(12) The compliance of Health Parameters has increased compared to the 99.7% recorded last year. This increase appears to be small because the total number of samples is very large, however the number of Faecal and Total Coliform exceptions were reduced by approximately 50%

(13) The Aesthetic Parameters recorded a compliance of 98.3%, compared to 98.9% for last year. This apparent decrease is not the result of an increased number of exceptions during the year but rather the result of a change to the 2000/01 monitoring program, which required significantly less samples for those aesthetic parameters that typically achieve 100% compliance.

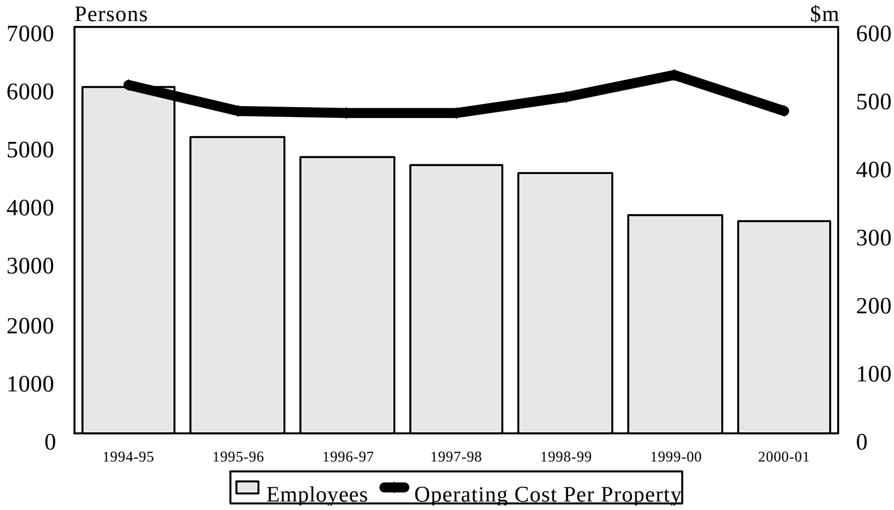
Financial Performance

2000-01 Dollars

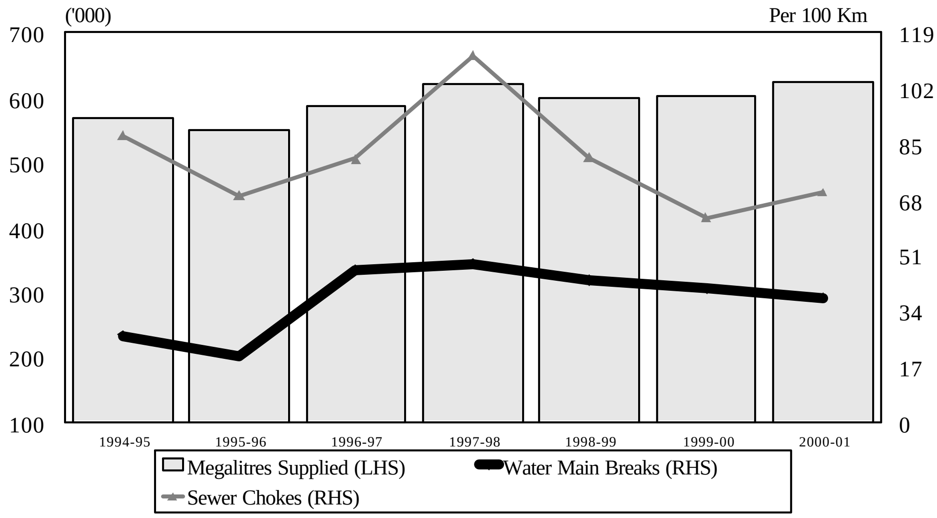


Employment and Operating Costs

2000-01 Dollars



Service



TRANSPORT

FreightCorp

Rail Access Corporation

Rail Infrastructure Corporation

Rail Services Australia

State Rail Authority

State Transit Authority

FreightCorp

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FREIGHTCORP

New South Wales is leading the implementation of microeconomic reform in Australian rail. This has enabled FreightCorp to substantially improve business performance and service delivery to become a major national freight operator. These achievements have been furthered in 2000-01.

In 2000-01, FreightCorp transported bulk commodities and general freight, and also supplied supporting logistical services. FreightCorp provides comprehensive services to customers throughout Australia, and is committed to providing services extending beyond the traditional rail line haul role.

In 2000-01, FreightCorp's operating result before interest, tax and significant non-recurring items was $83.0 million[85]. FreightCorp carried a record 89.0 million tonnes of freight, a freight task of 14.1 billion net tonne kilometres (ntks).

In 2000-01, FreightCorp reported total revenues of $609.3 million. The decline from the previous year was due to sharing of reduced Hunter Valley coal access charges with customers, changes in tonnage mix, the flow through to customers of the reductions in the fuel excise and the continuing competitive pressure on rates. Revenue was also dampened by lower than expected cotton harvests and delays in the construction of two Western Sydney intermodal terminals.

Since 1996-97, FreightCorp has achieved significant productivity gains, with ntk per employee improving by 94% to 6.6 million ntk/employee. During the same period, locomotive productivity has increased from 37.8 to 46.9 million ntk/locomotive and wagon productivity from 2.3 to 2.6 million ntk/wagon.

FreightCorp recorded a number of achievements during the 2000/01 financial year:

- Activity levels of 89.0 million tonnes and 14.1 billion ntks set new records.
- In its second year of full operation, the coal haulage operation at Leigh Creek in South Australia further increased profitability.
- FreightCorp continued to expand into national freight markets, pursuing business opportunities with major customers in Western Australia and Queensland.
- Development of the port based intermodal container business continued with the commencement of operations at the new Minto intermodal terminal in Western Sydney. Container volumes increased to 186,000 TEU[86].
- To meet business growth and fleet upgrade requirements, expressions of interest were sought for the supply of 196 coal wagons and 105 grain wagons.
- FreightCorp won an award for Excellence in Staff Development and Training.

During 2000-01, the NSW Government announced its intention to sell FreightCorp in conjunction with National Rail Corporation. This will provide the platform to forge ahead with FreightCorp's national growth strategy. It will also strengthen its ability to meet customer needs with the creation of a consolidated national logistics provider.

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[85] Includes superannuation reserves, severance expenses and costs associated with privatisation.
[86] TEU = Twenty foot equivalent unit, an internationally recognised measurement unit for containers.

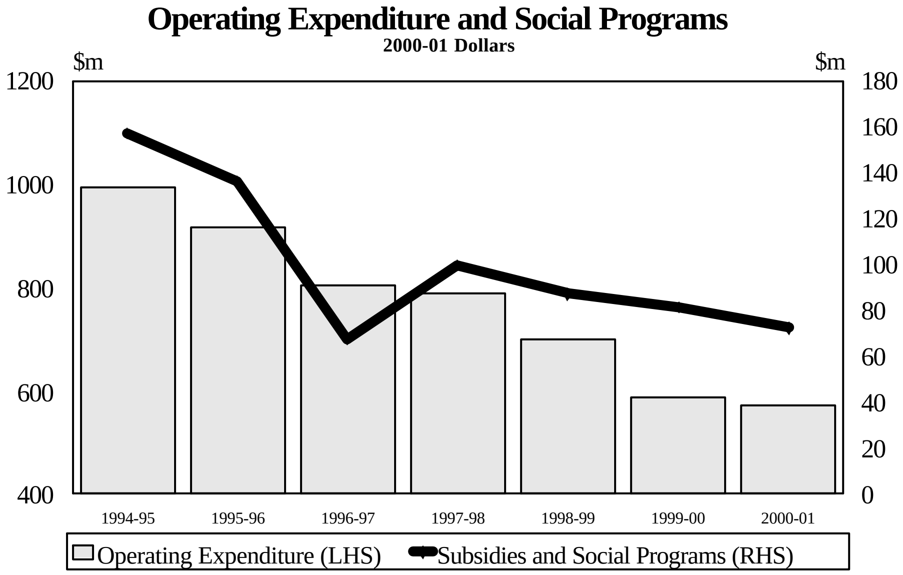
FREIGHTCORP

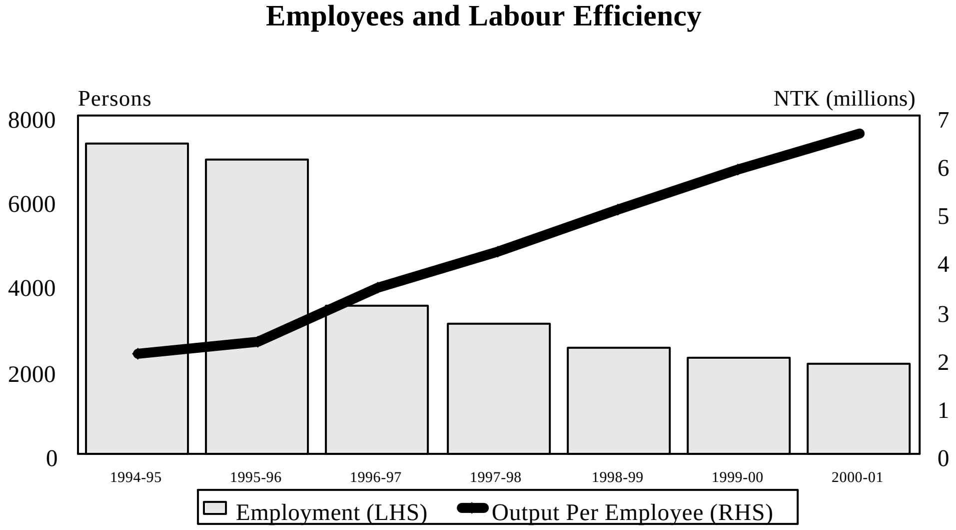
	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment	*(2)*	7,369	6,976	3,525	3,115	2,528	2,265	2,133
Output per employee (000 ntk)	*(3)*	2,074	2,335	3,443	4,188	5,078	5,890	6,621
Operating expenditure per ntk (cents)	*(4)*	6.5	5.6	6.6	6.1	5.4	4.5	4.0
Wagon productivity (m ntk per wagon	*(5)*	1.7	1.9	2.3	2.3	2.2	2.4	2.6
Loco productivity (m ntk per loco)	*(5)*	29.0	30.0	37.8	41.6	43.3	44.6	46.9
Total factor productivity	*(6)*	n/a	n/a	1.00	1.18	1.35	1.60	n/a
Service								
Net tonne kilometres (billion)	*(7)*	15.3	16.3	12.1	13.0	12.8	13.3	14.1
On time running (%)	*(8)*	90.0	89.0	86.0	82.1	70.4	70.5	69.6
Finances								
Operating result ($m)	*(9)*	47.9	12.1	97.9	66.4	50.8	59.0	37.9
Operating expenditure ($m)	*(9)*	993.3	914.0	805.6	788.7	700.3	636.2	571.3
Subsidies and social programs ($m)	*(10)*	157.2	136.0	67.1	99.5	87.0	81.3	72.2

Notes

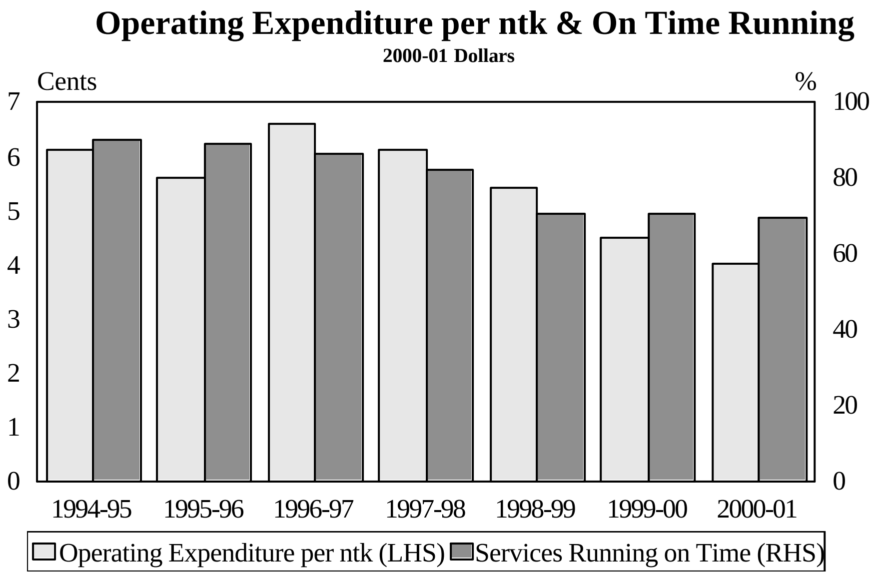
n/a Not available
(1) Freight Rail Corporation was established on 1 July 1996.
The figure from 1996-97 onwards are not generally comparable with previous years' figures.
All dollar amounts are reported in 2000-01 dollars.
(2) Staff employment based on end of financial year employment for consistency with Annual Report. The figures up to 1995-96 (inclusive) included infrastructure and train control staff who were transferred to other rail entities in July 1996.
(3) "Output per employee" from 1996-97 onwards is not directly comparable with previous y ears' figures due to the organisational change which affects employment as described in (2).1995-96 and figures from 1996-97 onwards are based on average employees.
(4) Operating expenditure is measured on a cash basis prior to 1996-97 and on a fully accrued basis from 1996-97 onwards. From 1991-92 Prime User methodology was used to allocate costs of joint structure.
(5) Productivity is defined as the number of Net Tonne Kilometres carried per wagon or locomotive using average fleet size for the year.
(6) Freight Rail Corporation has discontinued the calculation of Total Factor Productivity.
(7) Prior to 1996-97, the figures included all NRC NTKs. The NTKs from 1996-97 onwards exclude NRC figures.
(8) Defined as the percentage of general freight services trains that reach their destination within 30 minutes of their scheduled arrival time. Note, 1998-99 onwards data includes all services - mandatory (fixed) and non-mandatory. It consequently includes the effects of delays to non-mandatory services requested by the customer or access provider.
(9) Operating result is defined as operating profit before abnormals and tax. Abormals are excluded from the definition from 1999-2000. Operating result and expenditure are on a cash basis prior to and including 1995-96 and on a fully accrued basis from 1996-97 onwards.
(10) Social programs have been based on changed methodologies and industry structure and may not be comparable between years. From 1996-97 onwards, below rail CSOs have been directed to Rail Access Corporation

FREIGHTCORP





NTK = Net Tonne Kilometres



RAIL ACCESS
CORPORATION

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RAIL ACCESS CORPORATION

Rail Access Corporation (RAC) was the former owner and manager of the NSW rail infrastructure network on behalf of the NSW Government. In January 2001, RAC merged with Rail Services Authority (RSA) to form Rail Infrastructure Corporation (RIC).

RAC posted a profit for the period of $7.4 million before tax against a budgeted loss of $8.8 million. RAC's total commitment to safety was fundamental to its management of the NSW rail network. All expenditure decisions relating to investment, maintenance and upgrading were made to achieve a safer, more effective and responsive rail network.

RAC commenced a number of safety initiatives in 2000 that are being continued by Rail Infrastructure Corporation (RIC), including:

- progressive installation of 250 Train Stops to provide a fail-safe stop system for trains going past stop signals in the inter-city area, at a cost of $11.6 million;
- elimination of signalling blind spots (or 'dark territory') in the greater metropolitan area at a total cost of $8 million; and
- re-drafting of *Network Rules Stage 1: Work on Track* commenced, with introduction and training schedules planned for mid-2001.

RAC continued to focus on maintenance priorities, targeting seven critical junctions within the metropolitan network. Both short-term and long-term strategies for these junctions were implemented to ensure greater reliability and safety on the metropolitan network.

RAC remained committed to working with freight operators to improve on-time running and reduce the number of speed restrictions, without compromising safety.

RAC also successfully supported the operation of the rail transport system during the Olympics. On Time Running (OTR) averaged between 96 and 98 per cent with both incidents and delays well below target.

RAC was involved with several large-scale infrastructure projects:

- <u>East Hills Amplification</u>

  To quadruple sections of the East Hills Line to provide greater flexibility for CityRail services and more train services to growing south-western suburbs.

- <u>South Coast Electrification</u>

  Electrifying the line between Dapto and Kiama to improve the service quality and capacity for train services south of Dapto by providing for through services from Sydney and Wollongong.

- <u>Epping - Chatswood Rail Link</u>

  A new line which will provide vital extra passenger capacity to address emerging capacity constraints on the main Western line and respond to Sydney's changing transport needs.

RAIL ACCESS CORPORATION

	(1)	1996-97	1997-98	1998-99	1999-00	2000-01*
Efficiency						
Employment	(2)	94	115	392	484	468
Revenue per employee ($000)		8,212	6,596	2,083	1,658	988
Average days sick leave per employee	(3)	n/a	n/a	2	4	3
Industrial disputes						
- total hours lost (000)		0	0	0	0	0
- hours lost per employee		0	0	0	0	0
Service						
Total gtk (billion)	(4)	46.5	46.7	45.8	49.0	51.4
Total gtk per route km (million)	(5)	5.2	5.3	5.3	5.6	6.5
Number of new customers (cum.)		0	5	9	12	12
Number of passenger train-km sales in electrified area (million)	(6)	32.9	32.7	34.8	35.1	41.1
Number of RAC Infrastructure Incidents	(7)	339	291	330	461	207
Number of services delayed per RAC incident		8	7	7	10	8
Major Network Safety Incidents	(8)					
Civil		54	46	58	88	50
Electrical		4	4	4	8	5
Outside Agent	(9)	170	146	153	169	59
Rolling Stock	(10)	57	56	87	84	29
Safeworking	(11)	116	100	197	261	92
Signals		16	4	11	14	2
Environmental compliance (number of level 2 severity incidents)	(12)	2	9	10	6	2
Finances						
Operating expenditure ($m)	(13)	603.8	593.0	635.9	678.9	400.3
Total revenue ($m)		771.9	751.9	816.7	802.5	462.6
Shareholder value added ($m)		(6.0)	54.4	53.0	(24.9)	-8.8
Operating result ($m)		21.2	118.3	79.0	13.6	7.4

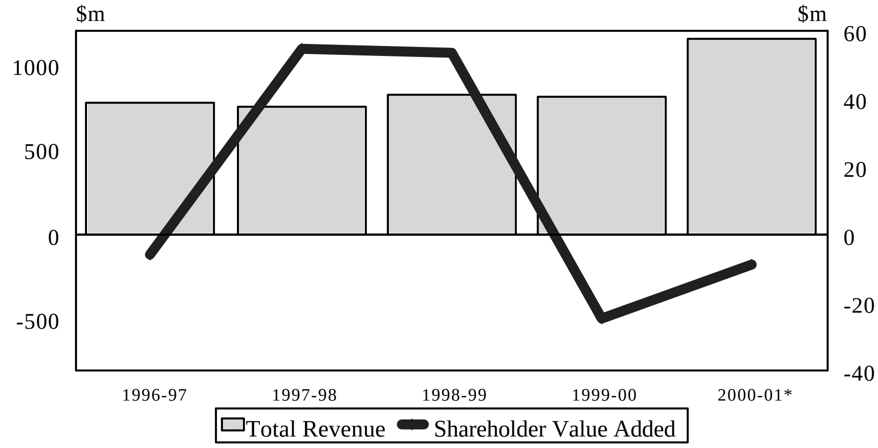
Notes

n/a Not Available
(1) All dollar amounts reported in 1999-00 dollars.
(2) When RAC was established on 1 July 1996, 30 permanent staff were vested from SRA. By the end of its first year permanent employees totalled 94. The major increase in staff numbers came with the purchase of the former RailCom (now Argus Telecommunications) on 01/08/98 from SRA which added another 187 staff to RAC. A further 68 staff have been recruited in Argus. Employment figures only contain permanent staff figures.
(3) Average sick leave for 1996-97 is not meaningful as the Corporation was not properly staffed until the end of the year.
(4) Gross Tonne Kilometres = Gross tonne * distance
(5) Active track km in NSW totals 8,740
(6) Electrified area of CityRail network. Data for the 6 months to 31st December excludes train kilometres travelled during the Olympics
(7) Refers to the extent to which RAC infrastructure has contributed to CityRail peak on time running delays.
(8) Includes all major incidents occurring within RAC's responsibility.
(9) Outside agent incidents includes those which are difficult to manage from within the railway where passengers are at fault (trips, slips and falls) trespassers, vandals, motor vehicles incidents and level crossing accidents where the motor vehicle is at fault are typical examples.
(10) Rolling stock incidents have been increasing marginally, operators have programs in place to address known hazard areas during a time when loads and train lengths have substantially increased.
(11) Signals passed at stop account for the majority of the increase in spite of an active management campaign. It must be noted that the awareness of these incidents has increased and the introduction of additional electronic monitoring equipment have combined to show an apparent increase in incidents which may have been previously unreported. Nonetheless, operators are reviewing training and supervision of drivers to correct the performance.
(12) Level 2 severity incident is where there are at least some significant environmental effects.
(13) Operating costs excluding commercial capital expenditure. Significant changes in RAC's operating environment are in part reflected in changes to RAC's financial performance. The major areas of change in RAC's profit are: cost efficiencies/changes in scope, increased network control, capital expenditure, overhead costs, reduced line CSO payments and access revenue and other (includes bussing and possessions).

RAIL ACCESS CORPORATION

Financial Performance

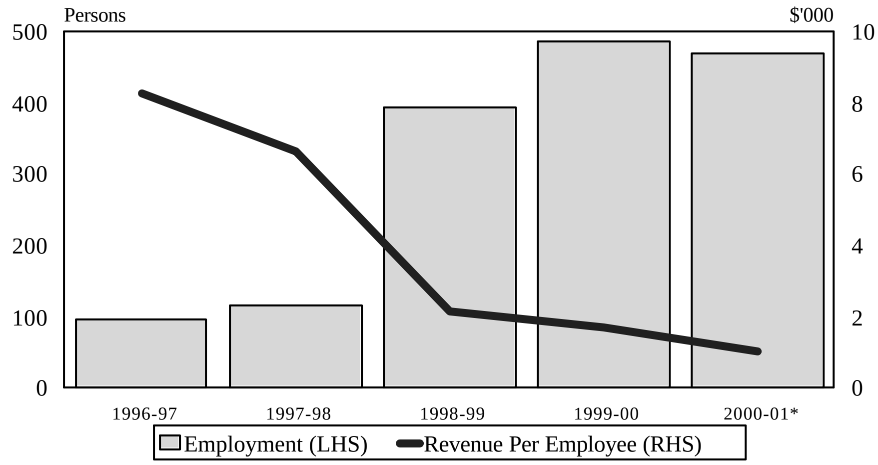
2000-01 Dollars



* 2000-01 performance only for the six months to January 2001

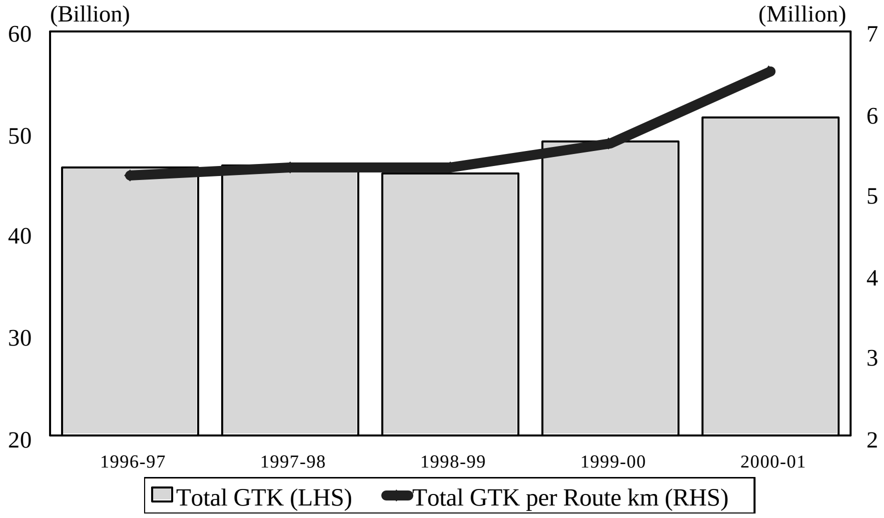
Employment and Labour Efficiency

2000-01 Dollars



* Performance for the six months up to January 2001

Service



owner and maintainer of the nsw rail network

RAILINFRASTRUCTURE

CORPORATION

Sharyn Gregory
RAIL INFRASTRUCTURE CORPORATION
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RAIL INFRASTRUCTURE CORPORATION

In December 2000, the NSW Government enacted legislation to merge the Rail Access Corporation (RAC) and Rail Services Australia (RSA) into a single infrastructure provider, the Rail Infrastructure Corporation (RIC). RIC owns and maintains the rail infrastructure network on behalf of the NSW Government. The legislation puts into effect the recommendations of the Glenbrook Rail Inquiry.

RIC's charter is outlined in the *Transport Administration Amendment Act (NSW) 2000*. Its principal objective is to ensure that the NSW rail network enables safe and reliable passenger and freight services to be provided in an efficient, effective and financially responsible manner.

To deliver its principal objective, RIC is focusing on the needs of its customers through:

- infrastructure works — routine maintenance, major periodic maintenance and capital works;
- access to the rail network — facilitating access to the network by train operators, pricing and allocation of train paths;
- engineering services — centre of technical excellence providing both internal and external advice; and
- commercial businesses including workshops (supplier of rail welding, points, crossings and quarry products), telecommunications, external contracts and joint ventures.

Within its first six months of operation RIC has already achieved some key milestones:

- Negotiation of network control agreement — State Rail Authority and RIC have agreed terms and conditions for the provision of network control services;
- Metro 2021 — the development of a long term strategic plan for the metro rail system; and
- Business Model Process — the development of a business model, organisation model and organisational structure for RIC. The business model focuses on building the credibility of RIC as an expert and trusted owner and maintainer of the NSW rail infrastructure and will work to promote a safe and reliable rail system.

RIC posted a profit before non-current asset writedown ($47.8 million) and income tax ($1.2 million) for the six months to June 2001 of $2.3 million. The estimated profit for the full year before income tax, abnormals and asset writedown is approximately $34 million. The reduction in profit in the second half of the year is due to a combination of additional track work and bussing costs.

RAIL INFRASTRUCTURE CORPORATION

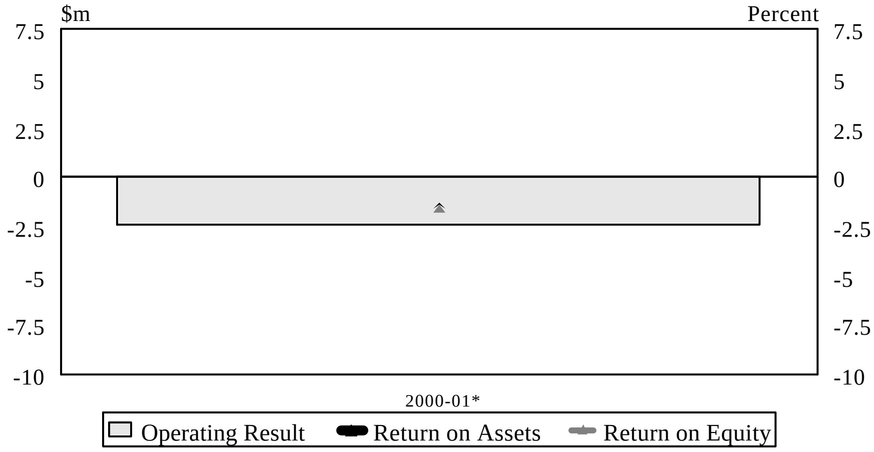
	(1)	**2000-01**
Efficiency		
Number of Employees	*(2)*	5421
Sick Days per Employee		4
Lost Time Injury Frequency		28
Worksite Protection Incidents (no)		31
Track Geometry Incidents (no)		68
Level Crossing Incidents (no)		47
Signals Passed at Danger (SPADs) (no.)		47
RIC Safety Risk ('000s units)		62
Revenue per Employee ($'000)		105
Service		
Number of Major Environmental Incidents		0
Rural Speed Restriction (no.)		96
RIC Incidents affecting CityRail Peak Ontime Running (no.)		227
CityRail peak trains delayed due to RIC incidents (no.)		1826
Country network speed restrictions as at June 01(no.)		96
Finances		
Operating Result ($m)	*(3)*	2.32
Total Assets ($m)		1143
Return on Assets (%)	*(4)*	-1.17%
Pre Tax Return on Net Assets (%)	*(5)*	-2.00%
Return on Equity (%)	*(6)*	-2.17%
Gross External Debt ($m)		80
Debt to Equity Ratio (%)		11.12%
Times Interest Earned		1.86
Financial Distribution ($m)		
Dividend Payment	*(7)*	Nil
Corporate Tax Equivalent		Nil
Payment of Capital from Equity		Nil

Notes:
1. Six months to June 2001. All values in 2000-01 dollars
2. The RIC employment figure is greater than the sum of the RAC and RSA figures due to the employment of additional staff for maintenance services and the conversion of approximately 100 contractors to full-time employees.
3. RIC's profit deterioration relative to the $31.1M combined figure of RSA and RAC in the first half of the year is due to a $58M ($28 million net of writebacks of provision) unbudgeted expenditure on maintenance costs for priority works.
4. The ROA is calculated by dividing the operating resulting of $2.32M before non-current asset writedown ($47.840M) and income tax expense ($1.167M) less superannuation prepayment adjustment ($15.746M) by the closing assets ($1143M) .
5. The pre-tax return on net assets is calculated by dividing the operating resulting of $2.32M before non-current asset writedown ($47.840M) and income tax expense ($1.167M), less superannuation prepayment adjustment ($15.746M) by the closing net assets value ($672.7M).
6. The ROE is calculated by dividing the after tax operating resulting of $2.32M before non-current asset writedown ($47.840M) less superannuation prepayment adjustment ($15.746M) by the value of equity of $672.7M.
7. RIC has an exemption from paying a dividend for the year ending 30 June 2001. An amount of $9.5M was payed on behalf of the former RAC for 1999/00.

RAIL INFRASTRUCTURE CORPORATION

Financial Performance

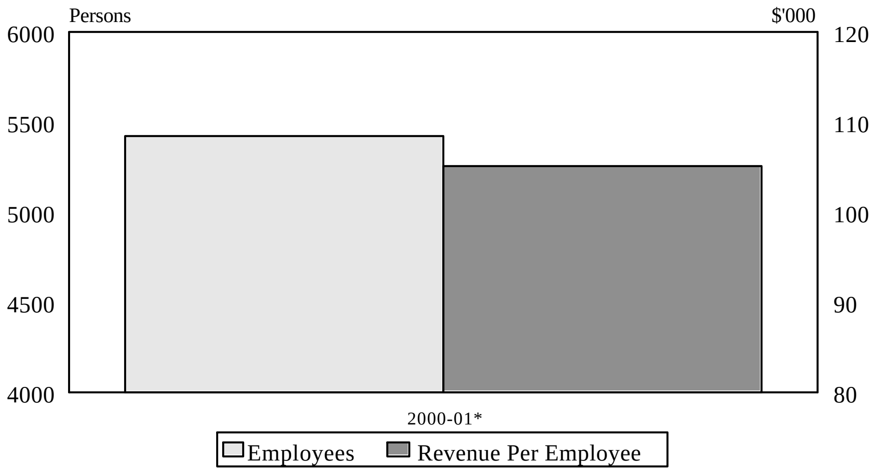
2000-01 Dollars



* 2000-01 Performance only for the six months from January 2001

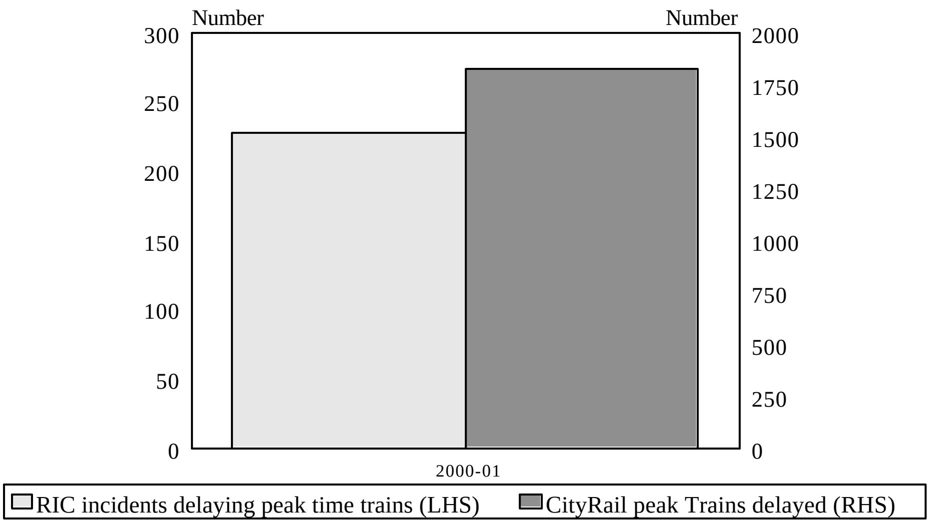
Revenue per Employee

2000-01 Dollars



* 2000-01 Figure only for the six months from January 2001

Service



RAIL SERVICES AUSTRALIA

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RAIL SERVICES AUSTRALIA

Rail Services Australia (RSA) was committed to delivering the highest quality of infrastructure services to provide a safe, reliable rail network. In January 2001 RSA merged with the Rail Access Corporation (RAC) to form the Rail Infrastructure Corporation (RIC).

RSA's financial performance for the six months to 31 December exceeded budget - it reported profit before tax and abnormals of $24.7 million compared with a budget of $3.6 million. RSA's strong financial performance was driven by an increase in the volume of work undertaken (due to the Olympics and an overall increase in track maintenance works), better resource utilisation and an improvement in Workshops performance.

RSA provided a diverse range of services including:

- rail construction;
- ongoing and periodic rail maintenance;
- project management;
- technical advice;
- consulting; and
- contract work in non-traditional areas of asset management and maintenance.

RSA's operations extended throughout New South Wales, with regional offices in Bathurst, Wagga-Wagga, Newcastle, Grafton, Taree, Dungog, Hamilton, Maitland, Tamworth, Musselbrook, Goulburn, Moss Vale, Dubbo, Parkes, Cootamundra, Lithgow, Mt Victoria and Wollongong. More than 2,100 or 38 per cent of staff are employed in non-metropolitan areas. Activities undertaken in these areas range from maintenance and construction work, through to quarrying and rail fabrication.

Safety was the first priority for RSA. Staff safety performance improved considerably to December 2000:

- Lost Time through Injury Frequency Rate (measured as a rolling twelve month average) improved from 42.02 in December 1999 to 28.56 in December 2000; and
- Medical Treatment Injury Frequency Rate (measured as a rolling twelve month average) declined from 67.84 in December 1999 to 54.37 in December 2000.

RSA gained benefits from its involvement in joint ventures, such as improving the performance of its workshops, access to world leading technology and learning best practice project management skills. These joint ventures are now being reviewed by RIC in light of its new legislative objectives.

RAIL SERVICES AUSTRALIA

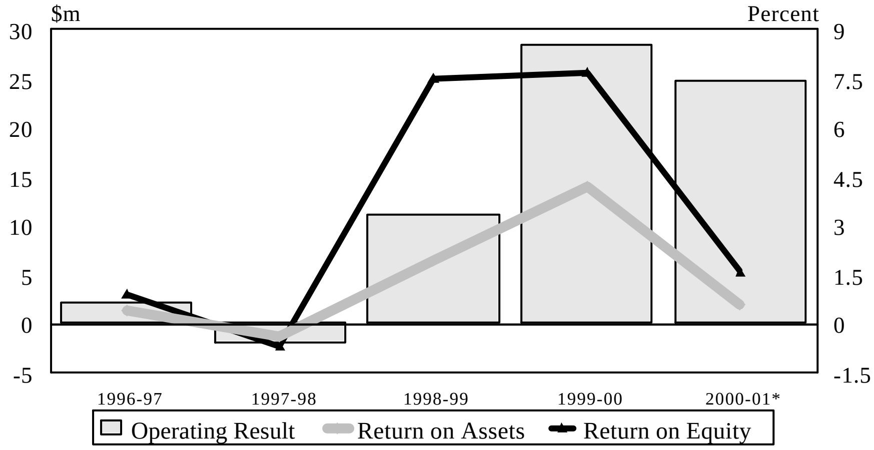
	(1)	1996-97	1997-98	1998-99	1999-00	2000-01*
Efficiency						
Employment	*(2)*	6,300	5,800	5,000	4,735	4,565
Revenue Per Employee ($000)	*(3)*	126	127	175	173	78
Average Days Sick Leave Per Employee	*(4)*	12	11	10	10	5
Service						
RAC Average key performance indicator	*(5)*	*n/a*	*n/a*	>1	>1	>1
Employee utilisation (%)		*n/a*	*n/a*	86	95	93
Finances						
Operating Result ($m)	*(6)*	2.2	-1.9	11.1	28.4	24.7
Return on Total Assets (%)	*(7)*	0.4	-0.4	1.9	4.2	3.8
Return on Equity (%)	*(8)*	0.9	-0.7	7.5	7.7	1.6
Total Assets ($m)	*(9)*	523.7	521.4	537.4	605.6	493.0

Notes:

* 2000-01 performance for the six months to January 2001 only.
N/a Not available
1. All amounts reported in 2000-01 dollars.
2. 1996-97 and 1997-98 staff employment based on average for financial year. 1998-99 figure based on number of staff employed as at 30 June 1999. 1999-2000 figure based on number of full time eqivalent staff as at 30 June.
3. Revenue is defined as operating revenue on an accrual basis, excluding interest income.
4. Calculated as total days sick leave divided by number of employees.
5. The RAC KPI provides an indication of RSA's performance against a set of service levels. A result of more than one indicates that RSA has exceeded agreed service levels.
6. Operating result on accrual basis, calculated as profit after interest and before tax. The 1997-98 figures have been revised.
7. Calculated using profit before interest and tax (EBIT). The 1997-98 figures have been revised. Figures for 1997-98, 1998-99 and 1999-2000 exclude asset sales.
8. Calculated using profit after interest and tax and excluding abnormal items. The 1997-98 figures have been revised. The reduction in ROE between 1999/00 and 2000/01 is due the write off of non-recoverable FITB. This is a direct result of the merger with RAC nullifying any recovery of FITB due to the unrecorded tax losses available to RAC.
9. Total assets at book value net of depreciation. The 1997-98 figures have been revised.

Financial Performance

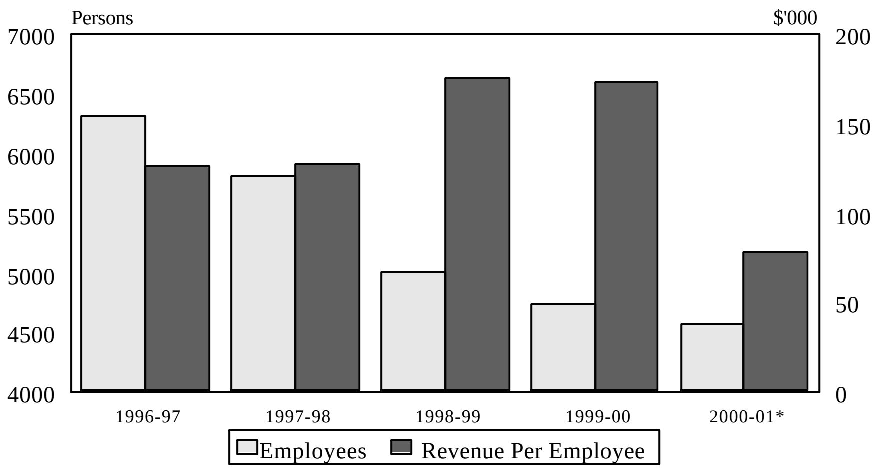
2000-01 Dollars



* 2000-01 Performance only for the six months up to January 2001

Revenue per Employee

2000-01 Dollars



* 2000-01 Figure only for the six months until January 2001

Keith Rushbrook
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STATE RAIL AUTHORITY

The State Rail Authority provides passenger rail services in New South Wales through two business groups – CityRail and Countrylink.

CityRail is the metropolitan passenger provider carrying 302.6 million passengers across 306 stations in 2000-01. Over 50 per cent of all passengers travelling to Sydney's Central Business District in peak hours travel by CityRail. In addition, train services were provided for customers whose destinations ranged from Newcastle and the Hunter Valley in the north, to Wollongong and the South Coast, to the Southern Highlands and the Blue Mountains in the west. CityRail is one of the most complex passenger rail operations in the world.

Countrylink operates country train services across New South Wales and beyond carrying 2.1 million passengers in 2000-01. The long distance passenger rail services are supported by an extensive coach network throughout regional New South Wales. Significantly, some Countrylink coach services are the only mode of public transport from town to town in rural and regional areas of New South Wales.

Countrylink also operates thirty-four Travel Centres and eight Booking Offices across the network which sell and promote point-to-point travel, Countrylink Holiday packages and city and regional day tours and attractions. In addition, there are over 400 accredited travel agents and sales outlets throughout New South Wales, the Australian Capital Territory, Queensland and Victoria.

Major achievements and strategic developments during 2000-01 included:

- CityRail's successful delivery of transport for the Sydney 2000 Olympic Games and Paralympic Games. CityRail ran services 24 hours a day for just over two weeks and around 30 million people caught trains, compared to 14 million people in a similar period outside the Games.
- State Rail accelerated the implementation of nationally accredited competency-based training and assessment for drivers and all staff in frontline and management roles. This ensures the rail industry achieves its business goals through the provision of high quality consulting and educational services.
- Progress is already being made in implementing the McInerney Report's recommendations. For example, State Rail has approved the purchase of train simulators to improve training opportunities, and approved funding to fit all trains with data loggers.
- CityRail delivered successful timetabled services to cater for special events including New Year's Eve, Australia Day, Mardi Gras and the 2001 Royal Easter Show. Each of these events attracted hundreds of thousands of additional people into the city, many of whom chose to use the rail network as their preferred mode of transport.

During 2000-01, passenger revenue declined by $16m due to fares being held at 1999-2000 levels in real terms. The impact of the Olympic Games together with initiatives to improve rail service reliability and safety resulted in an increase in operating costs in 2000-01. In addition, a review of actuarial assumptions resulted in an increase in employee entitlements.

STATE RAIL AUTHORITY

	(1)	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency						
Employment		9,344	9,317	8,544	8,966	9,017
Passenger revenue/employee ($000)	*(2)*	49.4	51.3	56.9	63.5	57.8
Passenger journeys/employee (000)	*(2)*	29.0	28.8	31.2	32.5	33.0
Operating cost/passenger journey ($)		6.68	6.60	6.54	5.99	6.15
Industrial disputes						
- total hours lost (000)		0.0	0.1	3.0	15.0	0.0
- hours lost per employee		0.0	0.0	0.3	1.7	0.0
Countrylink load factor (%)	*(3)*	64.0	65.0	67.0	67.0	52.3
Service						
Passenger journeys (million)						
-cityrail	*(6)*	264.7	266.5	270.5	278.7	302.6
-countrylink		2.5	2.5	2.4	2.4	2.1
-total		267.2	269.0	272.9	281.1	304.7
On time running (%)						
- suburban (within 3 minutes)		86.4	91.4	92.5	85.4	89.7
- intercity (within 5 minutes)		90.1	94.0	93.0	90.3	91.0
- country (within 10 minutes)		87.0	85.0	77.3	59.2	69.3
Real price index (fares based)	*(7)*	115.8	118.6	120.4	133.4	135.7
Finances						
Passenger revenue ($m)	*(4) (6)*	454.9	479.7	497.1	550.0	534.4
Operating cost ($m)	*(6)*	1,784.3	1,776.0	1,783.6	1,683.9	1,874.3
Social program payments ($m)	*(5) (6)*	561.5	547.7	525.9	508.7	593.1
Borrowings ($m)		209.6	209.5	205.8	210.8	196.4

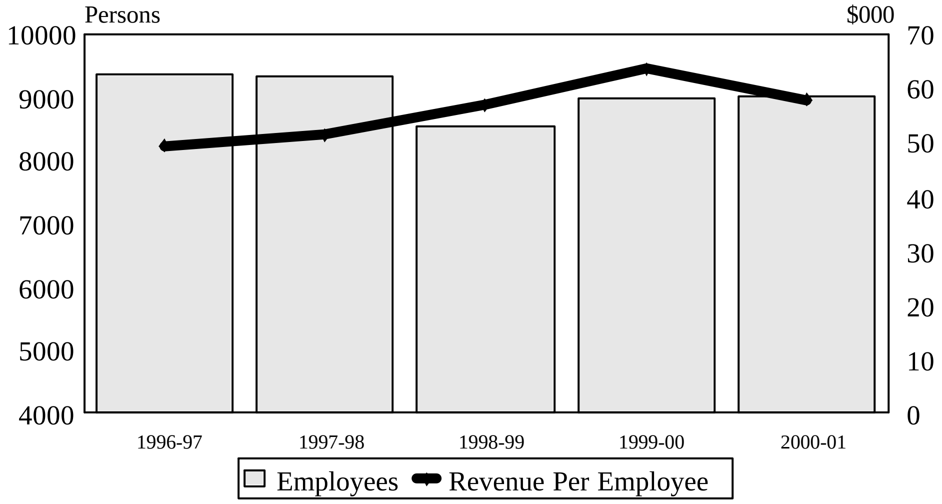
Notes:

Not available

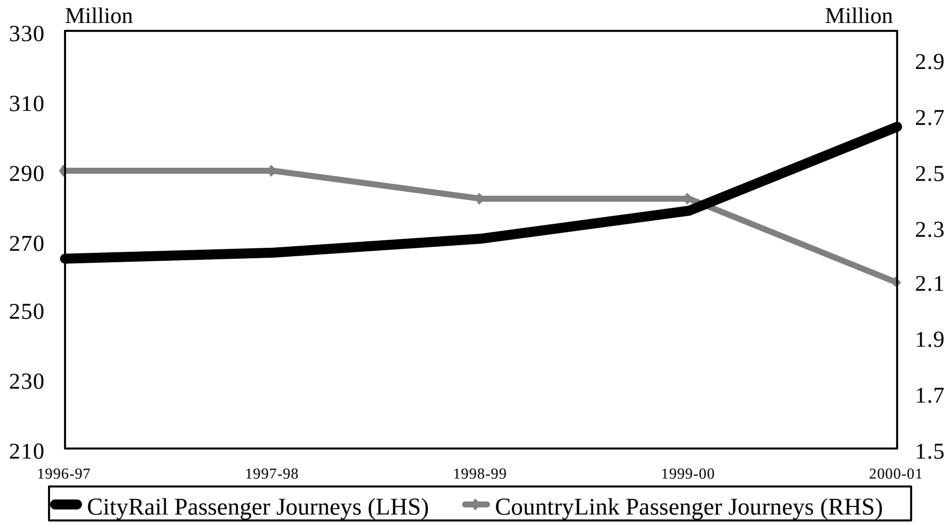
1. All dollar amounts, including forecasts, are expressed in 2000-01 dollars.
2. Based on average number of employees for the financial year.
3. Passenger Kms divided by Seat Kms including rail, intercity and feeder coaches.
4. Includes catering revenue.
5. Passenger services only. Excludes redundancy program and pre 1996 liabilities.
6. 1999/00 and 2000/01 include revenue and expenditure associated with the Olympic Games
7. Derived from information supplied for the Government Charges Index, base year 1989-90.

Employment and Labour Efficiency

2000-01 Dollars



Service



Passenger Revenue

2000-01 Dollars

State Transit

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STATE TRANSIT AUTHORITY

The State Transit Authority is the largest operator of buses and ferries in Australia. Its services cover much of metropolitan Sydney and Newcastle. Its vision is a quality urban environment underpinned by an efficient, reliable, safe and secure public transport network.

State Transit was established under the *Transport Administration Act 1988*. Like privately-owned bus and ferry operators in New South Wales, it works within the regulatory framework of the *Passenger Transport Act 1990.*

State Transit's Sydney bus operations extend from Palm Beach in the north, Miranda and Hurstville in the south and, following the acquisition in 1999-00 of two private bus companies, Parramatta in the west. Over 195 million passenger journeys were completed in 2000-01 representing a patronage growth of 1.8 per cent. State Transit's Sydney Ferry services cover the Inner Harbour, Parramatta River and Manly. In 2000-01, 14.9 million passengers were carried. The Newcastle services encompass Caves Beach in the south, Hunter River in the north and Newcastle CBD in the east to Sandgate in the west. Two ferries operate a link across the Hunter River between Newcastle CBD and Stockton. In Newcastle, State Transit carried 12.3 million passengers in 2000-01.

State Transit operates in a similar commercial environment to private sector transport operators. Its objectives, each of equal importance, are defined in its enabling legislation. They are:

- to provide safe, efficient, reliable bus and ferry services;
- to operate as efficiently as any comparable business;
- to maximise the net worth of the State's investment in the business;
- to exhibit a sense of social responsibility towards the community in which it operates;
- to conform to the principles of ecologically sustainable development; and
- to exhibit a sense of responsibility towards regional development and decentralisation.

State Transit's end of year result for 2000-01 was a deficit of $4.3 million on revenue of $483 million. This result was influenced by the impact of the Olympic Games. Against a plan which anticipated a small but significant contribution in the form of contracted services to In-Village Transport and other designated Olympic venues; the actual result involved Sydney Buses' tourist services being cancelled and regular services altered to assist in a comprehensive rescue package for Bus 2000 (the Sydney Olympic bus authority). During the Olympics, 1.2m journeys were taken on the ferry fleet, about three times the usual patronage and the ferries set a record for the number of passengers carried on a single day, 96,000 on 29 September 2000.

Continued progress is being made on a wide range of efficiency reforms identified by IPART, in the areas of maintenance, bus driver utilisation and the centralisation of payroll. A comprehensive review of bus service levels in Sydney and Newcastle has also commenced.

The capital works program totalling $60.5 million included the purchase of 89 low floor, air conditioned buses powered by natural gas and fitted with closed circuit televisions (CCTV). CCTV was also installed on 38 wharves serviced by State Transit to enhance the safety of the travelling public. New ferries were acquired under the Government's Action for Transport 2010 transport strategy and the first of four Manly ferries was comprehensively refurbished. Additional debt of $2.5 million was incurred in 2000-01 to make up for lost revenue, arising from an industrial campaign against proposed changes to the Workcover legislation.

STATE TRANSIT AUTHORITY

	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment		3,818	4,101	4,303	4,305	4,369	4,690	4,754
Passenger trips (000) per employee		50.7	49.5	48.2	48.8	48.5	46.4	46.8
Passenger revenue ($000) per employee	(2)	80.6	77.4	78.7	82.1	82.6	85.8	94.4
Working hours lost to industrial disputes		0	0	62	6,702	3,300	2,665	418
Service								
Kilometres travelled (000)		72,517	76,690	78,992	80,379	81,962	85,431	88,650
Total passengers carried (000)		193,480	203,155	207,340	210,143	211,839	217,825	222,565
Bus service:								
Average age (years)		10.4	11.2	11.5	11.3	12.0	12.0	12.0
buses in service		1,494	1,534	1,627	1,705	1,719	1,906	1,944
Bus passengers carried (000)		181,106	190,201	193,894	196,627	198,332	204,159	207,167
Ferry service:								
Average age (years)		9.0	10.0	10.3	11.3	11.6	12.6	11.3
Ferry passengers carried (000)		12,374	12,954	13,446	13,516	13,507	13,666	15,398
Real fare index	(3)	106.3	104.3	106.5	108.7	109.4	114.4	117.1
Finances								
Operating result ($m)		23.3	11.8	1.2	(5.0)	(9.6)	0.7	(4.3)
Gross external debt ($m)		56.5	46.9	37.1	55.6	59.8	130.8	125.6
Total assets ($m)		428.1	449.2	418.7	425.5	403.9	461.1	439.3
Asset sales ($m)		13.9	3.3	5.6	1.0	18.7	23.6	3.3
Return on total assets (%)		5.5	2.6	0.3	(0.8)	(2.6)	0.2	-1.0
Government contributions ($m)								
- travel concessions		119.3	115.2	123.4	132.1	133.5	137.5	137.7
- operating loss		0.0	0.0	0.0	0.0	0.0	0.0	0.0
- finance charges		0.0	0.0	0.0	0.0	0.0	0.0	0.0
- social programs		60.2	40.9	43.2	46.6	49.0	53.3	56.0
- total		179.5	156.1	166.6	178.7	182.5	190.8	193.7
Dividend payment ($m)		1.8	10.0	0.0	0.0	0.0	0.0	0.0
Net govt contribution ($m)		177.8	146.1	166.6	178.7	182.5	190.8	193.7

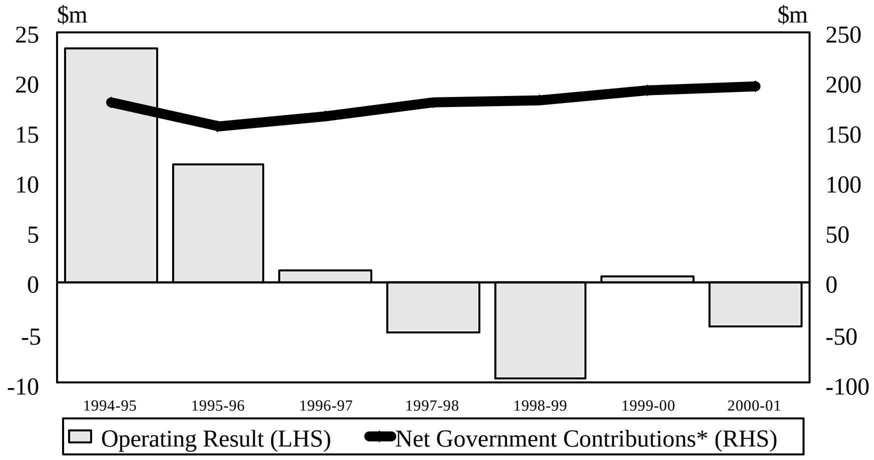
Notes

n/a Not available

1. All dollar amounts reported in 2000-01 prices.
2. Passenger revenue comprises farebox, charters, hirings , concessions and the cost of the government's social programs.
3. Derived from information supplied for the Government Charges Index, base year = 1989-90.

Financial Performance

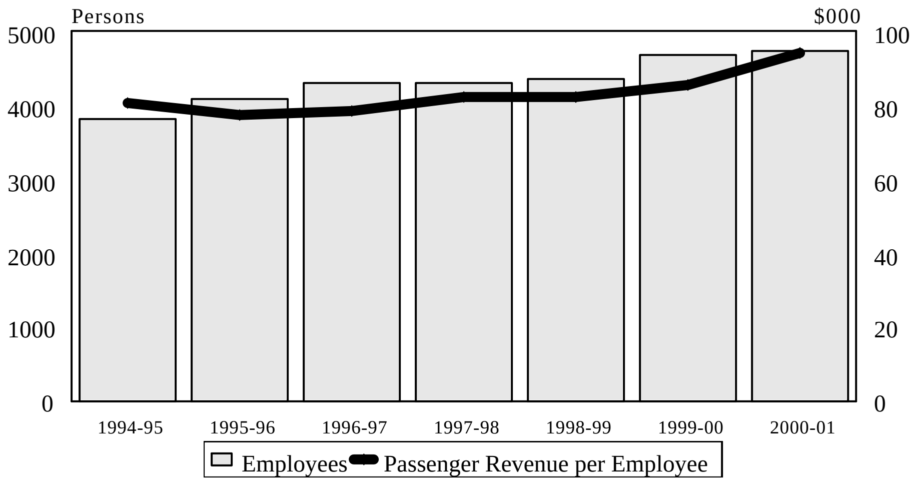
2000-01 Dollars



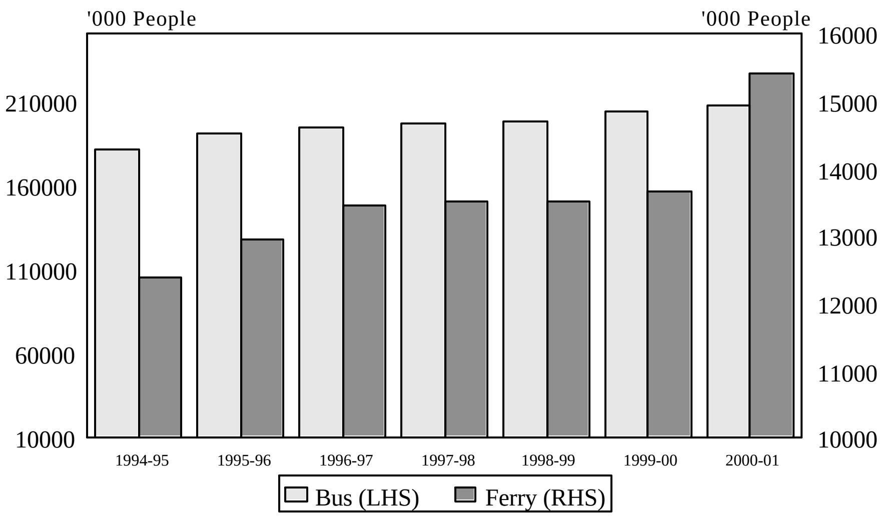
* Contributions are made up of reimbursements for travel concessions and community service obligations.

Employment and Labour Efficiency

2000-01 Dollars



Passengers Carried



PORTS

Newcastle Port Corporation

Port Kembla Port Corporation

Sydney Ports Corporation

Mr Steve Edmonds
General Manager Commercial
NEWCASTLE PORT CORPORATION
PO Box 663
NEWCASTLE NSW 2300
(02) 4985 8207

NEWCASTLE PORT CORPORATION

The Newcastle Port Corporation's mission is to promote business growth by being the preferred export/import gateway for our customers whilst preserving the environment, maintaining safety and earning a commercial return for our shareholders.

The Newcastle Port Corporation was established as a NSW Statutory State Owned Corporation in July 1995, under the *Ports Corporatisation and Waterways Management Act.* The Corporation is wholly owned by the people of New South Wales. Its objectives are to be a successful business; to promote and facilitate trade through its port facilities; and to ensure that port safety functions are carried out properly.

The Corporation's operations in 2000-01 have resulted in:

- increased tonnage throughput to 73.9 million tonnes;
- coal exports increased to 67.2 million tonnes;
- maintenance of a $9 million shareholder distribution; and
- achievement of a record monthly coal loading tonnage of 6.46 million tonnes in April 2001.

The reduced operating outcome was the result of both:
- a $2.3 Million redundancy payment following a major restructuring of the workforce; and
- a $3.3 Million superannuation loss because of a reassessment of actuarial assumptions.

Since the closure of BHP steelworks in Newcastle, the Corporation has been facilitating various proposals for the development of new steel making facilities. In addition, it has been supporting the proposal for construction of a new grain handling facility at the Dyke wharf area.

The Corporation has also been implementing strategies to:

- diversify and increase trade through the Port;
- increase general cargo trade through the Basin wharves area;
- improve productivity of shipping movements by construction of a base for the helicopter transfer of marine pilots and establishment of state of the art Vessel Traffic Information Centre; and
- promote the development of a container terminal (called HubPort) on the former BHP steelworks site.

NEWCASTLE PORT CORPORATION

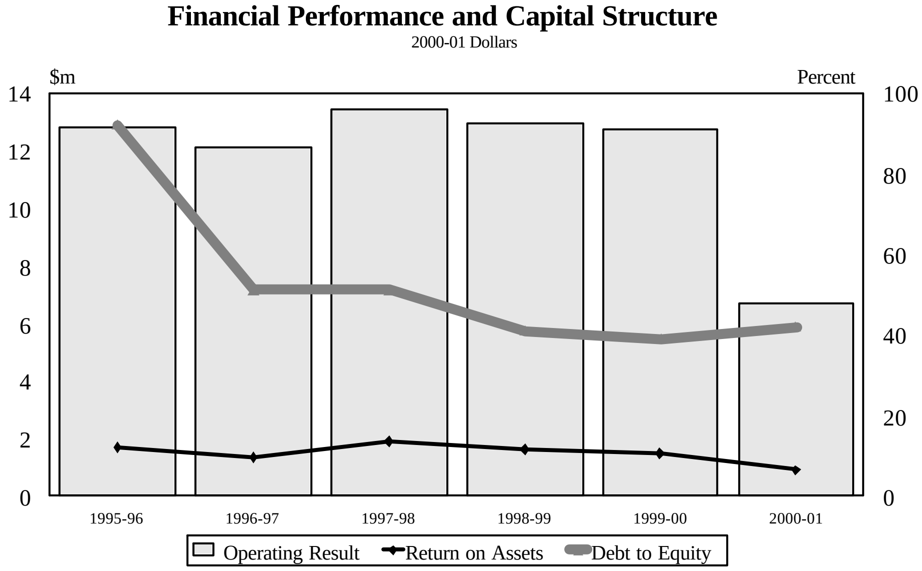
	(1)	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficency							
Employment	(2)	120	123	122	121	119	95
Revenue per employee ($000)		321	342	386	363	339	351
Industrial disputation							
- total hours lost		596	335	70	0	65	0
- hours lost per employee		5.0	2.7	0.6	0	0.5	0.0
Contract labour ($m)		0.9	n/a	n/a	n/a	n/a	n/a
Service							
Total trade (million tonnes)	(3)	60.3	67.5	77.1	78.0	72.7	73.9
Vessel arrivals		1439	1560	1710	1649	1593	1514
Vessel turnaround time (hrs)		62.0	51.0	51.0	43.3	44.5	37.7
Berth occupancy (%)		45.0	51.0	52.0	44.1	46.0	52.1
Berth queueing time (hrs)		n/a	n/a	n/a	n/a	n/a	n/a
Average time at berth (hrs)		51.0	40.0	39.0	37.0	40.2	40.1
Avg port management charge per tonne of cargo ($)	(4)	0.57	0.56	0.54	0.52	0.51	0.47
Avg port management charge per vessel ($)	(4)	23,921	24,168	24,267	24,398	23,235	22,945
Finances							
Operating result ($m)	(5)	14.4	13.4	14.8	14.0	13.5	6.7
Dividend payment ($m)		6.1	10.0	11.1	9.8	9.6	9.0
Asset sales ($m)		0.3	0.2	0.3	1.0	0.8	0.3
Return on total assets (%)		12.1	9.5	13.4	11.5	10.5	6.4
Return on equity (%)		21.7	12.7	20.2	15.5	14.8	7.7
Gross external debt ($m)		56.2	33.2	33.2	32.6	31.9	30.0
Debt to equity (%)		92.0	51.0	51.0	41.0	39.0	42.0
Times interest earned		7.9	5.4	6.2	6.5	8.6	3.8

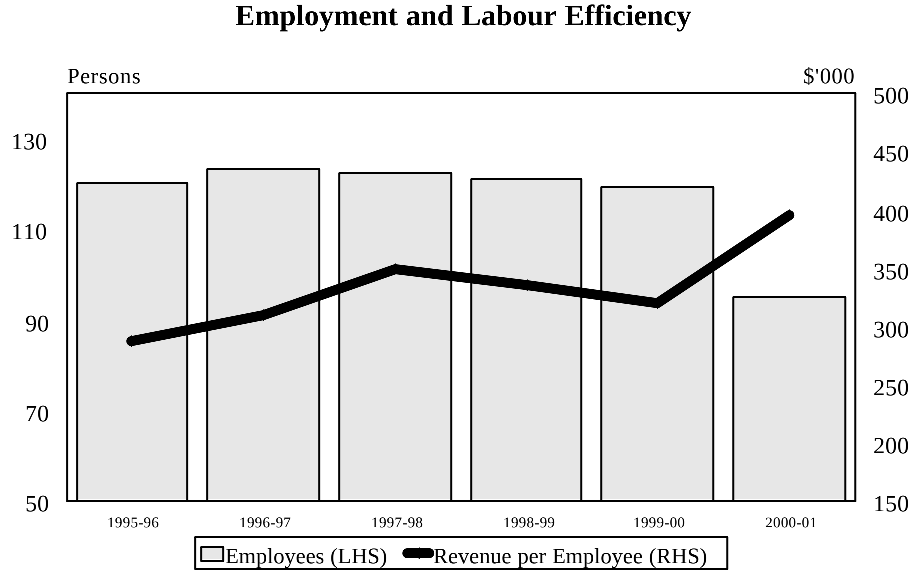
NOTES

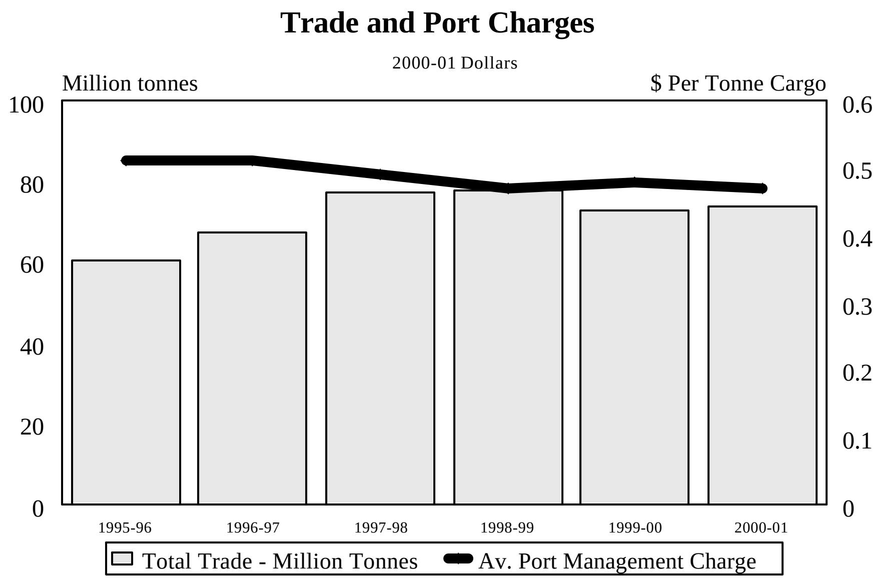
n/a Not available

(1) All dollar amounts reported in 2000-01 dollars.
(2) Excludes labour employed by consultancy.
(3) Total trade expressed in million revenue tonnes.
(4) Excludes coal loader revenue.
(5) Operating surplus before tax.

NEWCASTLE PORT CORPORATION







PORT KEMBLA
PORT CORPORATION

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PORT KEMBLA PORT CORPORATION

The Port Kembla Port Corporation was formed on 1 July 1995 to operate as a successful business, promoting and facilitating trade and ensuring port safety functions are carried out properly through the Port of Port Kembla. The Corporation is well positioned to capture new market and future trade opportunities.

Highlights for 2000-01:

- All major financial indicators performed well above expectations. Net profit before tax and significant items was $12.0 million, up by 18 per cent from the previous year. The Corporation provided for a dividend of $8.2 million, an increase of $2.8 million on the previous year. Operating Revenue of $33.0 million was also better than last year, while Operating Expenditure (excluding significant items) of $21.0 million was lower than last year as a percentage of revenue.
- The Port was awarded the Australian Port of the Year for 2000-2001 in the inaugural Annual Australian Shipping & Transport Awards.
- Trade through Port Kembla reached 25.03 million tonnes and was carried in 659 vessels, compared to 22.98 million tonnes and 620 vessels in 1999-2000.
- Non-coal/steel/grain trade cargoes reached 1.3 million tonnes and exceeded the tonnage in 1999-2000 by 20 per cent. These products included sawn logs, cars, cement clinker and structural steel imports.
- Iron ore imports (7.66 million tonnes) were higher than last year, setting a new record for the Port.
- Coal exports through the Port exceeded 9.5 million tonnes and were the highest throughput since 1997-98. Grain exports (2.8 million tonnes) were only marginally less than last year's record of 2.9 million tonnes.
- Triple Bottom Line reporting has been adopted by the Corporation and will be fully implemented for the 2001-02 reporting year.
- The Corporation has initiated the development of a Marine Heritage Park based around the signal station which will become vacant in the first half of 2001-02.
- The findings of a survey of introduced marine species in ballast water into the Port were released in June 2001. The study identified 48 species of introduced marine organisms in Port Kembla, of which two were on the target list of marine pests. Strategies for control of these species will be implemented.
- Over 8800 motor vehicles were successfully imported over the Multi Purpose Berth during the Olympic period which has led to several companies assessing the feasibility of constructing a permanent vehicle import facility in the Port.
- The first major shipment of sulphuric acid was exported from the upgraded Bulk Liquids Berth during 2000-01.
- The upgrade of No. 3 Tug Berth was completed during 2000-01. As a result of these improvements, the berth is now capable of handling four tugs.
- Trials initiated using 3 tugs for handling of Capesize vessels, which, if successful will lead to significant cost reductions for operators of these vessels.

PORT KEMBLA PORT CORPORATION

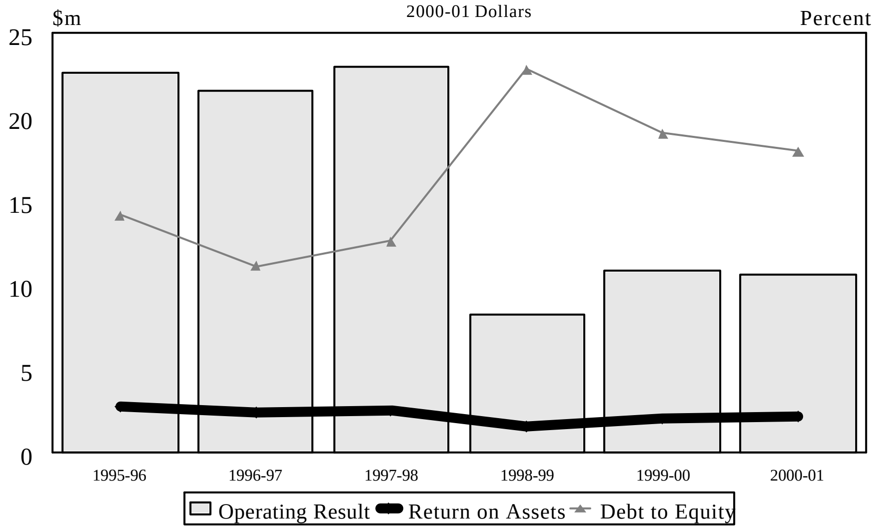
	(1)	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency							
Employment	(2)	53	54	45	44	43	43
Revenue per employee ($000)	(5)	401	334	390	399	396	431
Industrial disputation							
- total hours lost		31	117	0	0	0	0
Contract labour ($m)		1.0	1.0	1.0	1.0	1.8	1.2
Service							
Total trade (million tonnes)	(3)	25.7	26.5	26.2	23.2	23.0	25.0
Vessel arrivals		599.0	643.0	642.0	655.0	620.0	659.0
Vessel turnaround time (hrs)	(4)	62.0	65.0	66.0	59.0	57.0	60.0
Berth occupancy (%)	(4)	25.0	28.0	36.0	32.0	29.0	24.0
Berth queuing time (average hrs per month)	(4)	1,667.0	2,089.0	1,613.0	1,478.0	1221.0	1251.0
Average time at berth (hrs)	(4)	69.0	76.0	76.0	68.0	68.0	70.0
Avg port management charge							
per tonne of cargo ($)	(5)	0.82	0.68	0.71	0.73	0.74	0.74
Avg port management charge							
per vessel ($)	(5)	35,405	26,556	28,802	25,952	27,482	28,109
Finances							
Operating result ($m)	(6)	22.6	21.6	23.0	8.2	10.8	10.6
Contribution to govt ($m)	(7)	9.0	9.1	7.1	12.9	7.0	8.2
Asset sales ($m)	(8)	0.0	0.1	0.2	0.0	(0.1)	0.5
Return on assets (%)		15.1	13.2	13.8	8.9	11.1	12.1
Return on equity (%)		20.9	19.5	20.8	14.0	17.2	20.3
Gross external debt ($m)		83.1	65.4	65.3	64.4	62.9	59.3
Debt to equity (%)		79.3	62.3	70.5	128.1	106.6	100.7
Times interest earned		3.0	4.8	5.3	2.6	3.1	2.7

Notes

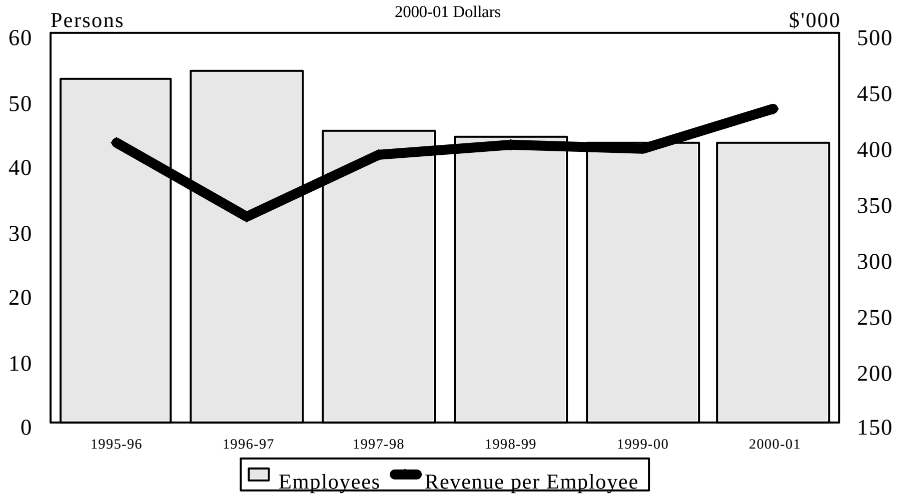
n/a Not available
(1) All dollar amounts are in 2000-01 dollars.
(2) Excludes labour employed by contract or consultancy.
(3) Total trade expressed in million revenue tonnes.
(4) Value given for all berths in Port.
(5) Excludes coal loader lease revenue.
(6) Net profit before tax.
(7) Includes dividend only
(8) 2000-01 only - excludes land transferred under Ministerial direction to Waterways Authority

PORT KEMBLA PORT CORPORATION

Financial Performance

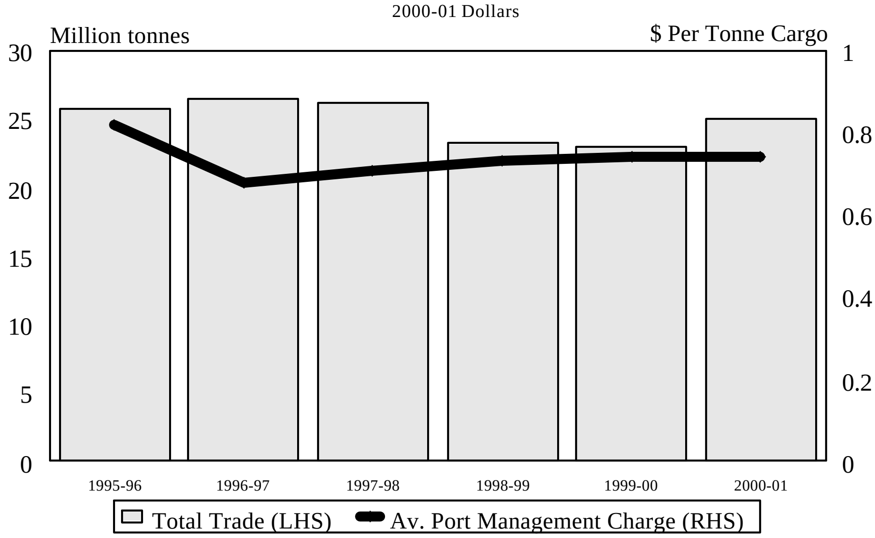


Employment and Labour Efficiency



Excludes Coal Loader Lease Revenue

Total Trade and Port Charges



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SYDNEY PORTS CORPORATION

> **Sydney Ports Corporation's *Vision* is to be an internationally respected commercial port manager in all operational and environmental aspects, and to provide facilities to promote and support trade growth for the benefit of the NSW economy.**

As an island nation, Australia relies on its ports for the import and export of cargo. This reliance is fundamental to both the nation's and the State's economies. In addition Sydney as Australia's largest city, is the focal point of an extensive network of road, rail, sea and air links. As a result, Sydney's ports are a focus for trade throughout Asia and the Pacific.

Sydney Ports Corporation (Sydney Ports) owns and manages the commercial ports of Sydney Harbour and Botany Bay on behalf of the NSW Government. In doing so, Sydney Ports is responsible for facilitating efficient trade through those ports for the benefit of the NSW economy and community. In meeting these objectives Sydney Ports is continually seeking opportunities to maintain and increase trade growth.

Sydney Ports was established in 1995 and has assets totalling approximately $500 million, including port lands in and around Sydney Harbour (comprising Glebe Island/White Bay, Darling Harbour and Sydney Cove Passenger Terminal) and Port Botany (container terminals and bulk liquids facilities).

Sydney Ports presently has three major strategies to advance the organisation:

1. pursuing options to provide sufficient capacity to support continuing trade growth;

2. improving transport access to the ports; and

3. making the most productive and ecologically sustainable use of current landholdings.

Within a relatively short time, the ports' container facilities will be nearing capacity limits. Sydney Ports is implementing a strategy to increase capacity by establishing an intermodal facility at Enfield in Sydney's inner-western suburbs to enable the efficient transfer of goods by rail between the ports and Sydney's major manufacturing and distribution centres. The Corporation has commenced an Environmental Impact Statement for the Enfield project.

A further strategy to increase capacity is to expand Port Botany. The Corporation is seeking approval from Government to commence an Environmental Impact Statement for this project.

The development of the Enfield and Port Botany projects will provide an integrated and efficient freight solution for Sydney's long-term trade requirements.

Sydney Ports enjoyed a successful 2000-01 financial year, earning a profit of $33.0 million before tax equivalent payments. The 2000-01 profit is below that of the previous financial year, principally as a result of the annual actuarial assessment of the Corporation's superannuation asset. In 1999-2000 there was a positive adjustment of $7.1 million, whilst in 2000-01 there was a negative adjustment of $2.7 million to the superannuation balance. A further factor was lower cargo levels than forecast, impacting on income. This was a result of the general world economic slowdown and the loss of some trade to other ports due to the Olympic Games.

SYDNEY PORTS CORPORATION

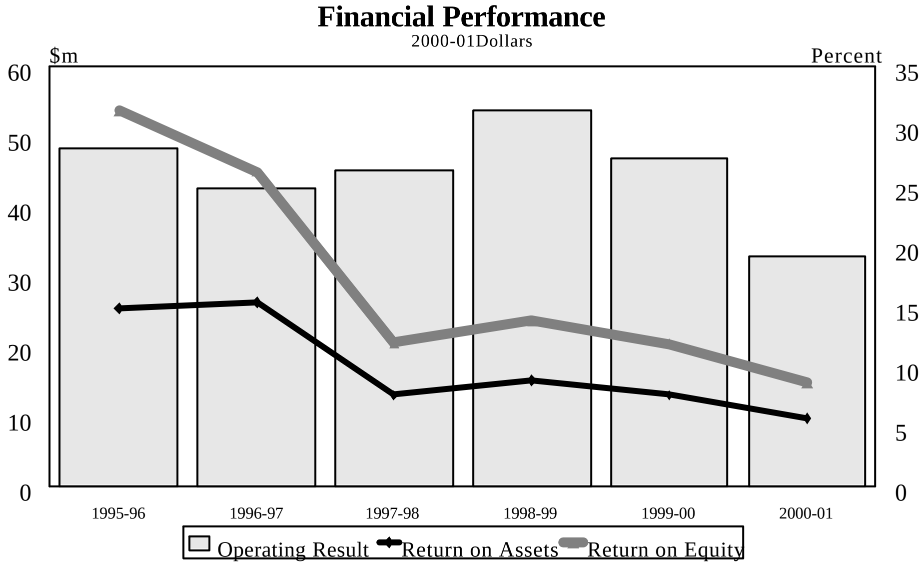
	(1)	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency							
Employment	*(2)*	231	204	199	189	188	196
Revenue per employee ($000)	*(3)*	409	479	554	626	609	554
Industrial disputation							
- total hours lost		0	0	0	0	0	0
- hours lost per employee		0	0	0	0	0	0
Contract labour ($m)		1.39	1.09	0.90	0.48	0.87	0.95
Service							
Total trade (million tonnes)	*(4)*	31.6	32.8	36.3	39.3	45.0	43.9
Vessel arrivals		2,166	2,267	2,330	2,334	2,443	2,295
Vessel turnaround time (hrs)		40.6	40.2	39.6	39.4	42.3	34.4
Average time at berth		38.6	36.5	37.8	37.3	40.3	32.7
Avg port management charge per tonne of cargo ($)		2.20	2.09	2.03	1.90	1.73	1.65
Avg port management charge per vessel ($)		32,123	30,235	31,644	32,065	31,948	31,652
Container Volumes ('000 TEU's)	*(5)*	699	730	801	878	1,016	991
Finances							
Operating result ($m)	*(3)*	48.2	42.5	45.2	53.8	46.9	33.0
Contribution to govt ($m)	*(7)*	33.7	29.8	29.6	31.3	34.0	24.8
Asset sales ($m)		0.7	0.7	0.6	0.4	0.3	0.5
Return on total assets (%)	*(6)*	14.9	15.4	7.6	8.9	7.6	5.7
Return on equity (%)	*(6)*	31.3	26.2	12.0	13.8	11.9	8.6
Gross external debt ($m)		168.5	166.7	166.4	163.9	161.0	152.5
Debt to equity (%)		109.3	102.7	44.4	42.1	40.9	39.7
Times interest earned		7.2	3.8	3.0	4.0	3.5	2.6

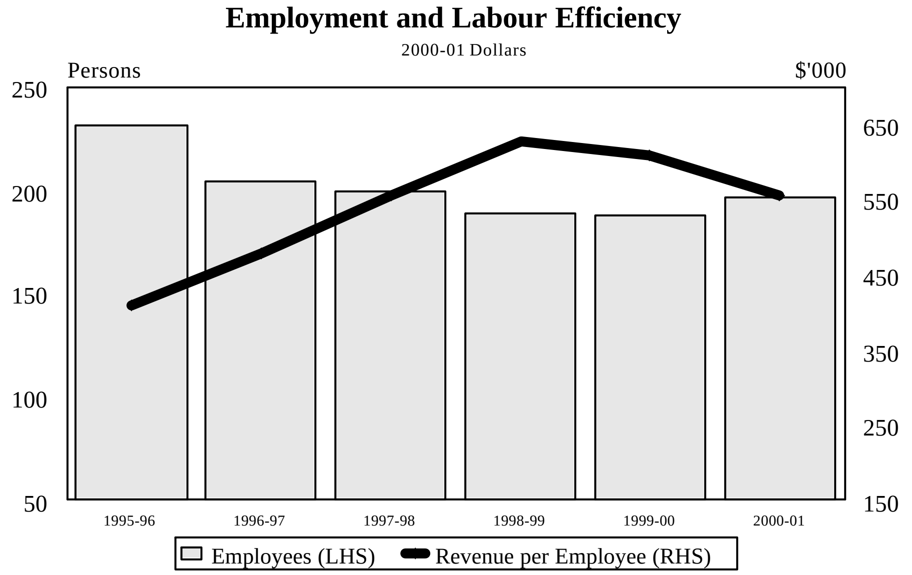
Notes:

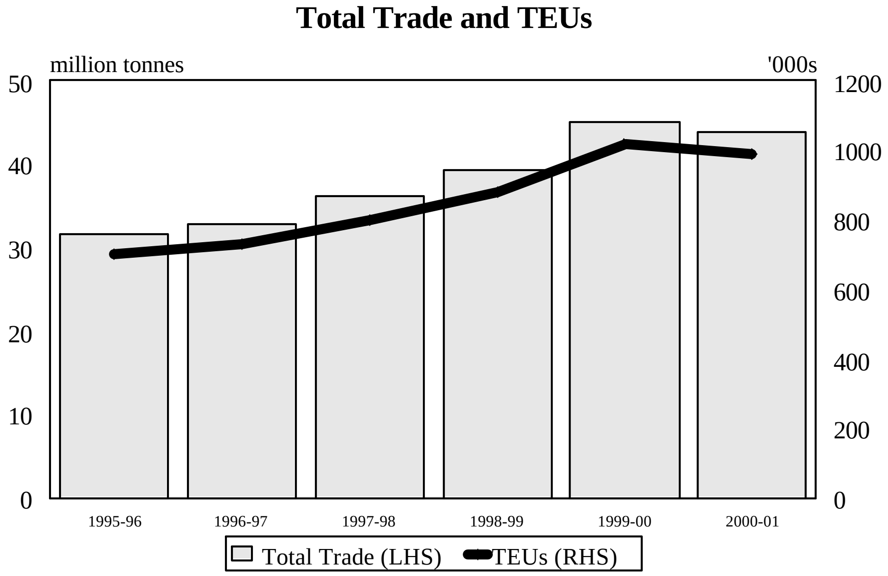
n/a Not available

(1) All values are reported in 2000-01 dollars.
(2) Excludes labour employed by consultancy.
(3) 1998-99 Revenue includes $7m Capital Grant from Government for construction of Wharf 8 Passenger Terminal.
(4) Total trade for SPC berths only (excludes cargo at privately owned berths).
(5) Twenty foot equivalent units
(6) Revaluation of assets undertaken in 1997-98.
(7) Based on tax and dividend payable.

SYDNEY PORTS CORPORATION







MISCELLANEOUS

Department of Housing

Department of Information Technology and Management

(Land and Property Information NSW)

NSW Lotteries

Department of Public Works and Services

State Forests NSW

Waste Service NSW

HOUSING
New South Wales

Ms Jo Devine
Chief Financial Officer
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LIVERPOOL NSW 2170
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DEPARTMENT OF HOUSING

The Department of Housing provides housing assistance to people who have difficulty affording a place to live – particularly people with special needs.

The Department provides housing assistance through Public Housing, the Office of Community Housing, and the Home Purchase Assistance Authority. The Department manages more than 138,600 rental properties through seven public housing regional offices and five community housing regions. The Department lets these properties at subsidised rents to people who experience difficulty in affording housing (with an average annual rebate of $4,025 per property).

Public Housing provides assistance through 125,942 capital properties and 3,203 properties head leased from the private market. This year, the Department housed 12,098 new applicants in public housing, with forty per cent of new applicants housed being priority applicants. In addition to this, 4,610 existing clients were rehoused. The Department maintains a waiting list for public housing applicants, although applicants can also choose to nominate for community housing. In 2000-01, the number of households on the list decreased by 2.3 per cent. This, in part, reflects a greater proportion of applicants housed in relation to the waiting list (up from 16.5% in 1999-00 to 17.4% in 2000-01). The Office of Community Housing provides housing assistance primarily through the funding of 400 non-profit organisations as direct housing providers. These organisations manage 10,522 properties, comprising 6,094 capital properties and 4,428 properties head leased. In 2000-01, the Office expanded its capital and leasing programs, enabling the sector to grow by 9%.

The Department recognises the prohibitive cost of establishing a tenancy in the private rental market for low-income earners. The Department therefore also provides support to eligible clients in the private rental market (RentStart). During 2000-01, the Department provided 42,172 households with 58,921 units of assistance, at a cost of $21.7 million. The Department also supplied rental assistance to people with special needs, such as HIV/AIDS or disabilities.

The Department receives operating funds (rental income) and a capital contribution through the Commonwealth-State Housing Agreement (CSHA). This year, the Department's total rental income (from core and non-core assets) increased 6.8% from $416.4 million (1999-00) to $444.5 million (2000-01), due largely to an increase in the percentage of income that Public Housing tenants pay as rent, introduced in 1999-00. Despite this increase in rental income the Department's financial position (operating result) in 2000-01 ($39.2 million) has fallen relative to 1999-00 ($217.6 million). The 1999-00 operating result included $68 million abnormal credit for prepaid superannuation, and $50 million of loans transferred to NSW Treasury. In 2000-01, asset expenditure increased by $28 million whilst asset revaluation increased by $31m (leading to a positive net change of $3 million). Accounting standards require revaluation to be shown through the balance sheet and the increase in expenditure to be shown through the Statement of Financial Performance. Therefore, the $28 million is shown as expenditure in 2000-01. Furthermore in 2000-2001 the Department increased its maintenance expenditure by $33 million.

The existing CSHA guarantees Commonwealth funding until 2003, although funding is pegged at the 1998-99 level and diminishes by an efficiency dividend of one per cent each year. The Department is continuing to look at its financial management practices and the way in which it provides products and services to ensure that it can continue to supply appropriate housing assistance to the people of New South Wales.

DEPARTMENT OF HOUSING

	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment	(2)	1,768	2,082	2,289	2,129	2,260	2,266	2,255
Work contracted ($m)	(3)	649	662	437	459	549	514	503
Dwellings per housing employee	(4)	75	64	58	63	59	62	61
Admin expenditure ($m)		138.2	155.6	167.9	176.6	167.5	178.4	202.5
Admin expenditure per employee ($000)		78	75	73	83	74	79	90
Service								
Dwellings completed (000)		2.8	2.7	2.0	1.5	2.0	1.3	1.3
Dwellings under management (000)	(5)	132.5	132.3	133.7	134.3	134.0	139.6	138.6
Rental rebates ($m)		681	644	624	637	639	614	558
Rental rebates granted to Rental accounts (%)		91	91	90	90	93	90	91
Rental rebates granted to rent raised (%)		59	57	57	57	59	59	56
Public tenant appeals lodged to tenancies (%)		n/a	1.10	1.10	1.40	1.20	1.50	2.12
Households on waiting list (000)		88.2	93.2	94.8	96.7	97.0	98.3	96.1
Applicants housed to waiting list (%)		13	13	12	10	15	17	17
Real price index	(6)	84.3	86.3	89.4	87.9	85.0	87.2	89.2
Financial indicators								
Operating result ($m)	(7)	(83.6)	218.2	326.2	90.1	120.8	217.6	39.2
Gross external debt ($m)		2,245.5	2,275.6	2,352.5	2,043.5	1,811.4	1,688.4	1,362.3
Asset sales ($m)	(8)	13.3	45.7	56.2	95.4	76.2	124.4	93.3
Return on total assets (%)	(9)	0.7	(1.3)	0.8	4.5	3.4	1.5	0.6
Return on equity (%)		(1.8)	(4.1)	0.0	(1.2)	(1.3)	1.3	0.2
Debt to equity (%)		47.5	47.7	16.5	13.2	12.7	9.6	7.9
Times interest earned		38.6	(100.8)	101.5	(0.5)	2.6	4.2	1.6

The administrative restructure which took effect on 8 April 1999 resulted in the transfer of the Office of Community Housing and the Policy and Strategy Directorate of the Department of Urban Affairs and Planning to the Department of Housing. It also resulted in the transfer of the Home Purchase Assistance Authority (HPAA) to the Department. However, under the Home Purchase Authority Act, HPAA continues to exist as a separate legal entity. The indicators reported above exclude those of HPAA

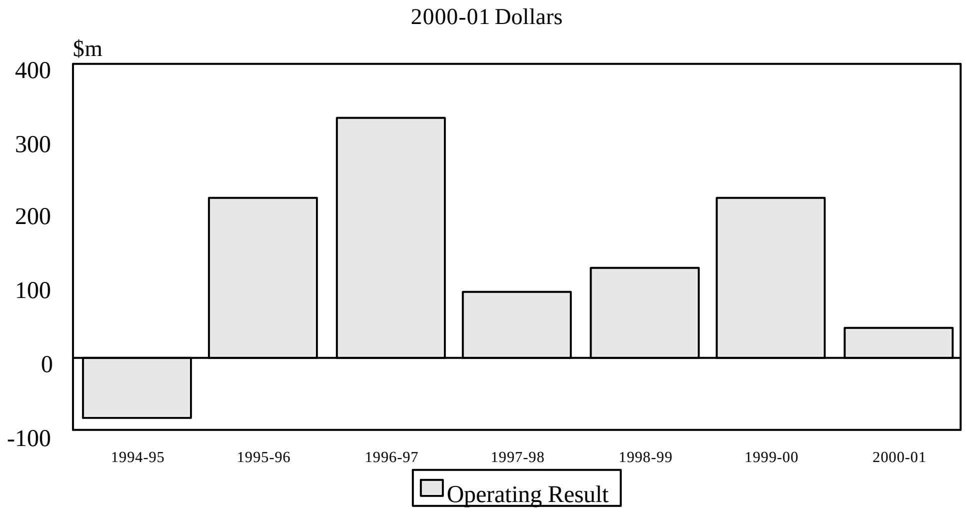
Notes

n/a Not available

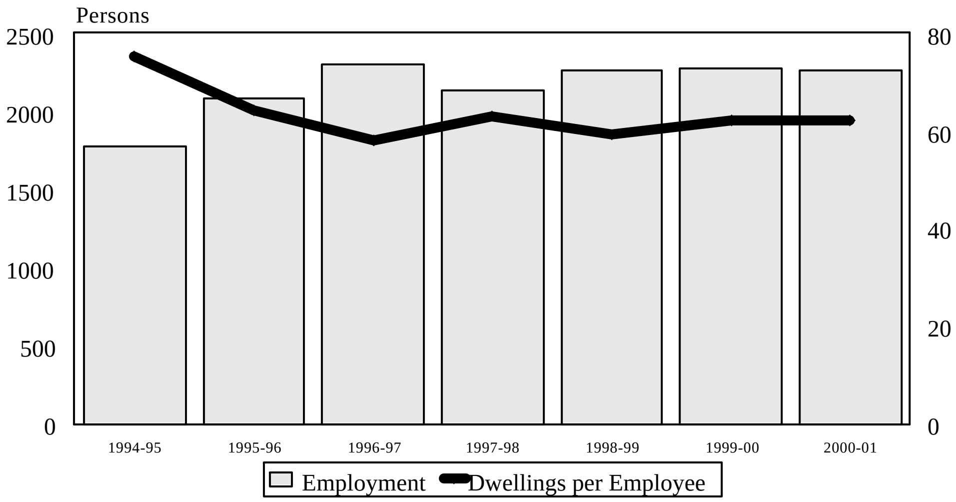
1. All dollar amounts reported in 2000-01 dollars
2. Represents equivalent full time staff (EFT)
3. Represents contractor costs associated with capital works, capital improvements and repairs and maintenance to residential and other properties.
4. Represents dwellings per EFT (staff directly involved in the procurement and management of dwellings including a notional allocation of corporate support staff).
5. Includes dwellings across all program areas, some of which are managed by community organisations on the Department's behalf
6. Derived from information supplied for the Government Charges Index.
7. Represents operating results after capital allocation (1996 $367.7M; 1997 $292.9M; 1998 $230.1M; 1999 $274.5M; 2000 $283.1M). The 1999 -2000 operating results include $67.99M (1998 - 99 $12.9 M) abnormal credit for prepaid superannuation. Due to revised assumptions used in the calculation of the year end superannuation position by the Superannuation Administration Corporation's actuary, the superannuation funding position as at 30 June 2000 was significantly higher than 30 June 1999. In addition, $50 loans payable to NSW Treasury were transferred to NSW Treasury. In previous financial years, loan transfers were directly adjusted to Equity
8. Represents net proceeds from sale of residential and commercial properties
9. Represents operating result before interest expense and after capital allocation

DEPARTMENT OF HOUSING

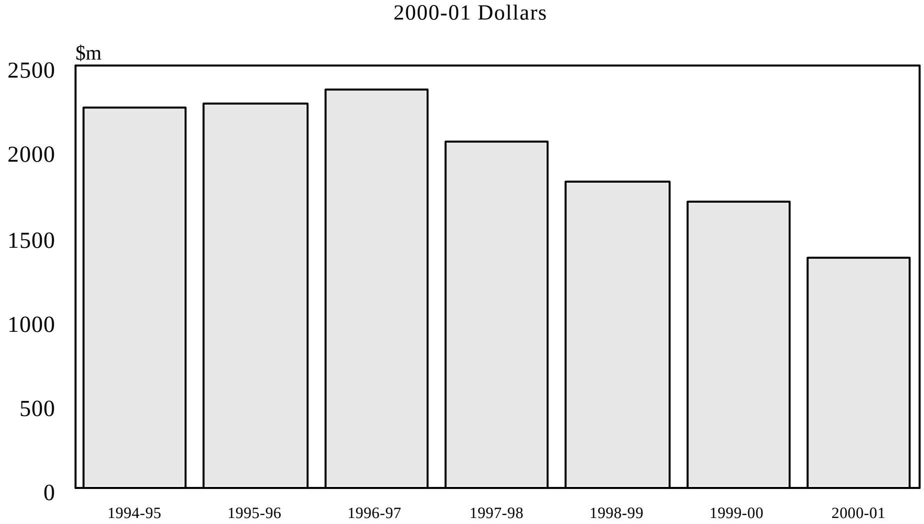
Financial Performance



Employment and Output



Gross External Debt



Department of Information Technology and Management

LAND AND PROPERTY INFORMATION NEW SOUTH WALES

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LAND AND PROPERTY INFORMATION NEW SOUTH WALES

Land and Property Information New South Wales' (LPI) mission is to create value through the integration of land and property information.

In July 2000 LPI, a division of the Department of Information Technology & Management, was formed by merging the functions of the former Land Titles Office, the Land Information Centre and the Valuer General's Office. These three former agencies dealt with information about property and property transactions. LPI was formed to manage and provide more timely and cost effective access to land and property information, and to provide services to the community, business clients and government agencies.

LPI's operating activities consist of three core functions:
1. providing certainty of land title;
2. providing mapping, spatial and survey information; and
3. regulatory valuation functions.

LPI received 2.9 million requests for land title information in 2000-01, 66.8 per cent of which were made electronically. Since 1999-2000, there has also been an improvement in over-the-counter response times for dealings information from 35 minutes to 25 minutes, whereas the response time for plans has increased from 25 minutes to 35 minutes.

A total of 134 out of 176 municipal councils (76 per cent) are currently using the Digital Cadastral Data Base and 101 municipal councils (57 per cent) are using the Digital Topographic Data Base.

In 2000-01 LPI issued 2.35 million valuations (including annual valuations and supplementary valuations) to the Office of State Revenue and 735,000 statutory valuations to local councils.

There was an increase of 11.5 per cent in survey-related searches and enquiries from the previous year.

Revenue for 2000-01 was $107.4 million, 76 per cent of which came from land titling operations. Expenses for the year were $114.1 million resulting in an operating deficit of $6.7 million. The relatively high expenses for the year result mainly from new arrangements regarding superannuation, a consequence of the merger of the three entities. The new enterprise now administers operations previously funded through the Consolidated Fund and expenses need to be tightly managed. As a consequence, management is investigating avenues to increase efficiencies.

LPI's future focus will be on:
- reviewing its range of products and services in line with market demands; and
- investing in new systems and technology and providing online access to customers, where practical.

LAND AND PROPERTY INFORMATION NEW SOUTH WALES

	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								(2)
Employment (average)		704	668	639	609	590	543	955
Output per (100s/EFT)	(3)							
document registrations		17.4	18.0	19.9	22.1	24.7	31.0	60.2
plan registrations (per EFT)		0.6	0.6	0.6	0.6	0.6	0.6	122.7
property information inquiry applications		19.3	22.8	30.2	29.8	27.0	29.3	n/a
title copies		92.2	93.6	124.5	145.0	156.8	202.3	314.7
total core operations	(4)	42.9	42.8	57.8	71.3	82.9	115.0	n/a
valuations		n/a	n/a	n/a	n/a	n/a	n/a	231.3
surveys (enquiries or searches)		n/a	n/a	n/a	n/a	n/a	n/a	9.4
topographical maps-presentation (per EFT)		n/a	n/a	n/a	n/a	n/a	n/a	1.8
cadastral map-parcels updates		n/a	n/a	n/a	n/a	n/a	n/a	30.1
aerial photographs		n/a	n/a	n/a	n/a	n/a	n/a	6.6
Change in Income Per EFT %		2.5	1.3	11.7	15.0	3.7	20.8	n/a
Revenue per EFT employee ($'000)		105.1	101.4	111.7	128.3	131.1	155.6	112.5
Service								
Searches by remote access (%)		n/a	n/a	n/a	n/a	n/a	n/a	66.8
Document registrations (av no days)								
- manual titles		3.0	2.0	2.0	1.5	1.5	1.5	1.5
- auto titles		1.5	1.5	1.5	1.0	1.0	1.0	1.0
Plan registrations (% within 12 days)								
- deposited		86	90	95	84	84	86	79
- Strata titles		98	99	99	97	96	96	98
Land information (av response time)								
- plans (min)		15.0	15.0	15.0	15.0	20.0	25.0	35.0
- dealings (min)		120.0	120.0	120.0	30.0	25.0	35.0	25.0
Surveys (new marks scored in SCIMS)	(5)	n/a	n/a	n/a	n/a	n/a	n/a	4373
No. of Councils using DCDB	(6)	n/a	n/a	n/a	n/a	n/a	n/a	134
No. of Councils using DTDB	(7)	n/a	n/a	n/a	n/a	n/a	n/a	101
Finances								
Total revenue ($m)		74.0	67.8	71.4	78.3	77.3	84.5	107.4
Operating surplus ($m)	(8)	15.7	17.4	24.2	29.7	23.5	53.7	-6.7
Dividend payment ($m)		12.9	20.6	32.3	37.2	21.2	48.5	0.0
Return on Assets (%)	(9)	n/a	n/a	n/a	n/a	n/a	n/a	-5.9
Return on Equity (%)	(10)	n/a	n/a	n/a	n/a	n/a	n/a	-13.3
Debt to Equity Ratio	(11)	n/a	n/a	n/a	n/a	n/a	n/a	1.3
Social Program funding ($m)		n/a	n/a	n/a	n/a	n/a	n/a	0.9

Notes:

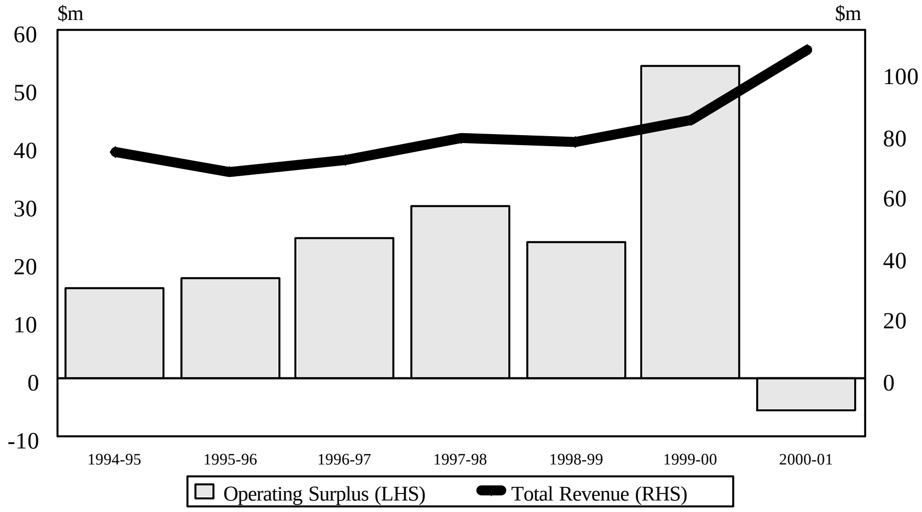
n/a not available/not applicable.
Productivity benchmark established in 1990 applies up to 1999/00.

(1) All dollar amounts are reported in 2000-01 dollars
(2) Land Titles Office amalgamated with the Valuer General's Office and the Land Information Centre to form Land and Property Information NSW on 1 July 2000
(3) Meaures for 2000/01 include staff directly associated with each activity. Results are not comparable with previous years
(4) Total Factor Productivity for operational staff
(5) Survey Control Information Management Data Base (SCIMS)
(6) Digital Cadastral Data Base (DCDB)
(7) Digital Topographical Data Base (DTDB)
(8) In 1999/00 superannuation was $22.1M lower than expected whereas, in 2000/01 superannuation was $9.2M higher than expected. In addition, LPI includes the expenses of the former Land and Information Centre, which was a budget sector agency before the merger.
(9) Profit before tax, interest, dividends and abnormals divided by total assets
(10) Profit before tax, interest, dividends and abnormals divided by total equity
(11) Total Debts / Total Equity

LAND AND PROPERTY INFORMATION NEW SOUTH WALES

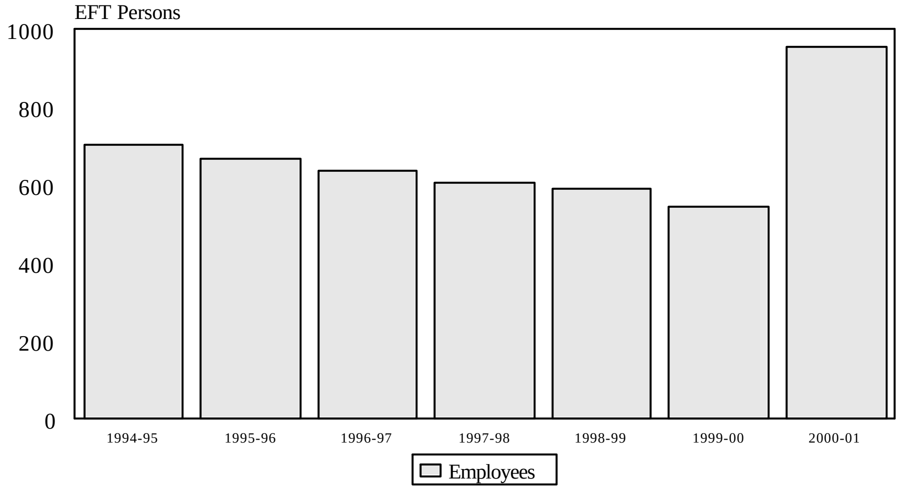
Financial Performance

2000-01 Dollars



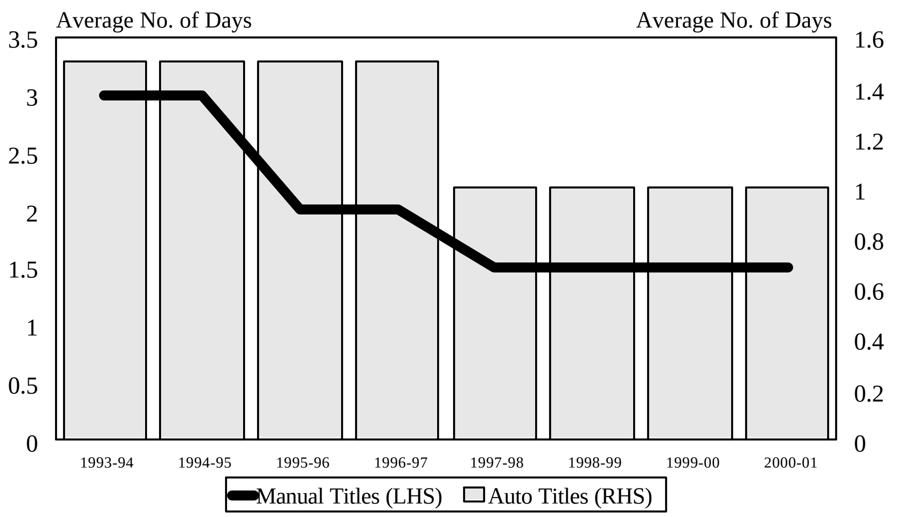
Employment

2000-01 Dollars



EFT - Equivalent Full Time Employees

Productivity and Dealing Registrations



NSW Lotterie$

We all get a lot out of lotteries

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NSW LOTTERIES

NSW Lotteries is the largest operator of lottery games in Australia. Its product portfolio comprises the Lotto-style games of Lotto, Lotto Strike, OZ Lotto and Powerball together with Instant Scratchies, Lucky Lotteries and 6 from 38 Pools. The products are sold generally throughout New South Wales and the Australian Capital Territory through a retail distribution network consisting of 1609 small businesses.

In 2000-01, the Corporation reached two significant milestones – it entered its 70th year of trading and was the first Australian lottery jurisdiction to achieve over a billion dollars in sales for the year. Total sales (including GST but net of retailer commission) of $1,010.7 million were $64.7 million (or 6.8%) above the previous year. The main factors contributing to this result were the successful extension of the Lotto game with the introduction of Saturday Lotto and the growth of the Powerball game.

Total duties of $253.5 million were paid to Government. Tax equivalent payments and dividends of $38.3 million were well above expectations. As a result, the Corporation's overall contribution to its Shareholders totalled $291.8 million. The various small businesses comprising the Corporation's selling network earned a record $59.8 million in retailer commission from the sale of NSW Lotteries' products.

In the most competitive gaming and wagering market in Australia, NSW Lotteries successfully addressed a number of major challenges this year. The implementation of a new gaming system proved to be the most significant technical undertaking by the Corporation since the original online system was introduced in 1987. The new system now provides the technological platform for enhanced services to players and retailers well into the new millennium. In addition, a new Saturday Lotto game was launched in December 2000. The Corporation also successfully dealt with the introduction of the Federal Government's Goods and Services Tax and did not experience any operational difficulties from the staging of the Olympic and Paralympic Games.

As lotteries are a very mature product, the lottery industry worldwide is facing a challenging sales environment. Coupled with this trend, the Corporation faces competition from the extensive range of gaming and gambling choices on offer in New South Wales as well as the growing desensitisation of players to the stimulus of large prizes. Whilst the "repackaging" of existing games has worked reasonably well in the past, it is clear that the launching of new games yields the most effective long-term sales gains. The identification and implementation of new games, in a socially responsible manner, is therefore a major priority to ensure the Corporation's future success and on-going contribution to the community.

NSW LOTTERIES

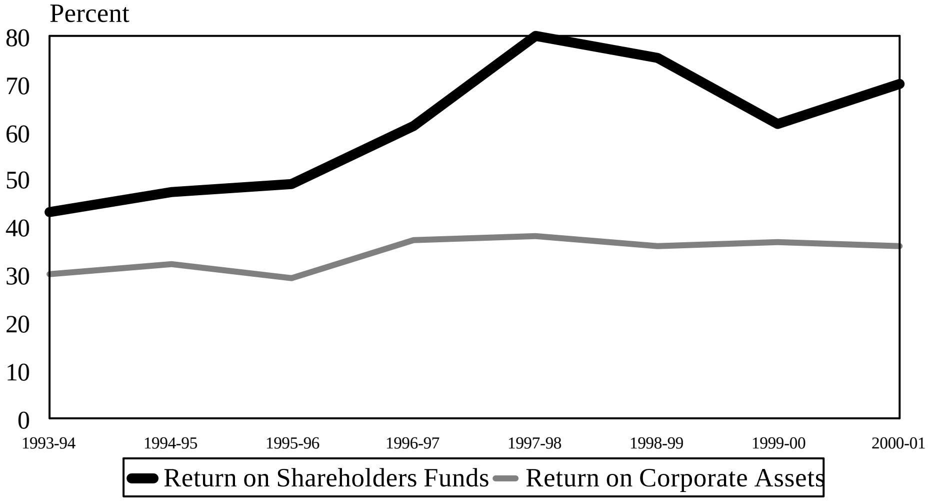
	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment		240	243	235	222	209	203	205
Total sales per employee ($m)		4.5	4.4	4.5	5.0	5.3	5.2	5.2
Days lost for sick leave per employee		6.3	5.2	6.5	5.3	6.4	6.1	7.2
Days lost for workers compensation per employee		0.5	0.8	0.5	0.3	0.6	0.3	0.3
Effectiveness								
Agent commissions ($m)		61.3	61.1	60.7	62.2	62.6	59.5	59.8
Net sales ($m)		1002.2	995.9	1006.9	1038.3	1047.3	1004.8	1010.7
Total sales ($m)	*(2)*	1063.5	1057.0	1067.6	1100.5	1110.0	1064.3	1070.5
Prize payments ($m)		615.1	611.4	617.9	636.9	642.8	615.8	617.3
Total sales per capita ($)	*(3)*	232.6	227.9	227.1	231.2	230.2	221.8	222.1
Number of on-line agents		1429	1428	1422	1417	1414	1413	1408
Number of instant only agents		329	321	290	249	229	219	201
On-line system uptime (%)		100	99.99	99.97	99.99	99.99	100	99.92
Financial indicators								
Government licence duties ($m)	*(7)*	292.8	291.0	294.2	300.4	301.2	296.2	253.5
Return on shareholders funds (%)	*(4)*	47	49	61	80	75	61	70
Return on corporate assets (%)	*(5)*	32	30	40	42	40	37	36
Dividend and tax equivalent payments ($m)	*(6)*	28.2	27.9	28.3	31.8	33.7	29.3	38.3

Notes:

n/a Not Applicable
(1) All dollar amounts are reported in 2000-01 dollars.
(2) Total Sales includes Agent Commission.
(3) Population based on estimate of persons over 18 years
(4) Return based on surplus before abnormal items and tax equivalents.
(5) Relates to assets of the Corporation, excluding prize funds.
(6) For comparative purposes, a one-off special equity distribution of $24.5 million as a result of Corporatisation in 1996/97 has been excluded.
(7) Duties in 2000-01 exclude GST.

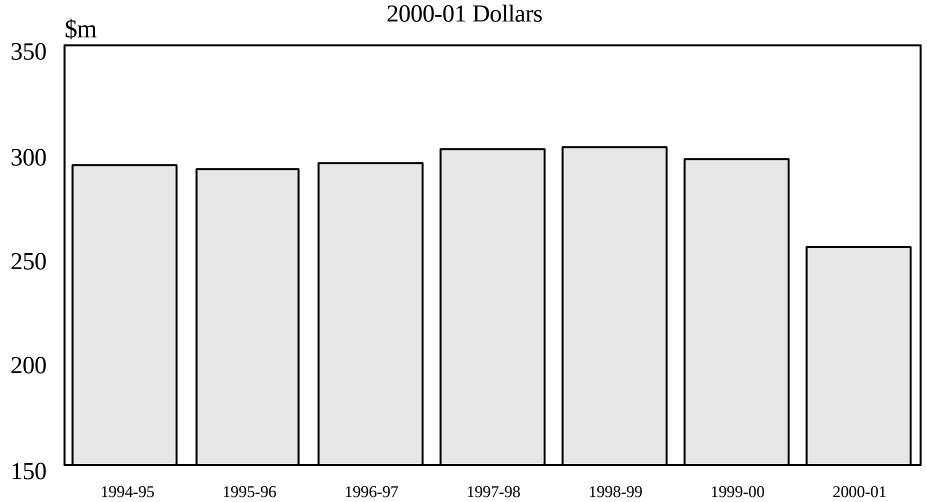
NSW LOTTERIES

Financial Performance



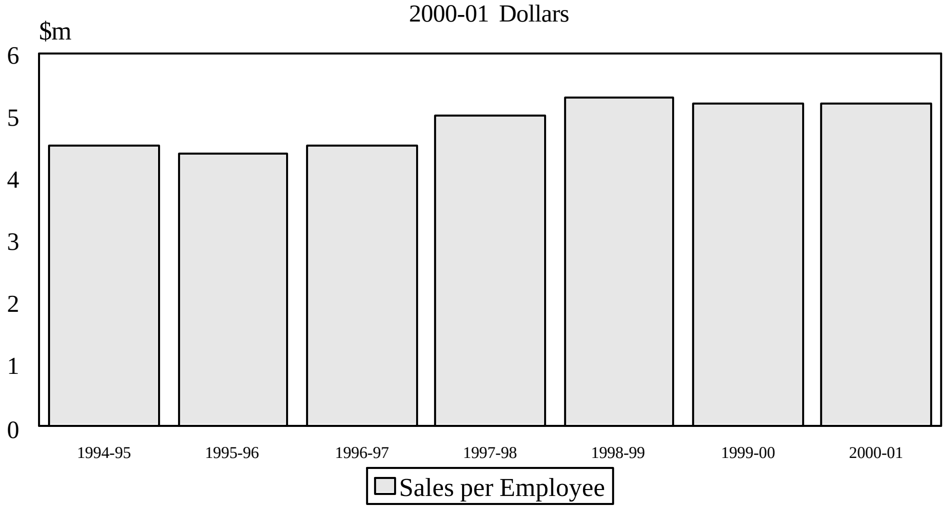
Government Licence Duties

2000-01 Dollars



Labour Efficiency

2000-01 Dollars



DPWS
NSW DEPARTMENT
OF PUBLIC WORKS
AND SERVICES

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DEPARTMENT OF PUBLIC WORKS AND SERVICES

The Department of Public Works and Services (DPWS) provides strategic and professional advice and expertise in business services, procurement, asset management and infrastructure to NSW Government agencies.

Services delivered to clients include procurement of goods and services; architectural and engineering services; property, asset and project management; environmental and business services; and corporate services.

During 2000-01, DPWS delivered cost savings of around $670M to Government through its asset management and procurement activities.

The Department's operating loss of $22.4M for 2000-01 is after a reduction of $28.7M in prepaid superannuation balance, as required under the revised accounting standards (AAS1). During the previous year, movement in prepaid superannuation balance was treated as an abnormal item and therefore had no impact on the operating result. Excluding the movement in superannuation balance, the Department achieved a net profit of $6.3M compared to a net loss of $2.4M for 1999-00

Managing State Assets
Asset management activities during 2000-01 delivered $86M in savings to Government.

- Compared to private sector averages, DPWS achieved savings of:
  - $18M (3%), through improved procurement methods and reduced project delivery/ construction costs on $600M worth of Government projects; and
  - $6M through dispute resolution expertise.
- Smart design concept adopted on the Shoalhaven Water Regional Effluent Management System realised a cost saving of $41M on water supply and sewerage management; and
- Through the innovative and co-ordinated disposal methods used in its asset disposal program, DPWS increased the sum total of sales revenue to its clients by some $21M.

Better Procurement
DPWS' purchasing power delivered overall savings of $450M to Government.

- The Component Design range saved $1M in the procurement of primary schools;
- Centralised procurement arrangements, for the State Contracts Control Board, achieved price reductions of up to 50% compared to market price, generating savings of $400M;
- Bulk purchase of media contracts achieved savings of $34M (29%) on market rates;
- The leasing facility and fleet management of the State's vehicle fleet provided $7M in savings; and
- DPWS' shared service centre for contracting goods and services resulted in savings of $8M - $12M in administration costs for government agencies.

Supporting Government reform
DPWS delivers annual cost savings of $140M to Government through its reform policies.

- Total Asset Management (TAM) reform practices deliver savings of $10M to Government each year;
- Construction Industry Development reforms deliver annual savings of $50M in building costs to Government. This saving has been achieved annually since 1991; and
- Government Office Accommodation Reform Program delivers savings of $78M pa.

DEPARTMENT OF PUBLIC WORKS AND SERVICES

	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment		2,632	2,423	2,511	2,366	2,573	2,516	2,416
Total expenditure ($m)	(2)	365.2	335.0	346.8	347.5	358.1	394.2	387.1
Revenue per employee ($000)		155.5	147.9	146.3	155.1	140.6	156.7	151.0
Hours lost to industrial disputes								
per employee		0.0	0.0	0.0	0.0	0.0	0.0	0.1
total ('000)		0.0	0.0	0.0	0.0	0.0	0.0	2.5
Average days sick leave per employee:								
salary staff		5.6	6.0	5.9	7.0	6.7	6.0	7.2
wages staff		6.5	6.6	6.1	5.1	7.0	6.1	5.7
total staff		5.7	6.1	6.0	6.7	6.8	6.1	7.0
Service								
No. of construction contracts let > $0.25m		399	307	275	306	296	273	272
Total no. of construction contracts let		1,857	1,093	1,231	871	1,462	1,423	1,208
Value of purchases through								
goods & services period contracts ($m)		1,503	1,432	1,376	1,413	2,283	2,390	2,290
No. of goods & services period contracts		590	300	437	386	433	400	388
No. of vehicles leased by statefleet		10,938	12,004	13,047	14,952	23,166	23,425	23,879
Capital assets under management ($m)		404.3	431.3	425.2	342.0	496.4	484.9	457.7
Commercial space under mg'mnt ('000 sqm)		312	313	317	358	319	352	339
No. of commercial properties/buildings								
under management		125	125	125	160	165	146	144
Crown property sales ($m)		0.0	0.9	96.3	140.3	0.0	0.6	9.3
Financial indicators								
Government funded services ($m)	(3)	34.5	36.1	35.8	31.3	29.9	29.4	29.7
Asset sales ($m)		9.3	154.9	9.6	9.8	3.6	0.5	1.9
Operating result ($m)	(2)	39.5	23.2	20.5	19.5	3.8	-2.4	-22.4
Return on equity (%)	(2)	11.7	11.6	7.3	5.9	1.2	-0.6	-6.0
Financial distribution to govt ($m)		32.8	172.4	14.4	29.1	11.5	0.5	0.0

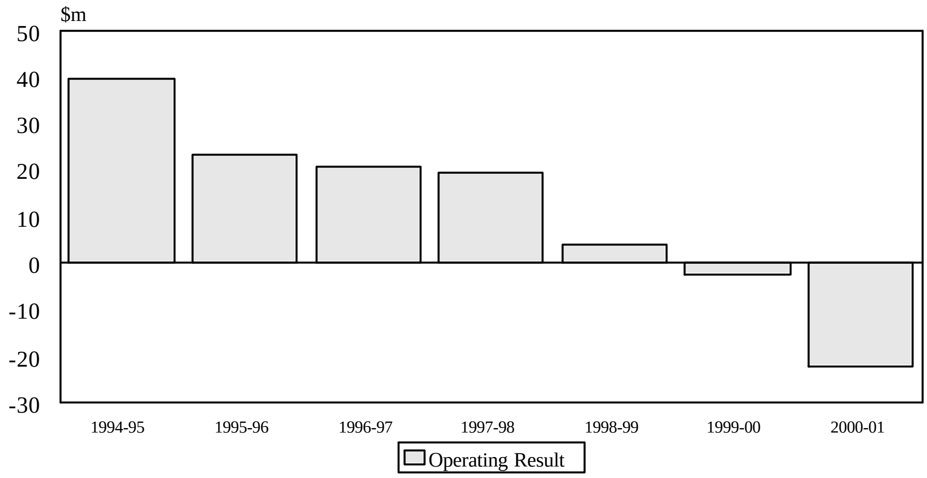
Notes:

n/a Not available
(1) All dollar amounts are reported in 2000-01 dollars
(2) Total expenditure for 2000-01 includes $28.7 million reduction in pre paid superannuation balance. This item is included in total expenditure as required under the revised accounting standard (AAS1). Excluding this item the department's operations resulted in a profit of $6.3 million and a return on equity of 1.7%.
(3) Services and activities performed for Government which are not funded through fees from clients

DEPARTMENT OF PUBLIC WORKS AND SERVICES

Financial Performance

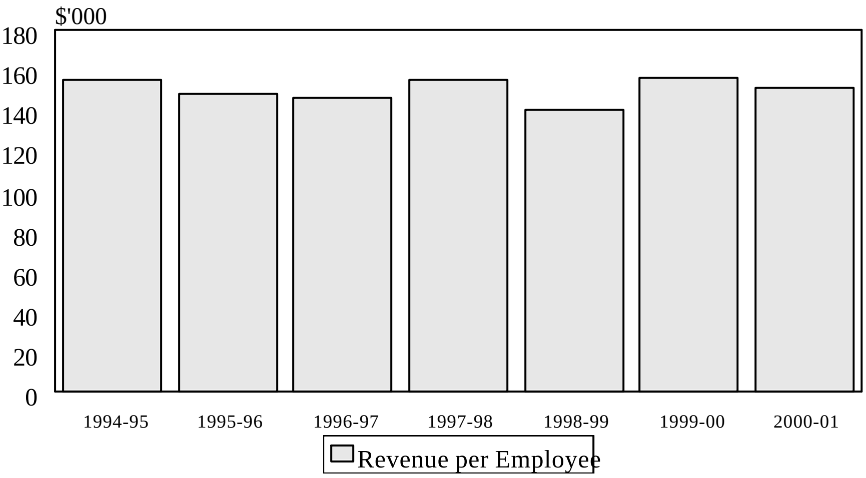
2000-01 Dollars



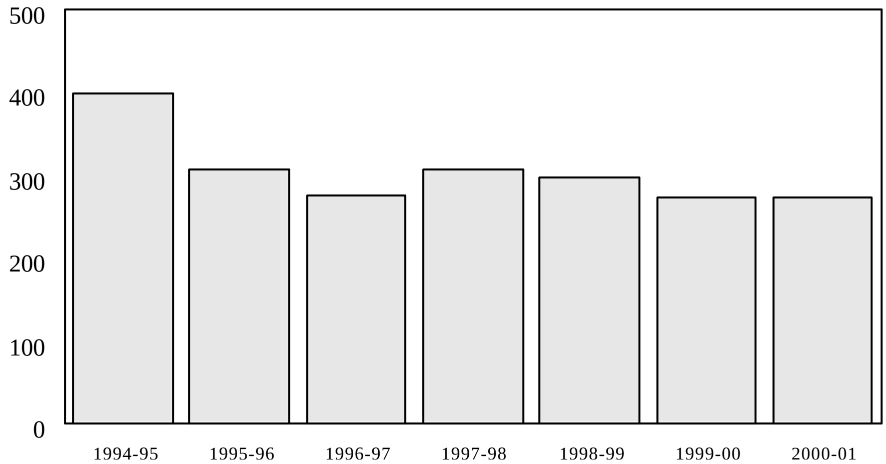
*2000-01 Operating Loss resulted from a $28.7m charge to prepaid Superannuation (see note 2 in the financials)

Labour Efficiency

2000-01 Dollars



Number of Construction Contracts Let
(Greater than $0.25 million)



STATE FORESTS

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STATE FORESTS

State Forests recorded unsatisfactory financial results in 2000-01. The major reason for the poor performance was the Australia-wide economic downturn experienced throughout the fiscal year, which had a particularly severe impact on the building industry. This slump affected both the hardwood and softwood businesses resulting in a loss of revenue from these traditional sources.

The projected recovery of the economy from the downturn and the already strong resurgence of the housing industry is encouraging. A return to full production is not expected until early 2002. However, a strong new business initiative in the provision of environmental services has emerged during the last twelve months. These services are linked to community desire to address environmental issues, including global warming, salinity and declining biodiversity.

Financial Performance

Revenue from operating activities for the year of $162 million, was down 4.3 per cent from last year. Operating expenditure, however, was up 5.5 per cent over the previous year. While growth in the building sector has started, it will be some time before sustained growth will generate normal business activities for State Forests.

Environmental Services

While State Forests continues to look to its traditional timber production activities as its major source of revenue, the last twelve months saw several investment opportunities arise in environmental service provision. Two agreements have been signed with overseas companies as an offset against their greenhouse gas emissions. Arising out of the NSW Salinity Summit in March 2000, State Forests has been contracted to arrange for trial plantings at various sites throughout the State to determine survival and growth rates. State Forests will play a significant role in addressing salinity problems.

Plantation Expansion Program

During the year, softwood and hardwood planting programs were joined under the one Division called Planted Forests. Over the last 6 years, over 20,000 hectares of new hardwood plantations have been established (8,584 hectares planted in 2000-01). In softwoods, first rotation 550 hectares were planted and a further 4,471 hectares were replanted as second rotation in 2000-01.

Native Forest Management

During 2000-01, the Commonwealth and State Governments signed the South-East Regional Forest Agreement (RFA). The Western RFA is currently under review and negotiations between all interested groups has commenced. The Government's conservation objectives have been met through the enhanced National Parks program and the Timber Industry has acquired certainty of resource (20 year supply agreements), leading on to investment in modern plant and equipment.

Future Outlook

It is expected that traditional revenues from hardwood and softwood markets will remain depressed until early 2002. However, prospects for the continuing growth of commercial markets for carbon credits and other environmental services remain very positive and State Forests is well positioned to benefit. A key objective for State Forests next year is to deliver the triple bottom line benefits of economic growth, environmental excellence and social responsibility to all stakeholders, including the community, the timber industry and the Government.

STATE FORESTS

	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment		1,609	1,552	1,495	1,423	1,392	1,196	1,169
Total revenue per employee ($000)		125.8	88.7	174.2	121.6	119.5	150.3	138.6
Sawlogs sold per employee, including pine (000 m^3)		1.40	1.30	1.30	1.50	1.70	2.17	1.80
Pulp sold per employee, including pine (000 tonnes)		0.90	0.80	0.70	0.80	1.00	1.12	1.14
Pine plantations managed per employee (hectares)		126	131	139	145	152	171	231
Other forests managed per employee (hectares)		2,086	2,197	2,169	2,241	1,904	1,923	2,118
Workplace injuries causing absence	(2)	47	44	47	44	33	31	42
Workplace injury frequency rate	(3)	16.4	15.7	19.0	17.4	13.9	14.2	18.6
Service								
State forest managed (000 hectares)								
- pine plantations		202	203	208	207	211	205	270
- other forests		3,356	3,410	3,242	3,189	2,650	2,300	2,476
Timber production								
- sawlogs, including pine (000 m^3)		2,212	2,006	1,995	2,181	2,417	2,593	2,101
- pulp, including pine (000 tonnes)		1,437	1,211	1,111	1,156	1,406	1,342	1,328
Pine plantations planted (hectares per year)		3,996	6,415	6,200	6,067	5,693	5,505	5,021
Hardwood plantations planted (hectares per year)	(4)	1,747	2,077	5,000	7,500	4,000	5,300	8,584
Finances								
Total revenue ($m)	(5)	158.7	143.8	137.9	149.6	165.3	179.7	162.0
Operating surplus ($m)	(5)	147.8	(6.9)	130.1	(22.1)	14.0	117.9	-68.8
Operating surplus before MVI ($m)	(5)	30.8	15.9	11.5	21.7	18.6	31.3	9.8
Total assets ($m)	(5)	1,465.7	1,623.7	1,770.4	1,781.3	1,747.1	1,789.5	2,309.1
Total liabilities ($m)	(6)	224.8	258.9	332.3	360.2	386.7	355.7	397.8
Total equity ($m)		1,240.9	1,375.6	1,438.0	1,421.1	1,360.5	1,433.8	1,911.3
Interest bearing debt ($m)	(7)	56.7	95.6	107.7	126.1	137.1	133.9	138.4
Return on assets (%)	(6)	10.5	0.0	7.3	(1.2)	0.8	6.6	(3.0)
Return on equity (%)		11.9	(0.5)	9.0	(1.6)	1.0	8.2	(3.6)
Debt to equity (%)		4.6	6.9	7.5	8.9	10.1	9.3	7.2
Total liabilities to equity (%)		18.1	18.8	23.1	25.4	28.4	24.8	20.8
Current ratio		1.2	1.0	1.8	1.1	1.2	1.2	1.0
Times interest earned	(8)	27.9	(0.6)	13.9	(2.7)	1.6	3.9	(8.6)

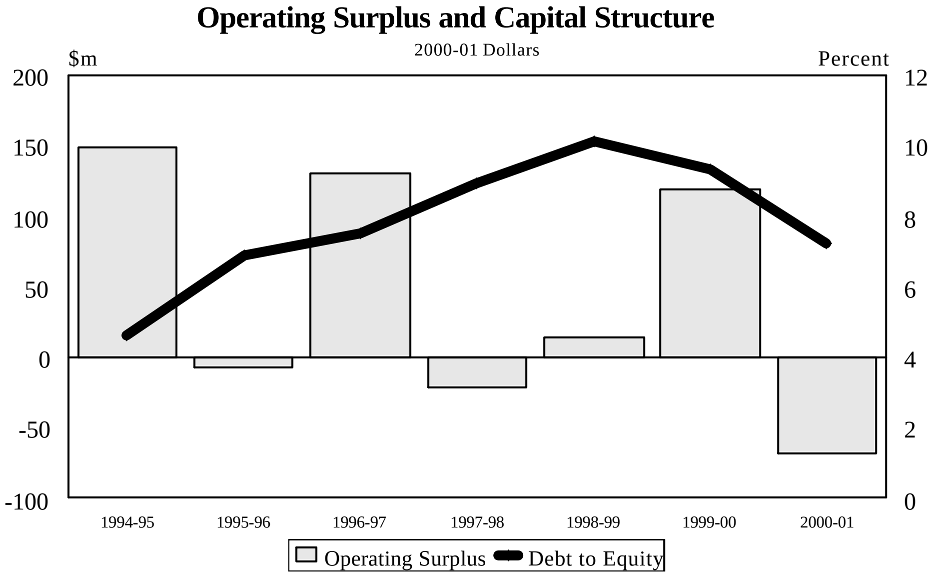
Notes:

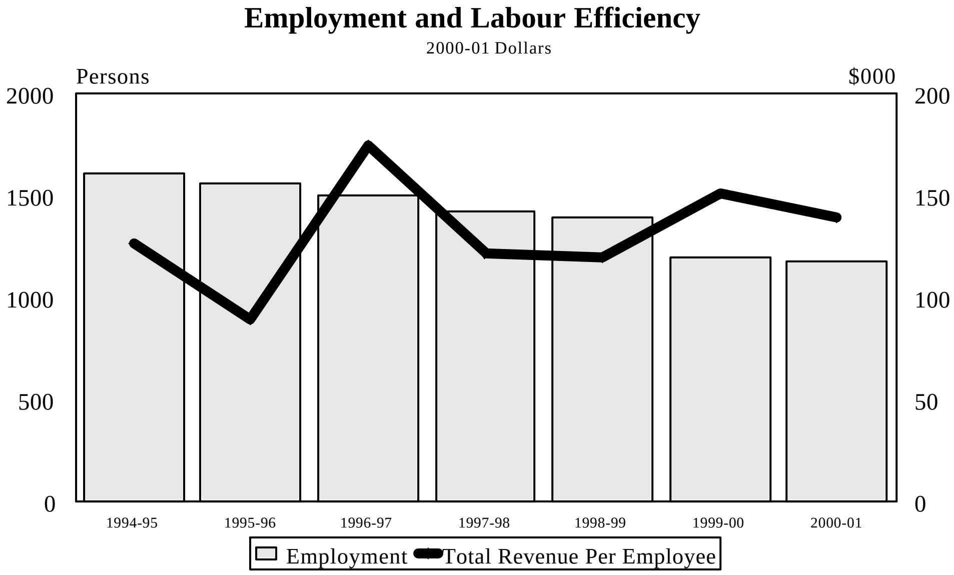
n/a Not available

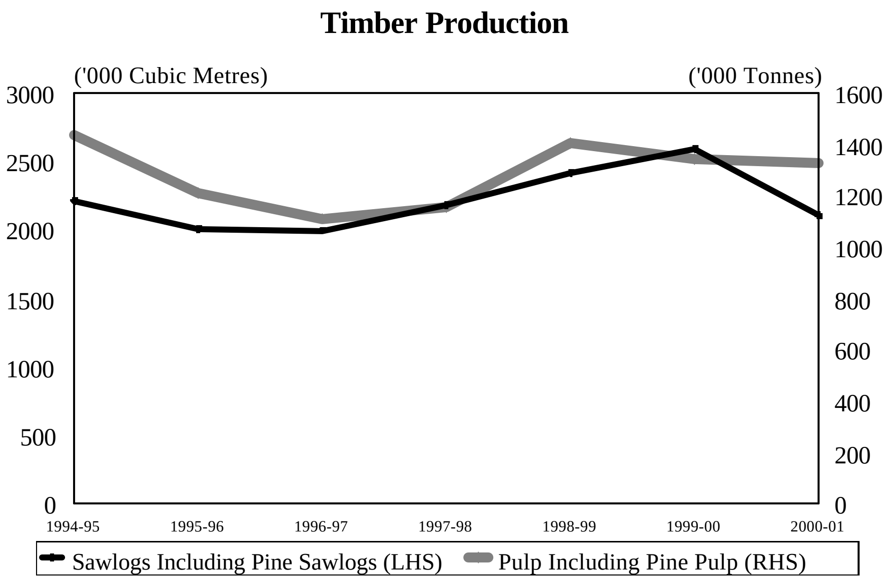
Unaudited Financial Results

1. All dollar amounts are reported in 2000-01 dollars.
2. Number of work injuries which resulted in employees being unable to work for at least one full day (or shift) after the day (or shift) on which the injury occurred.
3. An index to illustrate the number of workplace injuries expressed in terms of a million work hour units.
4. Hardwood hectares planted after 1992-93 relate to structured plantation partnerships and Government funded program.
5. Market value increment (MVI) represents increase/decrease in the imputed market value of the forest asset. 2000/01 saw the implementation of AAS 35 Self Generating and Regenerating Assets requiring the both native forests and plantations to be valued at imputed market value every year. The market value decrement relates to falling timber prices, revised inventory techniques exacerbated by a downturn in the housing industry.
6. Increase in liabilities for 1995-96 is due to increased borrowings and increased deferred tax position.
7. Increases in debt levels from 1995-96 are to support the capital investment program into plantation establishment.
8. Times interest earned in 1994-95 is large due to the increased revenues and profits from MVI effects. Negative ratios in 1995/96, 1997/98 and 2000/01 are due to the decrements in MVI.

STATE FORESTS







WASTE SERVICE NSW

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WASTE SERVICE NSW

Waste Service was restructured to improve operational efficiency in 2000 and was corporatised on 1 September 2001. The restructure and corporatisation impacted on the cost of Waste Service NSW's operations, resulting in an operating loss of $1.6 million over the 14 months from 1 July 2000 to 31 August 2001.

Waste Service NSW is the trading name of Waste Recycling and Processing Service of NSW. Since the NSW Government established the Metropolitan Waste Disposal Authority (later Waste Service NSW) in 1971, the organisation has been the major waste disposal business in Sydney. Waste in Sydney's greater metropolitan region is managed through a network of waste management centres, including seven solid waste transfer stations, four engineered landfills, two materials recycling facilities and a treatment plant for industrial liquid and sludge waste.

Overview of the year

An organisational restructure of Waste Service NSW was finalised in December 2000. At the same time, the majority of new positions associated with the restructure were filled. Under the new structure, four divisions replaced the previous nine to create a flexible, competitive structure that promotes effective internal and external communication.

During 2000-01, 538 customer feedback reports were received from 1.72 million transactions. Seventy per cent (376 of 538) were pollution complaints. The remainder comprised positive and negative feedback on waste acceptance and handling, customer service and pricing.

During 2000-01, Waste Service NSW was fined for a breach of section 16(1) of the *Occupational Health and Safety Act 1983* when contractors at Belrose Waste Management Centre were exposed to health and safety risks. Waste Service NSW has improved systems for contractor management, induction, safe work methods and safety systems for waste oil receival and disposal. Waste Service NSW also removed a trip hazard at transfer station pits after receiving a Provisional Improvement Notice for an incident involving a member of the public. Improvements were reviewed and approved by WorkCover NSW.

Waste Service reported on a 14 month period (1 July 2000 – 31 August 2001), because it was corporatised on 1 September 2001. For this period, Waste Service reported an unaudited operating loss of $1.6 million compared with last year's profit of $11.9 million. Major costs were incurred during the extensive analysis and restructuring of business lines. This restructure was designed to place Waste Service in a competitive position to add shareholder value in future years.

Outlook

Prior to 1 September 2001, Waste Service NSW was a Government Trading Enterprise. While the business was commercialised, its investing activities were constrained. Following corporatisation on 1 September 2001, the organisation became a statutory State Owned Corporation. It now has commercial investing freedom (subject to normal shareholder controls) but is subject to Ministerial direction for non-commercial activities, public policy and public interest issues.

The corporatised organisation will operate and manage waste disposal and resource recovery facilities and develop enhanced services to meet the changing needs of its customers. The organisation looks forward to working co-operatively with local government and the private sector to deliver integrated waste management solutions.

WASTE SERVICE NSW

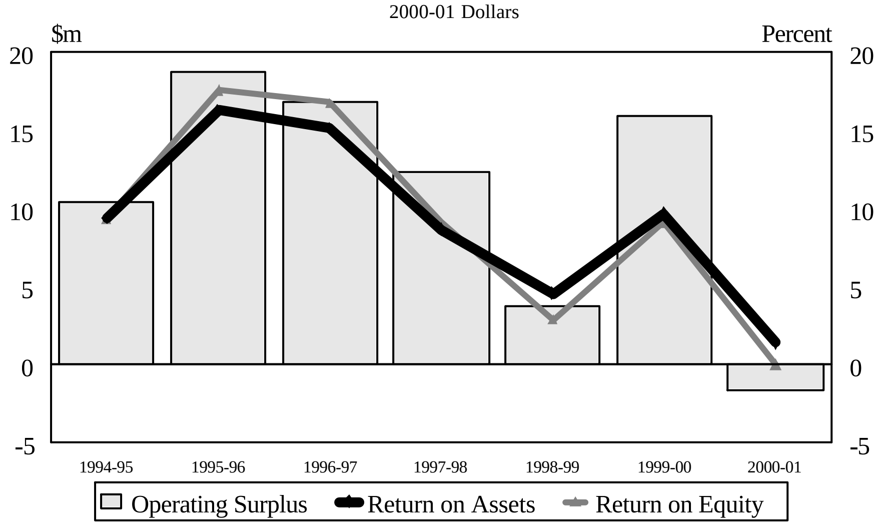
	(1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Efficiency								
Employment	(2)	125	129	139	156	154	144	134
Output per employee	(3)	716.7	818.7	889.1	843.4	1264.6	1174.1	1193.4
Landfill utilisation (m^3 per tonne)	(4)	1.2	1.2	1.2	1.2	1.2	1.2	1.1
Recycling tonnes (000)		54	89	116	108	172	195	224
Tonnes to landfill (mt)	(5)	1.7	1.7	1.7	1.8	1.9	2.1	2.3
Service								
Service days lost at facilities		1	0	0	2	0	2	0
Ave waste charge increase								
solid	(6)	8.1	23.2	7.2	3.8	8.4	6.5	4.7
liquid		6.8	8.0	4.2	3.8	4.0	4.5	5.0
Real price index								
solid waste	(7)	125.17	147.92	156.45	162.20	173.17	180.29	177.60
liquid waste	(7)	114.90	118.32	121.60	126.07	129.04	131.77	130.20
Finances								
Operating surplus ($m)	(8)	10.49	18.76	16.83	12.27	3.81	15.93	-1.60
Return on assets (%)	(9)	9.4	16.3	15.2	8.7	4.6	9.7	1.4
Return on equity (%)	(10)	9.4	17.6	16.8	9.1	2.9	9.1	0.0
Gross external debt ($m)		18.74	15.84	25.47	37.36	49.80	48.65	45.90
Debt to equity (%)		21.7	18.0	22.4	34.0	52.5	42.5	78.8
Dividend payments ($m)		2.9	6.1	6.1	4.6	5.1	5.3	0.0
Tax Equivalent ($m)		4.1	7.1	9.2	4.4	1.7	1.1	0.0
Credit management - days o/s		35	28	33	33	34	35	39
Proportion of costs contracted out								
solid waste system (%)	(11)	91	93	93	91	90	90	91
liquid waste system (%)		73	81	84	86	86	86	87

n/a Not available
f Forecast

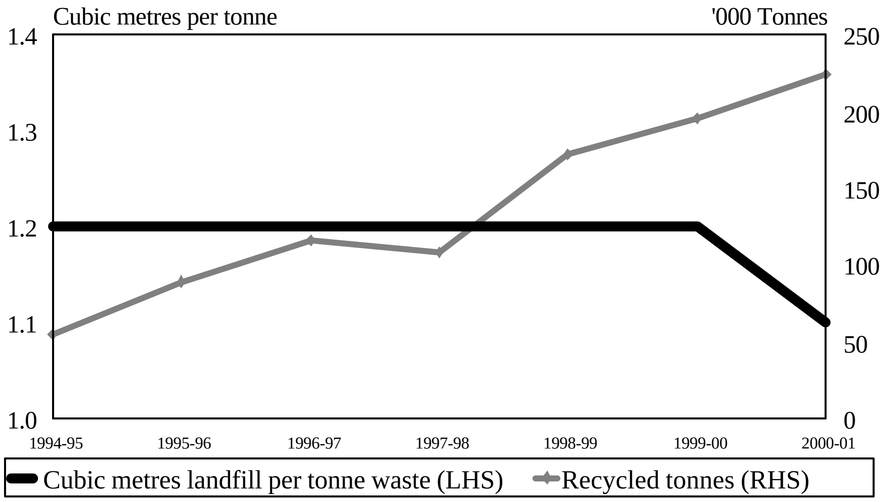
1. All dollar amounts are reported in 2000-01 prices. The 2000-01 figures are unaudited for a 14 month period from 1 July 2000 to 31 August 2001.
2. Permanent and full-time equivalent staff as at last day in reporting period.
3. Output per employee is based on revenue and staff employed in solid and liquid waste business lines.
4. Measures the volume of landfill required to accommodate a tonne of waste.
5. Waste Service NSW sites only.
6. Increase for 1995-96 determined by the Minister to discourage wasteful disposal and use of scarce landfill resources and funding of Government's waste initiatives.
7. Derived from information supplied for the Government Charges Index.
8. The 1995-96 increase in profit is mainly attributable to increased input of solid waste and lower interest expense due to timing of capital works projects.
9. Average operating assets.
10. Average equity
11. Costs paid to private sector include operating and capital expenditure, and section 88 statutory charge.

WASTE SERVICE NSW

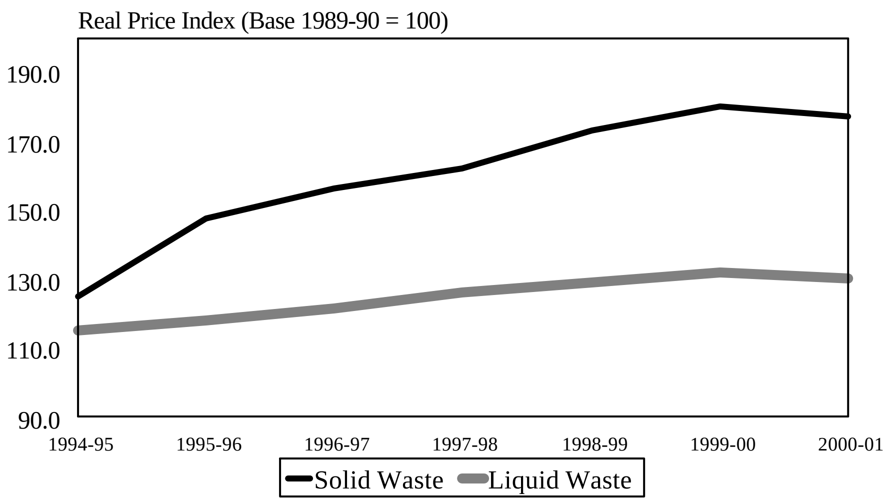
Financial Performance



Management of Landfill Capacity



Solid and Liquid Waste Charges



7. GLOSSARY

BUSINESS TERMINOLOGY

Government Business

A Government business is a generic term that encompasses:

- Public Financial Enterprises;
- Public Trading Enterprises;
- State Owned Corporations; and
- General Government Businesses.

Public Financial Enterprise (PFE)

Public Financial Enterprises are those government entities that perform central bank functions, accept demand, time and savings deposits or have the authority to acquire financial assets and incur financial liabilities in the market of their own volition. NSW Treasury Corporation (TCorp) is a PFE.

Public Trading Enterprise (PTE)

Public Trading Enterprises are public sector entities that are principally engaged in trading activities that could, in principle, be provided through the private sector without compromising the Government's social and economic objectives. PTEs raise the majority of their income via user charges.

PTEs have undergone "commercialisation" reforms to varying degrees. They have also addressed issues of competitive neutrality in input markets, although they may still operate in an environment that maintains legislative or regulatory barriers to competition, potentially preventing competitive neutrality in output markets.

State Owned Corporation (SOC)

State Owned Corporations are corporatised Public Trading Enterprises. Corporatisation involves the establishment of a corporate governance structure which mirrors (as far as possible) that of a public-listed company, essentially creating an "arm's length" relationship between the SOC Board, management and shareholding Government. SOCs are incorporated under the *State Owned Corporations Act 1989*.

General Government Business

General Government Businesses are General Government Sector entities that:

- are not dependent on the Budget for funding, although their funding sources may have the characteristics of a tax;
- have external user charges as their main source of revenue; and
- have revenue streams that allow them to be self-supporting.

General Government businesses range from relatively autonomous authorities to certain Government departments (eg Department of Public Works and Services) that are engaged in trading activities. These activities may include social services, the provision of which could be undertaken by such units on the basis of an arm's length contract with Government. General Government businesses have undergone, to varying degrees, commercialisation reforms.

Commercialisation

Commercialisation refers to the processes undertaken in the first stage of reforms that are aimed at increasing the efficiency of a Government business. These initial reform processes fall into one of four categories:

- objective clarification (including specification of regulatory or social objectives as distinct from commercial targets);
- heightened managerial authority (ensuring key operational decisions are made by managers rather than imposed by external parties to avoid information asymmetry problems);
- performance monitoring (subjecting the business to rigorous financial performance assessment procedures); and
- instituting managerial rewards and sanctions (thus more effectively aligning the objectives of shareholders and managers).

Corporatisation

Corporatisation refers to the second stage of reform aimed at improving the efficiency of Government businesses. It primarily involves the creation of a corporate structure typical of a publicly listed company, thereby further heightening managerial authority and responsibility for day to day operational decisions. In addition to the completion of reforms in the four categories of commercialisation processes, competitive neutrality principles[87] must be applied to remove inherent advantages and disadvantages of Government ownership prior to corporatisation.

Statement of Corporate Intent (SCI)

The Statement of Corporate Intent (SCI) can be likened to an annual contract between the shareholders and management of State Owned Corporations. The purpose is to enhance accountability for performance and clarify shareholder expectations of performance.

The Statement contains, amongst other matters, financial performance targets and the capital program for a 4-year period, along with the business plan and projected financial statements over a 10-year period.

SOCs are required to produce an SCI under Sections 21 and 22 of the SOC Act and under the Government's Financial Monitoring Policy.

Statement of Financial Performance (SFP)

The Statement of Financial Performance (SFP) is equivalent to the Statement of Corporate Intent (SCI), but is for non-corporatised businesses. For these businesses, the contract is between the Treasurer, Portfolio Minister, Chairperson and Chief Executive Officer.

Non-corporatised Government businesses are required to produce an SFP under the Government's Financial Monitoring Policy.

Weighted Average Cost of Capital (WACC)

Both debt holders and equity holders require a minimum rate of return that reflects the relative risk assumed in investing in a business activity. These required returns for debt and equity are then proportionately weighted according to the amount of debt and equity capital invested.

[87] For further details on competitive neutrality principles see Treasury Policy Paper 02-1, *Policy Statement on the Application of Competitive Neutrality Policy & Guidelines Paper*, January 2002.

INDICATORS

Each Government business reports on its performance via a combination of unique in-house indicators and generic measures of efficiency, service and financial performance. Important generic measures used in the Performance Book are defined below.

Efficiency Indicators

Administrative Expenditure per Employee

Administrative expenses are 'overheads' – they are not a direct cost of production. In contrast to attaining greater levels of efficiency on direct inputs like labour and materials, this measure reflects an improved control of incidental costs necessitated by the performance of the primary tasks of the production process. Improvements are assessed on a per employee basis because labour is typically the primary driver of administrative expenses.

Employment

Effective Full Time staff - full time staff plus the equivalent number of positions occupied by part time workers. This figure excludes contractors.

Operating Cost per Customer/Passenger/Unit Sold

All three of these variations reflect costs on a per unit of output basis. Decreases reflect enhanced productive efficiencies of the relevant businesses, typically attributable to more efficient utilisation of inputs, improved technology or a combination of both.

Output per Employee

Physical output divided by employment. Growth in this measure is indicative of increased labour productivity.

Outstanding Accounts

This measure refers to the value of accounts unpaid at the end of a financial year. Collection of debts on time is of obvious importance to businesses extending credit to customers. Decreases in the proportion of this figure to total sales may be taken to indicate an enhanced debt collection ability of the agency.

Revenue per Employee

Where measurement of output levels is problematic or inappropriate, businesses report real revenue divided by employment as a proxy for output levels. Increases are similarly indicative of increased labour utilisation on a per employee basis.

Staff Hours lost to Industrial Disputes

An aggregate figure for the number of hours lost to stop work meetings, strikes, etc.

Service Indicators

Average Port Management Charge per Tonne of Cargo/Vessel

Both variants effectively convey price changes on a per unit of output basis. Real reductions in this figure are indicative of greater input utilisation and/or improvements in technology. It should be noted that this indicator reflects price (from the perspective of the consumer or demand side of the market) as opposed to cost (the supply, or producer, side). Where both unit cost and unit price figures are presented, the distribution of efficiency gains can be assessed.

Market Share

The percentage of total industry sales attributable to a particular business. This figure is commonly used for assessing market position, as it represents the proportion of customers who have been 'claimed' by a business. Examination of year-on-year figures may reveal trends attributable to customer loyalty or shifts in market power. The impact of market deregulations may also be apparent.

Real Price Index (RPI)

An index constructed for each business to identify how customer charges have moved in relation to the Sydney Consumer Price Index. The Indices commenced at 100 in 1989-90 (agencies that have subsequently come into existence have had their base year appropriately adjusted).

Change in the RPI reflects change in the real level of charges (ie. change in charges relative to general price level movements). An increase in the index represents an increase in the real level of charges levied by a business.

In 1994-95, a new method of reporting on the Real Price Index was introduced. Data collated for the Government Charges Index (GCI) are used to construct series for agencies appearing in both Chapters 4 and 6 of this publication, ensuring consistency between the two.

Supply Reliability

This measure relates specifically to electricity businesses. As energy is an essential input for other business activity, surety of supply is of paramount importance and should not be endangered in pursuit of efficiency gains.

Financial Indicators

Debt to Equity Ratio

The ratio of an agency's Gross External Debt to the Equity holding of the Government in the business. This ratio is representative of capital structure financing decisions. These decisions aim to minimise the Weighted Average Cost of Capital (WACC) of the business (this concept is further explained in the Business Terminology section). Determination of the appropriate ratio requires that the operating conditions in an industry sector, any agency specific risk factors and regulatory risk be factored into the returns required on debt and equity funds. Treasury's *Capital Structure Policy*[88] discusses these issues more expansively.

Financial Distributions

Financial Distributions are contributions by businesses to the Consolidated Fund. Distributions take one of the following three forms:

Corporate Tax Equivalent:

Section 3 (4)(b)(i) of the *Competition Principles Agreement* identifies that Government businesses need to pay full Commonwealth, State and Territory taxes to satisfy competitive neutrality principles. The rationale behind this is to place

[88] NSW Treasury (1994).

government controlled businesses on a similar footing to existing or potential private sector competitors.

In practice, these forms of taxation can be paid either directly to the relevant collection agency or as part of a tax equivalent payment to the shareholding or controlling government, as is the case for NSW Government businesses. The payment of tax or tax equivalents delivers potential efficiency gains by shaping an enterprise's behaviour toward tax minimisation, thereby maximising the amount of before tax profit retained by the business. The payment of tax equivalents is also an imperative in creating an efficient capital structure due to the fact that the cost of debt (interest) is tax deductible, whereas the cost of equity funds is not.

Dividend Payment:

Dividends are a form of return to shareholders for funds invested in a business. Dividends can only be paid out of profit, either that of the current financial year or out of profits retained in previous years. Dividends are paid on a per share basis to shareholders on the recommendation of the Board of Directors.

Dividends are one of two forms of return on the equity funds of shareholders, the other being share price growth. Due to the absence of a regularly calculated, market determined share price, the second form of return is not readily observable for Government businesses (the same problem exists for unlisted companies). In the absence of the Government proposing to realise the value of the equity holdings via privatisation, managers will tend to emphasise increased dividend returns due to the relatively high visibility of dividend payments.

Payment of Capital from Equity:

A special form of return to the Government. Unlike tax equivalents or dividends, it is extracted from forms of equity other than profit or retained earnings.

Gross External Debt

The gross amount owed to parties external to the business, including those amounts owed to the financing arm of the NSW Government, TCorp. External debt levels are indicative of the extent of a business' exposure to potential changes in interest rates.

Net Sales less Agency Commissions

This measure is exclusively employed by NSW Lotteries. Sales are reported on a net basis because of the unique manner of product distribution for NSW Lotteries – agency costs must necessarily be incurred because it is unsustainable to maintain outlets solely for the purpose of selling NSW Lotteries' products. Although not a cost of production, commissions need to be reflected as a cost incurred by the business as part of getting their product to consumers.

Operating Cost

Operating expenditures, including depreciation, but excluding interest expenses (which is a financing rather than operating, cost).

Operating Result

Unless otherwise stated, this figure is quoted on an after-tax basis. It consists of operating income derived in the ordinary course of business (net of extraordinary items) less operating expenses (ie. operating costs plus interest expense).

Return on Assets

Earnings before interest and tax as a percentage of the asset base. This measure is often employed as a headline indicator of the results of capital deployment and management decisions. As a result, return on assets is a primary tool in assessing performance between different industries and agencies of different sizes.

Some caution must be exercised in comparing figures as the degree of regulation, the magnitude of non-commercial objectives and issues in valuation of the asset base may vary significantly between industries and businesses. The degree of control management can exercise over the asset base must also be considered.

Return on Equity

Operating Result (after tax) as a percentage of equity. This indicator represents the return on capital funds invested in an agency. When interpreting this figure attention should be paid to the impact of capital restructures.

Social Programs

Value of payments made to a business by the Government to reimburse the costs of meeting government required social objectives. Such payments are made to compensate businesses for performing tasks that would not normally be undertaken as normal commercial activities. Social program payments are also known as community service obligations (CSOs). The magnitude of compensation due to a business for performing non-commercial activities is explicitly identified to heighten accountability and enable raw performance figures to be adjusted if necessary. Competitive disadvantages attributable to Government ownership can thus be taken into account as part of performance assessment processes.

Total Revenue

Total monies owed to the business for services tendered during that period. Note that this is not equivalent to cash received: revenue is an accrual concept and may differ from cash receipts due to timing differences. However, revenue is a valuable approximation of the sustainable annual cash flows of a business for the purposes of projecting future income streams.

Times Interest Earned

Earnings before interest and tax (EBIT) divided by total interest charges. This ratio reflects the ability of the business to meet the costs of its debt as they fall due. The importance of this figure lies in the fact that payments to debtholders are compulsory whereas payments to shareholders are residual. Inability to meet debt payments as they fall due constitutes insolvency and risks liquidation of the business. What constitutes an appropriate ratio for a particular business is dependent on the volatility of earnings, industry risk factors, the exposure of the business to interest rate movements, sensitivities to changes in growth forecasts and other risk factors with the potential to influence company earnings.

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