



Auditor-General of Victoria

*Special Report No. 10
comprising*

- ◆ Utilisation of Plant and Equipment
- ◆ Youth Guarantee

November 1988

VICTORIA

Report

of the

Auditor-General

SPECIAL REPORT NO. 10

comprising:

- ♦ **Utilisation of Plant and Equipment**
- ♦ **Youth Guarantee**

Ordered by the Legislative Assembly to be printed

MELBOURNE
JEAN GORDON GOVERNMENT PRINTER
1988



November 1988

The Honourable the Speaker
Legislative Assembly
Parliament House
Melbourne, Vic. 3002

Sir

Under the provision of the *Audit Act 1958*, I transmit a report relating to special audit reviews of the *Utilisation of Plant and Equipment* in selected public sector organisations, and the *Youth Guarantee* program.

The reviews addressed the following:

- ◆ Current management practices associated with the acquisition, utilisation and disposal of mobile plant, fixed mechanical plant and scientific equipment. Plant and equipment held in the public sector represents a major investment of public moneys and are integral to the effective and efficient delivery of many government programs; and
- ◆ The implementation of the Youth Guarantee program, particularly procedures established for periodic assessment of the program, and the implications of procedures for decision making. The program has involved, and will continue to involve, significant government funding in an area which includes many sensitive and complex social issues.

The *Utilisation of Plant and Equipment* audit team - headed by Jan Tranter, Acting Director of Audit - included staff with qualifications in accounting, economics, applied science and engineering. The *Youth Guarantee* audit team - headed by Terry Lant, Director of Audit - included staff with qualifications in occupational therapy, financial management and business administration, and who had extensive backgrounds in project management and the delivery of human services and training.

Yours faithfully


C.A. BARAGWANATH
Auditor-General

PREVIOUS SPECIAL REPORTS OF THE AUDITOR-GENERAL

| <i>Report no.</i> | <i>Title</i> | <i>Date issued</i> |
|-------------------|--|--------------------|
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| 2 | · <i>Works Contracts Overview - Second Report</i> | June 1983 |
| 3 | · <i>Government Stores Operations</i> · <i>Departmental Cash Management</i> | October 1984 |
| 4 | · <i>Court Closures in Victoria</i> | November 1986 |
| 5 | · <i>Provision of Housing to Government Employees</i> · <i>Post-project Appraisal Procedures within the Public Works Department</i> | December 1986 |
| 6 | · <i>Internal Audit in the Victorian Public Sector</i> | December 1986 |
| 7 | · <i>Motor Vehicles</i> | April 1987 |
| 8 | · <i>Foreign Exchange</i> | November 1987 |
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PART 1

UTILISATION OF PLANT AND EQUIPMENT



NEWS RELEASE

1 MACARTHUR STREET
MELBOURNE

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FOR IMMEDIATE RELEASE

TUESDAY, 22 NOVEMBER 1988

SPECIAL REPORT OF THE AUDITOR-GENERAL TABLED IN PARLIAMENT

The Auditor-General of Victoria, Mr Ches Baragwanath, tabled a special report in the Victorian Parliament today.

The report is the result of special audit reviews on the **Utilisation of Plant and Equipment** within the public sector, and the implementation of the **Youth Guarantee** program.

Mr Baragwanath said that substantial public funds are allocated to government organisations each year to enable them to provide services to Victorians. For instance, government organisations currently hold in excess of \$2.5 billion in plant and equipment. It is therefore essential that appropriate management practices are adopted to enable organisations to effectively and efficiently deliver government programs.

In commenting on the review of **plant and equipment**, Mr Baragwanath said that there was a tendency for organisations to retain plant and equipment assets beyond their useful and economic lives. Organisations need to assign a higher priority to the timely replacement of plant and equipment to avoid high maintenance costs. He said that if equipment holdings were not upgraded regularly, organisations will continue to be hampered in delivering programs - including vital research projects designed to provide millions of dollars of future benefit to the State.

The Auditor-General also cited instances of the under-utilisation of mobile plant. He said there was a need for organisations to rationalise mobile plant holdings through disposal of surplus holdings, and to assess the viability of hiring rather than purchasing plant.

Deficiencies in organisation's external hire arrangements and a lack of planning to ascertain current and anticipated operational needs were also highlighted in the report. Mr Baragwanath said that a high priority needed to be given to the development or enhancement of management information systems.

The second part of the Auditor-General's report reviewed the implementation of various aspects of the **Youth Guarantee**. This initiative was introduced by the Victorian Government in March 1985 to promote better opportunities for the employment and education of young people in Victoria.

- continued overleaf

In presenting the findings of the audit review, Mr Baragwanath said that the Youth Guarantee has involved, and will continue to involve, significant government funding in an area which includes many sensitive and complex social issues. It was therefore essential that effective procedures be established for periodic assessment of the program, as well as the implementation of these procedures for decision making.

The review identified that:

- ◆ the creation of additional places in tertiary institutions was not targeted to disadvantaged students;
- ◆ the majority of traineeships in the Victorian public sector were awarded to ineligible applicants;
- ◆ the impact of the Employment Counsellor and Placement Service was not effectively measured;
- ◆ reliable and effective performance indicators were not in place; and
- ◆ over the 3 year period, approximately \$2.4 million was expended on promotional activities and was not in accordance with government directives.

Media inquiries: Elna WILKINSON 651 6002
 John OLESKY 651 6060

SUMMARY OF MAJOR AUDIT OBSERVATIONS

1.1.1 The Victorian Government, through its departments and public bodies, has invested in excess of \$2 500 million in plant and equipment which is integral to the efficient and effective delivery of many State Government programs.

HAS PLANT AND EQUIPMENT BEEN WELL MANAGED?

1.1.2 A review of management practices with respect to mobile plant, fixed mechanical plant and scientific equipment within selected organisations identified a lack of planning to assess both current and future needs, and inadequacies in management information systems and monitoring procedures.

1.1.3 These major deficiencies, together with uncertainty of future funding and lack of incentive to dispose of assets in budget sector organisations, have contributed to holdings exceeding their economic and useful lives, incurring excessive maintenance costs and containing items surplus to requirements.

1.1.4 The failure to upgrade holdings has impacted on the efficiency with which programs have been delivered. The longer the current situation continues, the more difficult it will be for government to allocate sufficient funds for replacement in the future and continue the maintenance program necessary to keep holdings operating efficiently.

1.1.5 It is pleasing to note that a number of recent initiatives aimed at improved asset management have been taken by several organisations and the Department of Management and Budget.

1.1.6 Key observations and conclusions relating to the major areas of concern arising from the review are set out below.

RETENTION OF ASSETS BEYOND THEIR ECONOMIC LIVES*page 11*

1.1.7 A substantial proportion of plant and equipment holdings had been retained beyond their economic lives, due in part to the lack of priority given to capital replacement by organisations. Such retention has contributed to:

- ◆ high maintenance costs; and
- ◆ reduced operational efficiency.

1.1.8 Unless a higher priority is given to the timely replacement of plant and equipment, organisations will find it increasingly difficult to fund the escalating costs of maintenance and future capital replacement. The efficiency with which organisations deliver programs, including research projects designed to provide millions of dollars of future benefits to the State, will continue to be severely hampered.

UNDER-UTILISATION OF MOBILE PLANT

page 16

1.1.9 The review concluded that present holdings of mobile plant contain items surplus to current requirements.

1.1.10 Lack of adequate usage standards and records within a number of organisations seriously restricted management's ability to effectively monitor mobile plant utilisation. An examination of available records disclosed many instances of minimal utilisation during the past year.

1.1.11 In organisations where comprehensive usage details were available, analyses revealed that approximately 78 per cent of mobile plant holdings had been used on average for less than 3 hours per day.

1.1.12 There is an urgent need to rationalise mobile plant holdings by giving consideration to:

- ◆ disposal of surplus items;
- ◆ the viability of hiring rather than purchasing of plant; and
- ◆ maximising the use of current holdings by increasing hire to external parties or entering into sharing arrangements with other organisations.

HIGH MAINTENANCE COSTS

page 21

1.1.13 Maintenance of plant and equipment was generally undertaken using internal resources and facilities. However, the cost-effectiveness of these arrangements, compared with utilising external service facilities, had not been assessed by most organisations.

1.1.14 It was a matter of concern that the total annual costs of maintenance of mobile plant was in excess of 32 per cent of the capital cost of the holdings in some organisations. In many instances the costs of maintaining plant and equipment was considered to be more expensive than replacement of the item.

1.1.15 The failure of certain organisations to undertake routine preventative maintenance of fixed plant resulted in breakdowns which caused disruption to key services.

1.1.16 Organisations need to assess:

- ◆ the economic viability of present in-house maintenance arrangements including preventative maintenance; and
- ◆ the cost-effectiveness of maintaining aged items.

DEFICIENCIES IN EXTERNAL HIRE ARRANGEMENTS*page 27*

1.1.17 A number of the organisations hire mobile plant from external contractors at an annual cost in excess of \$30 million. The review identified instances where:

- ◆ hire costs had been incurred even though suitable items were available within the organisations; and
- ◆ items had been hired on a long-term basis without adequate assessment of the economic benefits to be gained from purchasing.

1.1.18 In view of the significant expenditure on external hire, organisations need to ensure mechanisms are in place to effectively monitor and control this activity.

OPERATIONAL NEEDS NOT ADEQUATELY ASSESSED*pages 29 and 32*

1.1.19 Most organisations had not adopted a systematic approach to forward planning or adequately evaluated the need for plant and equipment prior to acquisition. The failure to periodically assess current and anticipated needs had contributed to the retention of items which were surplus to requirements or had exceeded their economic or useful lives. In addition, assessments of the economic viability of external hire or lease alternatives were rarely undertaken.

1.1.20 Organisations indicated that effective long-term planning had been inhibited by uncertainty of future funding and a lack of overall organisational strategies.

1.1.21 Detailed forward plans for plant and equipment management are required to support current and long-term operational needs of each organisation and action should be taken to ensure that established needs are met in the most cost-effective manner.

INADEQUACIES IN INFORMATION SYSTEMS AND MONITORING PROCEDURES

page 33

1.1.22 A major factor inhibiting the effective management of plant and equipment was the lack of appropriate information systems and monitoring procedures. Where information systems were in place, the data recorded were often incomplete or inaccurate.

1.1.23 A high priority needs to be given to the development or enhancement of management information systems. Performance indicators based on industry standards should also be adopted to assist in monitoring the effective lives, operating costs and utilisation of plant and equipment holdings.

DISINCENTIVES TO THE DISPOSAL OF SURPLUS OR OBSOLETE ITEMS

page 37

1.1.24 A substantial quantity of unused, technically obsolete and unserviceable items were retained by organisations. In some instances these items occupied space which could be more effectively utilised.

1.1.25 Factors acting as disincentives to the disposal of obsolete or surplus assets included:

- ◆ the inability of budget sector organisations to automatically retain the proceeds of sales because of legislative requirements to pay moneys to the Consolidated Fund; and
- ◆ high administrative costs associated with time consuming or restrictive disposal procedures.

1.1.26 Organisations need to review present disposal practices to ensure that they facilitate optimum returns on disposal of plant and equipment. Consideration also needs to be given to the introduction of a system that explicitly takes into account the net proceeds from the sale of assets when allocating resources to organisations funded through annual appropriations.

BACKGROUND

1.2.1 Within the Victorian public sector, substantial funds are expended annually on acquiring physical assets such as plant and vehicles, office furniture and equipment, scientific equipment and computer facilities which provide ongoing benefits to various organisations. The efficient and effective utilisation of these assets is an important factor in the ability of organisations to achieve their desired objectives.

1.2.2 Responsibility for the management and control of physical assets including the acquisition, maintenance and disposal processes, is generally vested in the various organisations and is not centrally co-ordinated.

1.2.3 The emphasis of this report is on management practices with respect to mobile plant, fixed mechanical plant and scientific equipment. However, many of the recommendations and conclusions may provide constructive suggestions for the ongoing process of improving the management of other classes of assets. Recommendations with respect to motor vehicle fleet management were provided in my *Special Report No. 7* tabled in April 1987.

1.2.4 To form an opinion on present management practices, the following organisations were selected for review:

- ◆ Department of Agriculture and Rural Affairs;
- ◆ Department of Conservation, Forests and Lands;
- ◆ Mornington Peninsula and District Water Board;
- ◆ Road Construction Authority;
- ◆ Rural Water Commission;
- ◆ State Transport Authority; and
- ◆ University of Melbourne.

1.2.5 Recording systems within a number of these organisations did not provide accurate values of plant and equipment holdings. However, the estimated value of mobile plant, fixed mechanical plant and scientific equipment at 30 June 1988 is detailed in Table 1.2A:

TABLE 1.2A
ESTIMATED VALUE OF PLANT AND SCIENTIFIC EQUIPMENT

| <i>Organisation</i> | <i>Cost</i> | <i>Replacement value</i> |
|---|--------------|--------------------------|
| | (\$ million) | (\$ million) |
| University of Melbourne | 70 | 103 |
| Road Construction Authority | 46 | 107 |
| State Transport Authority | 43 | not available |
| Rural Water Commission | 24 | 83 |
| Department of Conservation, Forests and Lands | 20 | 40 |
| Department of Agriculture and Rural Affairs | 13 | 40 |
| Mornington Peninsula and District Water Board | (a) 3 | (a) 5 |
| Total | 219 | .. |

(a) Excluding fixed plant within the water supply and wastewater system.

1.2.6 A number of these organisations also hire mobile plant from external contractors at an estimated annual cost in excess of \$30 million.

OBJECTIVES OF THE REVIEW

1.2.7 The overall objectives of the audit were to review plant and equipment management practices to determine whether:

- ◆ effective systems and procedures were employed by organisations to achieve the economic and efficient acquisition, installation, utilisation and disposal of plant and equipment; and
- ◆ procedures were in place to control and monitor external hire of plant and equipment.

1.2.8 Systems and procedures in place at each organisation for the management of plant and equipment were assessed against a framework of desirable management procedures. At the completion of the review, management letters were provided to each organisation and discussions were held with senior management to communicate the findings, prior to the finalisation of this report. Comments provided by organisations in response to matters of significance are included in this report.

1.2.9 I am grateful for the timely and constructive responses to the matters raised in the report, and acknowledge the co-operation the audit team received from departments and public bodies covered by the review.

RECENT INITIATIVES

1.2.10 It was pleasing to note that a number of initiatives aimed at improved asset management practices had recently been taken both centrally and within the organisations examined.

Central initiative

1.2.11 In my November 1987 *Special Report No. 8 on Land Utilisation*, I recognised the initiative of the Department of Management and Budget in commencing a project to facilitate improvements in asset recording and reporting within departments. As part of that project, departments were requested to update asset recording systems by 30 June 1988 and to undertake a valuation of assets during the 1988-89 financial year. Disclosure of the value and description of physical assets is to be included in financial statements at 30 June 1989.

Public sector organisations

1.2.12 Internal reviews of plant operations were undertaken within a number of the organisations examined, namely:

- ◆ A functional review of the operations of the Road Construction Authority's Plant Branch was commissioned by the Authority's management. The review identified internal and external opportunities and constraints facing the Branch in achieving its objective of operating a competitive, self-funding business providing plant and associated services to the Authority and other clients. As a result of the review, a number of strategies were recommended, including a reduction in the size and age profile of mobile plant holdings over the 5 year period to 1992-93. The Authority advised that these strategies are now being implemented.
- ◆ A rationalisation of plant and equipment holdings was undertaken within the Department of Conservation, Forests and Lands. The rationalisation process was aimed at restructuring asset holdings to meet present and foreseeable priorities in the most cost-effective manner. As a result of this process, plans were adopted which included the disposal and replacement of a substantial number of plant items; and
- ◆ Consultants were engaged by the State Transport Authority to review plant and equipment management and hiring policies and procedures within the Mechanical Plant Section of the Authority.

1.2.13 Computerised plant management information systems were also introduced within the Road Construction Authority, the State Transport Authority and the Department of Conservation, Forests and Lands. Although these systems are still in the process of enhancement, their implementation has facilitated improved plant management.

1.2.14 Detailed comments on major areas of concern arising from the review follow.

RETENTION OF ASSETS BEYOND THEIR ECONOMIC LIVES

1.2.15 In the majority of organisations included in the review, the optimum economic or useful life had not been established for individual items or categories of plant and equipment.

1.2.16 The economic or useful life of each item is dependent on its nature, utilisation level and technological advances. For taxation purposes, the Australian Commissioner of Taxation prepares a schedule of depreciation rates for various categories of assets based on an estimate of the effective life of the item assuming it is maintained in good order and condition. This schedule allows for a replacement cycle of between 6 and 10 years for mobile plant and scientific equipment, and 20 years for fixed mechanical plant. In the absence of standards across the public sector, these rates were chosen as a benchmark to assess the age profile of plant and equipment.

1.2.17 Analyses of the age profile of present holdings revealed that a substantial proportion of items had been retained beyond their economic lives, resulting in high maintenance costs and reduced operational efficiency.

1.2.18 Organisations suggested that the lack of funding for capital replacement was the major factor contributing to the present age profile. As a consequence, the estimated replacement cost of the holdings of a number of organisations is now in excess of twice the original cost.

1.2.19 Specific comments in relation to individual organisations follow.

Road Construction Authority

1.2.20 A recent internal review undertaken by the Authority identified that 40 per cent of its plant holdings were over 10 years old, as illustrated in Table 1.2B:

TABLE 1.2B
AGE PROFILE OF HOLDINGS

| <i>Age of items</i> | <i>Percentage of total plant holdings</i> |
|-----------------------|---|
| Less than 5 years old | 38 |
| 5 to 9 years old | 22 |
| 10 to 14 years old | 15 |
| 15 to 19 years old | 12 |
| 20 to 25 years old | 4 |
| Over 25 years old | 9 |

1.2.21 The review also identified a need to reduce the optimum plant age to a maximum of 8 to 10 years over the next 5 years. Instances were noted by audit where the retention of items beyond their economic lives had resulted in excessive maintenance costs and decreased utilisation as a result of downtime.

Management response

Many older items retained in the fleet have an effective life exceeding 20 years and are generally simple, robust machines essential for day-to-day operations. A strategic recapitalisation program commenced in 1986-87 and has moved from the base of \$5.5 million to \$8.5 million in 1987-88, and \$12.2 million in 1988-89. The program is internally funded by the plant business area to ensure proper cost attribution to road programs and ongoing replacement of plant items.

State Transport Authority

1.2.22 An analysis of mobile plant items recorded on the Authority's plant information system revealed that approximately 33 per cent of items were over 10 years old. A large proportion of forklift trucks and mobile cranes had been retained beyond their estimated economic lives, and holdings included several items purchased over 20 years ago. In the absence of adequate information systems, the Authority was unable to readily quantify the maintenance costs associated with these items or assess the impact of their retention on operational efficiency.

Management response

The nature and uniqueness of some of the Authority's items of plant and the need to have them available in remote geographical locations can be a cause of low utilisation. In these circumstances the fact that the assets are older than 10 years does not mean they are obsolete.

University of Melbourne

1.2.23 Although the economic life of each major item of equipment within the University had not been determined, academic staff indicated that the technological life span of scientific equipment was generally between 5 and 10 years. An examination of the University's asset registers revealed that:

- ◆ The average age of major items of scientific equipment was over 8 years with approximately 20 per cent of items being retained for over 10 years; and
- ◆ The average age of fixed mechanical plant such as boilers, chillers and air conditioners was 19 years with 64 per cent of items identified by mechanical staff as requiring replacement within the next 5 years at a replacement cost of approximately \$1.5 million. In many cases the effective operation of scientific equipment is dependent on the controlled environment provided by these plant items.

1.2.24 The Commonwealth Tertiary Education Commission *Report for the 1985-1987 Triennium* indicated that the replacement of plant and equipment had been inhibited by a lack of funds for equipment purchase. The report recognised the need for a substantial increase in the level of funding for higher education to replace worn-out and obsolete equipment, to keep pace with technological change and to maintain the quality of research.

1.2.25 Unless priority is given to the planned replacement of plant and scientific equipment, the teaching and research programs of the University will be restricted by the use of technically obsolete equipment and the need for the redirection of funds to meet the escalating costs of maintaining unreliable plant.

This matter has been drawn to the attention of the University.

Rural Water Commission

1.2.26 Over 20 per cent of the items in the Commission's mobile plant fleet exceeded 10 years of age. Instances were noted where items had been retained although they had significantly exceeded the replacement benchmarks set by the Commission. In the absence of adequate information systems, the Commission was unable to determine whether excessive maintenance costs had been associated with the retention of these items.

Management response

The Commission believes it has sound and specific reasons for retaining all of the items of plant identified as being held beyond the replacement benchmarks normally adopted. However, it is agreed that assessments should continue to be made, supported by the appropriate information, to determine the viability of retaining the plant items.

Department of Conservation, Forests and Lands

1.2.27 An analysis of the results of an internal review of plant and equipment undertaken as part of a rationalisation program highlighted that 34 per cent of items in the Department's mobile plant holdings were in excess of 10 years old, as illustrated in Table 1.2C:

**TABLE 1.2C
AGE PROFILE OF HOLDINGS**

| <i>Age of items</i> | <i>Percentage of total plant holdings</i> |
|---------------------|---|
| Less than 5 years | 26 |
| 5 to 10 years | 40 |
| Over 10 years | 34 |

1.2.28 The disposal of a number of aged items as a result of the Department's rationalisation program will improve the fleet age profile and is expected to reduce the maintenance and repair costs of the holdings.

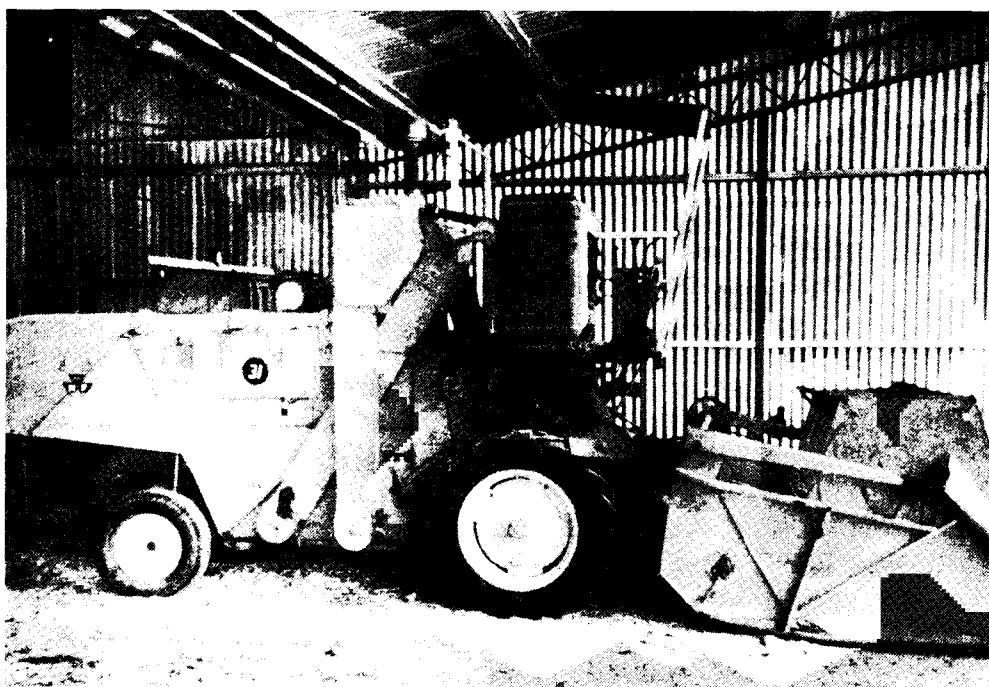
This matter has been drawn to the attention of the Department.

Department of Agriculture and Rural Affairs

1.2.29 Consolidated data detailing the age of equipment were not available within the Department. However, it was apparent during the review that there were many instances of scientific equipment and agricultural plant exceeding their technological or economic lives with a significant number of items purchased over 15 years ago. Based on current funding and estimated replacement values, holdings would be replaced on average every 23 years.

1.2.30 The retention of items beyond their technological or economic lives has had a detrimental effect on the research programs of the Department, including:

- ◆ reduced accuracy of research measurements; and
- ◆ additional time and labour costs to perform testing.



Nineteen year old crop harvester used in a number of research projects within the Department of Agriculture and Rural Affairs.

1.2.31 At the Victorian Crop Research Institute, for example, a 19 year old crop harvester was utilised for harvesting medium size test plots for a number of research projects. **These projects were estimated by the Department to have the potential to increase the value of agricultural production in Victoria by \$500 million per year.** Staff indicated that the harvester was prone to breakdown and difficulties were experienced in obtaining spare parts. As a result, during one harvest it was out of commission for 3 weeks. Breakdowns during critical harvest periods had resulted in less than optimum research results and the lack of alternative equipment could result in the loss of 12 months research.

Management response

A conservative estimate of the value of the Department's plant and equipment is \$40 million. An annual budget of approximately \$4 million would be required to adequately replace plant and equipment. However, the Department's 1987-88 allocation for plant and equipment was \$600 000 from annual parliamentary appropriations and \$1.1 million from industry sources.

Clearly, there is a need to establish a program utilising an accumulated funding mechanism achieved through contributions from the annual parliamentary appropriation and industry sources.

UNDER-UTILISATION OF MOBILE PLANT

1.2.32 Most organisations included in the review operated a fleet of mobile plant items such as graders, tractors, boats and trucks to assist in construction, maintenance, research and land protection activities.

1.2.33 The utilisation of these mobile plant holdings is dependent on a number of factors, namely:

- ◆ the seasonal nature of the organisation's activities;
- ◆ the amount of time required for repairs and maintenance;
- ◆ the availability of staff to operate the items; and
- ◆ the location of the organisation's operations and its impact on the feasibility of external hire or sharing arrangements.

1.2.34 With the exception of the Department of Conservation, Forests and Lands, minimum usage levels had not been set as a basis of evaluating the retention or acquisition of various categories of mobile plant. Effective monitoring of plant usage cannot be undertaken unless such usage standards are established, based on an analysis of the level of utilisation at which ownership becomes more economic than external hire.

1.2.35 The audit review of utilisation was limited by the lack of these usage standards and inadequate systems within organisations to record usage information. However, analyses of available details led audit to conclude that current mobile plant holdings contain items which are surplus to requirements with 78 per cent used on average for less than 3 hours per day during 1987-88.

1.2.36 Organisations need to undertake a rationalisation of current holdings. Consideration needs to be given to the economic or operational viability of external hire or sharing arrangements to overcome short-term or seasonal requirements.

1.2.37 Detailed comments in respect of relevant organisations follow.

Road Construction Authority

1.2.38 Manual summaries of utilisation were maintained by the Authority for major categories of mobile plant. However, utilisation details for individual mobile plant items were not readily available for 1987-88.

1.2.39 Manual summaries indicated that a number of categories of plant included items which were surplus to requirements, or were unavailable for use due to extensive downtime for repairs. The following examples highlight this situation:

- ◆ Of the Authority's fleet of approximately 180 single berth road cabin caravans, 25 per cent were over 15 years old. Of these 180 caravans, Authority records indicate that 25 were surplus to requirements and that at any point in time at least an additional 30 were under repair during the 1987-88 year; and

- ♦ One category of power rollers contained 23 items, 19 of which were over 22 years old. This had resulted in a high incidence of rollers under repair during the 1987-88 year with half the total number being repaired on at least one occasion. The average breakdown time of rollers was 55 days.

1.2.40 An examination of the 1986-87 plant usage records also revealed numerous instances where items had recorded less than 400 hours of use during the year.

1.2.41 Although the recent functional review of the Authority's Plant Branch disclosed the need to reduce the fleet size in a number of categories over the next 5 years, audit concluded that a more detailed review of individual items and categories needed to be undertaken and that there was potential for the immediate disposal of a number of items.

Management response

Very old caravans are sold in small lots to achieve some return. Other units are converted into new office vans to meet industrial awards. Powered rollers are an essential road maintenance item to be recapitalised at \$2 million as part of the 5 year strategic plant fleet replacement program. Detailed reviews are undertaken every 6 months to identify under-utilised or uneconomic items.

Rural Water Commission

1.2.42 An analysis of utilisation information maintained by the Commission indicated that the mobile plant holdings were under-utilised. The low utilisation levels, with 78 per cent of the fleet used for less than 800 hours during 1987-88, highlighted the potential for a reduction in the present fleet size.

1.2.43 Table 1.2D provides a summary of the 1987-88 utilisation levels together with budgeted usage for the 1988-89 year.

**TABLE 1.2D
UTILISATION OF MOBILE PLANT**

| Utilisation (hours) | Percentage of total plant holdings | |
|------------------------|------------------------------------|-------------------|
| | 1987-88 actual | 1988-89 budget |
| 0 - 200 | 16 | 14 |
| 201 - 400 | 29 | 19 |
| 401 - 600 | 18 | 20 |
| 601 - 800 | 15 | 17 |
| 801 + | 22 | 30 |

Management response

It is agreed that the Commission should review current levels of utilisation; certainly this is done in relation to each proposal for replacement. It is found that in many cases it is cheaper to own plant rather than hire for utilisation levels less than 800 hours. In these circumstances the cost of owning low utilisation plant has to be balanced against needs and the relatively high cost of obtaining plant, when needed, from other sources.

The determination of optimum levels of utilisation requires a balance between the needs of a highly dispersed service organisation often operating in remote locations and the availability of plant from other agencies or from the private sector.

Although direct plant sharing arrangements do not seem possible under current organisational and financial structures, it is appropriate for the Commission to continue to seek out possibilities for negotiating reciprocal hire agreements with other agencies.

The introduction of a plant information system would enable the periodic monitoring and analysis of plant usage.

State Transport Authority

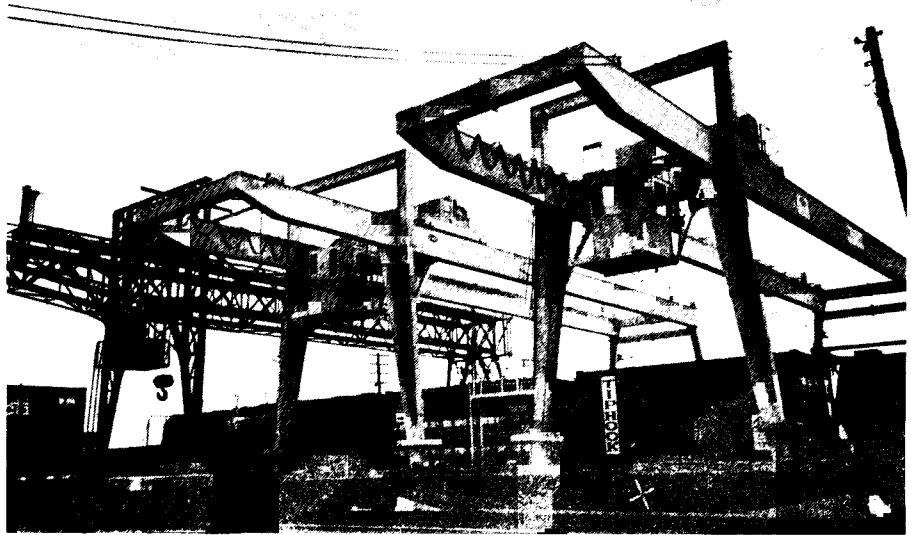
1.2.44 An overall analysis of plant utilisation could not be undertaken as information recorded on the Authority's plant management system was incomplete in that usage details had not been recorded in many instances.

1.2.45 However, a review of a sample of items revealed several instances of minimal utilisation including:

- ◆ Three gantry cranes, located at the South Dynon rail yards, had not been used for over 2 years, while a further 2, which were beyond repair, had not been used since 1978;
- ◆ A ballast tamper purchased in 1979 at a cost of \$115 000 had been used for only 20 days during 1987-88; and
- ◆ A forklift truck purchased at a cost of \$25 000 in July 1987 had not been used during the financial year.

Management response

Low utilisation of plant is sometimes unavoidable in the organisation due to workload, geographical and seasonal factors, and when traffic changes make some installations temporarily redundant such as the fixed gantry cranes. Instances of low utilisation cited in the report are insufficient to conclude that the problem is widespread.



Gantry cranes, which have not been used for several years, located at South Dynon rail yards.

Mornington Peninsula and District Water Board

1.2.46 A summary of major mobile plant utilisation information for the 1987-88 year is detailed in Table 1.2E:

**TABLE 1.2E
UTILISATION OF MOBILE PLANT**

| <i>Utilisation</i> | <i>Percentage of total plant holdings</i> |
|--------------------|---|
| | <i>1987-88 actual</i> |
| (hours) | |
| 0 - 400 | 19 |
| 401- 600 | 27 |
| 601- 800 | 25 |
| 801+ | 29 |

1.2.47 In view of the fact that 71 per cent of items had been utilised for less than 800 hours per year, audit concluded that there is potential for a reduction in the present holdings.

This matter has been drawn to the attention of the Board.

Department of Conservation, Forests and Lands

1.2.48 A recent rationalisation program undertaken within the Department covering mechanical plant, trailers, caravans and boats identified the need to dispose of 103 items.

1.2.49 Audit commended the Department on identifying items of under-utilised plant and equipment and the development of a replacement program covering the next 3 years.

1.2.50 The retention of plant items was based on minimum usage levels for various plant categories established by the Department. These levels ranged from 400 to 800 hours per year. The Department could not provide documentation to support the determination of these levels such as a cost-benefit analysis to justify owning equipment as against hiring on a needs basis.

1.2.51 Budgeted usage of mechanical plant for 1987-88, compiled from plant rationalisation information, is set out in Table 1.2F below:

**TABLE 1.2F
UTILISATION OF MOBILE PLANT**

| <i>Utilisation</i> | <i>Percentage of total plant holdings</i> |
|--------------------|---|
| | <i>1987-88 budget (a)</i> |
| (hours) | |
| 0 - 200 | 27 |
| 201- 400 | 32 |
| 401- 600 | 26 |
| 601- 800 | 13 |
| 801 + | 2 |

(a) Actual figures for 1987-88 not available on a consolidated basis.

1.2.52 A significant number of items had been identified for retention despite utilisation levels anticipated to be below the minimum requirements set by the Department. In some cases regional records disclosed that actual usage levels during 1987-88 were substantially below budgeted levels.

1.2.53 It is recognised that a number of plant items with low budgeted utilisation are required to meet the Department's fire suppression responsibilities, nevertheless audit considered that there was scope for further rationalisation of plant holdings.

Management response

Benchmarks for the retention of plant items are evolving criteria to be reviewed regularly; they are currently being reviewed for the implementation of 1988-89 rationalisation plans. Further reductions in fleet size will follow the 1988-89 review.

HIGH MAINTENANCE COSTS

1.2.54 Maintenance of plant and equipment, including necessary repairs, was generally undertaken within the internal workshop facilities of each organisation or, in the case of scientific equipment, by research staff utilising the equipment. The approximate annual maintenance costs for holdings of the organisations reviewed exceeded \$35 million.

1.2.55 The efficiency and effectiveness of the present maintenance arrangements could not be assessed by most organisations due to an absence of:

- ◆ information systems to record the maintenance activities associated with individual plant items or categories; and
- ◆ performance indicators based on industry standards to evaluate maintenance costs for items or categories of plant.

1.2.56 In the absence of adequate information systems, inefficient workshop procedures, overservicing of items or the viability of maintaining internal workshop facilities compared with external service arrangements could not be assessed.

1.2.57 The cost of maintenance of mobile plant is dependent on the age and nature of the plant item. It was a matter of concern that the total maintenance costs associated with mobile plant fleets were substantial compared with the capital costs of the fleet. During 1987-88, the maintenance costs of the Road Construction Authority and the State Transport Authority were over 32 per cent of the historical cost of the fleet.

1.2.58 The high maintenance costs, together with specific instances noted where excessive costs had been incurred for individual items, highlighted the need for organisations to evaluate the cost-effectiveness of present maintenance facilities and practices.

1.2.59 Comments on maintenance practices within a number of organisations follow.

Road Construction Authority

1.2.60 An analysis of operating costs undertaken as part of a recent internal review revealed that the Authority's plant maintenance costs over the life of the item were generally in excess of twice the historical capital cost. The Authority's review recognised that a desirable maintenance/capital ratio would be 1:1 over the life of the asset. The review also concluded that the operating costs would be reduced and utilisation levels increased if aged items were replaced by new plant. The Authority intends to address the age of the holdings and the maintenance/capital ratio over a 5 year period.

1.2.61 A number of factors including a low priority for the replacement of plant and an absence of plant maintenance costing systems and monitoring procedures were considered by audit to have contributed to the problems identified by the internal review.

1.2.62 The Authority was unable to provide 1987-88 maintenance costs for individual plant items. However, an analysis of costs for the previous 2 years revealed instances where plant had incurred excessive maintenance costs compared with the purchase cost and replacement value of the item. Examples included:

- ◆ A lurching caravan purchased over 28 years ago at a cost of \$2 400 had incurred maintenance costs amounting to \$14 000 in a 2 year period. The estimated replacement value of this item was \$11 500; and
- ◆ An 8 year old light grader purchased at a cost of \$51 000 had incurred costs of \$45 000 during 1985-86 and 1986-87. The estimated replacement value was approximately \$82 000.

Management response

The conversion of sound 4-berth caravans into lurching vans complete with appliances was a recapitalisation rather than maintenance operation. Assessments of the viability of major repairs have always been undertaken, limited in the past only by constraints on capital budgets and the retention of sale proceeds. These matters were resolved in the Road Construction Authority in 1987, and all plant items are subject to life and year-to-date maintenance expenditure monitoring.



A Road Construction Authority light grader which has incurred high maintenance costs.

State Transport Authority

1.2.63 Deficiencies in relation to maintenance systems and practices within the Authority included:

- ◆ Inadequate monitoring of the maintenance costs associated with individual items; and
- ◆ Disruption to workshop activities resulting from the breakdown of aged plant. In one instance significant downtime resulted from the frequent repair to overhead cranes which were 50 years old. Although the cranes were vital to many operational areas of the workshops, priority had not been given to their overhaul or replacement. However, maintenance of other plant and equipment utilised within the workshops was generally carried out in accordance with manufacturer's recommendations.

Management response

In recent years management has been unable to make a decision in respect of this equipment as a major restructure of all the Authority's workshops was being planned. This restructure is now proceeding and the cranes will be replaced by modern equipment.

Rural Water Commission

1.2.64 A review of maintenance costs incurred for mobile plant items during the past 2 years indicated that costs had increased despite a reduction in the fleet size and the disposal or replacement of a number of items which were technically obsolete and expensive to maintain. However, the Commission did not record maintenance costs of individual items and therefore could not effectively evaluate the economic viability of present maintenance arrangements.

1.2.65 Lack of preventative maintenance, in some instances, had led to the breakdown of fixed mechanical plant resulting in a disruption to water distribution.

Management response

The Commission's accounts show that overall costs have declined in recent years. On a comparative basis, the average unit cost of repair and maintenance has shown an increase of only 4 per cent in dollar terms which compares with a CPI increase over this period of about 14 per cent. It is agreed that the Commission should analyse the current costs and benefits of maintaining its own workshop facilities for maintenance of plant. It will be necessary to determine procedures for capturing the workshop costs against individual plant items.

Over the past 4 years, the Commission has been operating under a financial management strategy that limits expenditure in real terms to 1984-85 levels. This has resulted in careful evaluation of fixed plant maintenance priorities and in some instances it is evident that the level of funding available has been less than adequate. With very few exceptions, however, service delivery has been maintained through this period at very high levels; in some instances even at unprecedented levels. The Commission is currently developing a detailed asset management program and intends to give particular attention to the implementation of effective and efficient maintenance programs.

Mornington Peninsula and District Water Board

1.2.66 Recent internal reviews of the Board's maintenance practices highlighted that:

- ◆ The present costs of maintenance associated with mobile plant and heavy vehicles were excessive. Targets have been set by the Board aimed at significantly reducing future maintenance costs; and
- ◆ Routine maintenance of water and sewerage fixed plant installations was impaired due to the large number of plant items involved and the need to repair breakdowns to sewerage plants.

Management response

A fleet management system would overcome many of the claimed deficiencies in relation to maintenance of major plant and heavy vehicles.

Early difficulties in fixed plant maintenance were a result of inheriting poorly maintained wastewater systems.

University of Melbourne

1.2.67 Maintenance was generally undertaken using internal resources. Where expertise was not available on campus, suppliers or external technicians were engaged to undertake the required work, and in a small number of instances, service contracts were arranged for specified equipment.

1.2.68 Policies and procedural documentation in relation to the routine maintenance of all plant and equipment had not been developed within the University and information systems were not in place to record such details for individual items.

1.2.69 In the absence of maintenance information, the University was unable to undertake detailed analyses to assess the costs or benefits of its present maintenance arrangements.

1.2.70 However, audit was advised that the long-term maintenance of fixed mechanical plant, which had exceeded its economic life, was considered by technical staff to be more expensive than replacement. In one instance a steam boiler was purchased and installed in 1973 with an expected life of 10 years. On 3 occasions, major repairs had been required to prolong its operational life and the repairs involved had been time and labour intensive. Although technical staff had recommended the replacement of the boiler at a 1986 quoted price of \$32 000, priority had still not been given to its replacement.

This matter has been drawn to the attention of the University.

Department of Conservation, Forests and Lands

1.2.71 The Department did not have procedures for monitoring costing information to enable plant items incurring high maintenance costs to be identified. A review of information held within selected regions revealed that certain plant items incurred high maintenance costs compared with other similar items.

Management response

Enhancements to information systems in 1988-89 will include year-to-date and life-to-date monthly reports of expenditure on maintenance.

Department of Agriculture and Rural Affairs

1.2.72 The Department's systems and procedures with respect to maintenance of agricultural plant and scientific equipment were considered inadequate in the following respects:

- ◆ The absence of information systems to enable the costs associated with major items to be identified and monitored;
- ◆ Lack of procedural guidelines requiring managers to consider the economic viability of undertaking major repairs. The lack of such evaluations, together with the low priority given to capital replacement, may have resulted in uneconomic decisions in relation to the maintenance and repair of certain items which have exceeded their economic lives; and
- ◆ Inappropriate allocation of the maintenance costs for equipment purchased from industry research funds. As the cost of labour and overheads relating to the maintenance of these items is borne by the Department, there is no incentive for various industry groups to replace uneconomical or obsolete plant and equipment.

Management response

The Department considers that the maintenance and construction of plant and equipment is generally of a high standard and cost-effective. Efficient workshops are maintained at most appropriate establishments. However, it is agreed that managers may obtain improved information if workshop and other systems were to provide cost summaries for at least major items. Some limited recording is already undertaken but will be reviewed for improved performance in this area.

Although analyses are not generally undertaken to determine the merits of repairing or replacing plant and equipment, managers must prioritise their limited funds to ensure that the overall performance of their unit is optimised. This has required, on occasions, extensive repair work to be performed rather than commit funds to acquisition or replacement. Consideration must be given to a range of issues such as the seasonal use of plant and equipment where major breakdowns may occur at peak usage times (e.g. harvest) and no alternative is available apart from carrying out repairs.

DEFICIENCIES IN EXTERNAL HIRE ARRANGEMENTS

Hire from external contractors

1.2.73 A number of organisations included in the review hired mobile plant from external contractors. It is estimated that over \$30 million was expended annually on such hire, 75 per cent of which related to the Road Construction Authority.

1.2.74 In the majority of cases, the negotiation of external hire rates and conditions was undertaken at a regional level in line with delegation levels and approval procedures of each organisation.

1.2.75 The review highlighted:

- ◆ Inadequate monitoring procedures. Systems did not provide information to readily identify situations where it would be more cost-effective to purchase frequently used items rather than hire;
- ◆ Inaccurate internal hire rates. The costs associated with the use of internal plant items were allocated to projects within organisations by the use of internal plant hire rates. However, in many instances these rates did not accurately reflect the costs of owning and operating plant items. As a result, accurate comparisons could not be made between the economic viability of external hire and purchase alternatives;
- ◆ Deficiencies in procedural instructions. In some instances regions were not required to contact internal plant branches to ascertain the availability of plant items prior to hiring from external contractors;
- ◆ Non-compliance with approved tendering procedures; and
- ◆ Delays in renegotiating hire rates in cases where fixed rates were negotiated with external contractors on a yearly basis.

1.2.76 Although the impact of the deficiencies in hire arrangements could not be assessed during the review, instances were noted where plant was hired from external sources although suitable items were available internally.

1.2.77 In some cases items had also been hired on a long-term basis without an adequate assessment of the cost-effectiveness of the arrangement. Within the State Transport Authority, for example, 2 large forklift trucks had been hired for at least 4 years at a daily rate of \$822. In excess of \$800 000 had been paid to the contractor during that time. The Authority estimated that the current purchase cost of these items would be \$390 000 each.

1.2.78 In view of the substantial cost associated with external hire, there is a need for organisations to develop mechanisms to record and monitor this activity.



Forklift truck hired for over 4 years by the State Transport Authority.

Management responses

Road Construction Authority

Procedures for commercial plant hire are set out in the Authority's "Code of Practice" which requires an internal cost-effectiveness assessment in every case. The Authority's new information system will facilitate full on-line monitoring and management reporting.

State Transport Authority

Although instances have occurred of external plant being hired when internal plant was available, insufficient data exists to draw conclusions as to whether or not these decisions were correct, particularly when geographical location and availability of operators is considered.

OPERATIONAL NEEDS NOT ADEQUATELY ASSESSED

1.2.79 During recent years, there has been a lack of a systematic planning approach to plant and equipment management to ensure that it complements overall organisational objectives.

1.2.80 The absence of regular assessments of long-term plant and equipment needs, and the failure to develop acquisition and replacement programs, contributed to the retention of items which were surplus to requirements or had exceeded their economic or useful lives.

1.2.81 Organisations indicated that forward planning had been hampered by uncertainty of future funding and changing organisational strategies. In cases where the funding of capital replacement was dependent on annual parliamentary appropriations or grants, planning was generally limited to the period covered by the appropriation.

1.2.82 Organisations need to regularly identify future requirements and formulate complementary acquisition and replacement programs.

1.2.83 Specific comments on forward planning were made to the following agencies.

Road Construction Authority

1.2.84 A recent internal review addressed the likely changes required in the size, age and composition of the Authority's plant fleet during the next 5 years. A replacement program was developed indicating the numbers of items in each category to be replaced or retained to achieve the expected reduced fleet size.

1.2.85 Although the review has provided a framework for forward planning for plant, detailed replacement or disposal schedules need to be developed to complement this planning.

Management response

The Road Construction Authority has always developed annual detailed plant retention and replacement schedules to meet user programs and targets. A longer-term strategic framework is now in place as an output of the recent functional review which reflects the changing road program demands and funding levels.

State Transport Authority

1.2.86 Procedures were not in place to regularly assess current and future plant and equipment needs. Although overall corporate strategies had been developed, detailed acquisition and disposal programs had not been developed to complement these strategies. The need to ensure major equipment purchases are planned to meet future business strategies was highlighted by one instance where a 400 tonne press, purchased for \$151 000, was ready for installation within the Newport Workshops in September 1986. However, as a result of consultation processes and union disruption relating to a proposed relocation of workshop facilities, the press was not installed for use as at June 1988.

Management response

The original decision to acquire the press was subsequently overtaken by a proposed major restructure of the Authority's workshops. Until planning for the restructure had been agreed it was not clear as to whether the press should be installed at the originally planned location or moved to a country workshop.

Mornington Peninsula and District Water Board

1.2.87 Procedures had not been developed to regularly assess the Board's medium and long-term plant and heavy vehicle needs. Audit was advised that the development of forward plans had been hampered by the fact that the Board's overall corporate plan had not yet been finalised.

Management response

While procedures are not formally documented, plant and heavy vehicle purchases are subject to forward planning and are incorporated in the Board's capital investment procedures which include technical, financial, economic and needs analysis.

University of Melbourne

1.2.88 In recent years the systematic planning for equipment replacement or acquisition had not been undertaken by the University.

1.2.89 In view of proposed changes to Commonwealth higher education funding arrangements which are intended to give the University greater discretion in the internal allocation of resources, it is considered that forward planning, including detailed replacement programs, will be essential to effective equipment management.

1.2.90 As a first step, in 1987 the University developed a strategic plan and required each faculty to prepare acquisition schedules detailing major items of equipment to be purchased over the next 5 years.

Department of Conservation, Forests and Lands

1.2.91 Audit commended the Department on its initiatives in assessing the current and future plant and equipment needs and on developing rationalisation plans to meet present and foreseeable priorities. However, the future needs with respect to caravans and trailers should also be evaluated.

Management response

Rationalisation of trailers has commenced but in 1987-88 was given lower priority than the rationalisation of large plant items. Further rationalisation will be followed-up in 1988-89 following the promulgation of new disposal guidelines.

Department of Agriculture and Rural Affairs

1.2.92 Departmental units identify plant and equipment required to be purchased in the following year from annual appropriations and Rural Industry Research Funds. It was noted that the items identified only relate to short-term equipment requirements and the systematic long-term planning for plant and equipment replacement and acquisition had not been undertaken by the Department.

Management response

The Department's priorities in planning for the replacement of plant and equipment have traditionally had a short-term focus to enable completion of projects established through the budgetary process. As appropriations are on an annual basis only and industry funding is generally of a reasonable short term (1-3 years), the requirement for longer-term planning is largely negated due to the unknown funding position.

ALTERNATIVE MEANS OF ACQUISITION NOT EVALUATED

1.2.93 While the responsibility for acquisition of capital equipment rests with individual organisations, the following documents have been issued to assist in the acquisition process:

- ◆ *Investment Evaluation Guidelines* issued by the Department of Management and Budget sets out principles and practices to be followed in evaluating capital investment decisions. Organisations are expected to develop evaluation systems consistent with these guidelines; and
- ◆ *A Supply Policy Manual* covering the Victorian public sector issued by the Department of Industry Technology and Resources.

1.2.94 Within the organisations reviewed, there was a lack of adequate policies and procedures in relation to plant and equipment acquisitions. Major deficiencies in acquisition processes included:

- ◆ Inadequate evaluation of the need for plant items including an assessment of anticipated utilisation;
- ◆ Absence of evaluations of the economic or operational viability of all alternative means of acquisition including hiring, leasing and the purchase of second-hand equipment. The Rural Water Commission's activities in conducting economic evaluations of the purchase and external hire alternatives were commendable. However, the results were considered to be unreliable due to the lack of accurate costing information to support the evaluations; and
- ◆ Insufficient consideration of cost-effectiveness factors such as reduced labour requirements, increased accuracy of research results, reduced project time, and reduced maintenance and repair costs.

1.2.95 Organisations need to establish guidelines and procedures to ensure the need for acquisitions are fully evaluated and made in the most cost-effective manner.

1.2.96 Specific comments on acquisition were communicated to relevant organisations in detailed management letters.

INADEQUACIES IN INFORMATION SYSTEMS AND MONITORING PROCEDURES

1.2.97 To assist in the efficient and effective management of plant and equipment, it is important that systems are in place to generate accurate, complete and timely information on plant and equipment. Information can assist in:

- ◆ development of long-term forward plans;
- ◆ supporting acquisition decisions;
- ◆ assessing the viability of using external hire or lease as opposed to ownership;
- ◆ monitoring utilisation and costs;
- ◆ identifying items which have reached their economic useful lives or are surplus to requirements; and
- ◆ identifying the loss or theft of items.

1.2.98 In general the systems and procedures in place for recording and monitoring plant and equipment were found to be poor and as a result the level of management control was significantly diminished. Deficiencies included:

- ◆ lack of cost and usage information for individual items or categories of plant and equipment;
- ◆ absence of performance indicators such as useful lives, standard operating costs and optimum utilisation levels;
- ◆ lack of procedures for regularly monitoring plant and equipment usage and costs;
- ◆ incomplete or inaccurate asset recording and identification systems; and
- ◆ inadequate stocktaking procedures.

1.2.99 Computerised plant management systems were recently developed within several organisations examined. Once fully implemented or appropriately enhanced, these systems will overcome a number of the problems identified.

1.2.100 Recommendations to organisations stressed the need to develop or further enhance plant and equipment management information systems.

1.2.101 Specific comments in relation to each organisation follow.

Road Construction Authority

1.2.102 Information systems for recording and monitoring the Authority's plant fleet cost and utilisation have been inadequate for a number of years. A computerised plant management system, which was to be in use by mid-1987, became operational on 1 September 1988.

1.2.103 Delays in the implementation of an effective plant information system, together with a lack of procedures for monitoring available information, had diminished the level of management control exercised by the Authority and had inhibited the identification of uneconomic and under-utilised items.

Management response

A new information system came on-line on 1 September 1988 to provide plant fleet and item monitoring including inventory, location, utilisation, earnings, costs, road jobs, changes to hire arrangements and reporting. In addition, a full recovery of 1987-88 data has been effected.

State Transport Authority

1.2.104 The usefulness of the Authority's mobile plant management information systems was compromised due to incompleteness of data recorded. In addition, systems were not in place to facilitate the identification and monitoring of costs associated with certain fixed plant and items managed by the Authority's Workshops Division.

1.2.105 The Authority's fixed asset register had not been adequately maintained and as a result mobile plant items amounting to in excess of \$4 million had not been recorded.

1.2.106 The monitoring and assessment of plant utilisation and performance was ineffective due to the deficiencies in information systems, lack of regular reporting to management and lack of performance indicators to assist in evaluating the utilisation and costs of plant items.

Management response

A major task ahead is to complete the plant and equipment management system which is in the course of development. It is anticipated that development of the system will be largely finished in the next 12 months. This will provide the Authority with the ability to more closely monitor, control and manage its plant and equipment assets.

Rural Water Commission

1.2.107 Information systems had not been developed to record and analyse the utilisation, costs incurred and performance in relation to individual plant items. It was also noted that stocktakes of plant and equipment had not been performed for a number of years. As a result, the effective management of plant and equipment had been hampered.

Management response

The Commission recognises the need for a mobile plant and vehicle management information system, preferably as a computerised package which reports against standard indicators. A working party has identified the basic needs of a suitably comprehensive information system and the introduction of such a system will depend on priorities and availability of funds within the Commission's information systems plan.

Stocktakes of minor plant and equipment have not been performed for a number of years. With regard to items in the assets register it is intended to develop a policy of stocktaking items on a formal basis every 5 years. As a register was only set up as at 1 July 1984, the next stocktake would be to cover the 1988-89 to 1989-90 period. While no formal stocktake has taken place, movements in assets have been identified, also some assets by this nature are verified yearly.

University of Melbourne

1.2.108 A lack of accurate asset recording systems had significantly diminished the University's ability to control and manage asset holdings. Although asset registers had been established to record items of plant and equipment, in many cases the acquisition, movement or disposal of items had not been accurately recorded. The deficiencies in asset recording were highlighted by the fact that the value of the University's building contents for insurance purposes was \$309 million compared with a replacement value of \$122 million for all classes of fixed assets recorded in their asset registers.

1.2.109 It was also noted that usage records were not maintained for major items of plant and equipment and that financial recording systems did not enable the maintenance costs associated with these items to be readily identified.

Management response

As a consequence of a review undertaken in 1987 a new computerised inventory system was installed with effect from 1 January 1988 and although further improvements will be realised as staff become more familiar with the procedures, significant improvements in asset recording have already been achieved this year.

Department of Conservation, Forests and Lands

1.2.110 In June 1987, the Department implemented a computer-based plant and vehicle information system to enable the financial performance and utilisation of individual plant items to be monitored. Although still in the process of enhancement, the system significantly improved the information available to management for monitoring and control purposes.

1.2.111 However, the review indicated that the following deficiencies had compromised the usefulness of the system at this stage:

- ◆ time lags in recording fuel usage;
- ◆ the inaccurate allocation of fuel usage to plant items; and
- ◆ a lack of procedures to ensure information was systematically monitored by senior management.

Management response

Deficiencies have been examined by the Department and steps taken to avoid inaccurate and untimely recording of fuel usage. Enhancements to the information system scheduled for implementation in 1988-89 will eliminate current difficulties in the local and State-wide monitoring of plant and vehicles.

Mornington Peninsula and District Water Board

1.2.112 The major deficiency in systems within the Board was a lack of usage and cost data for individual plant items.

Management response

At the present time the Board does not have an adequate fleet management system, however this will be addressed at the appropriate time in accordance with priorities.

Department of Agriculture and Rural Affairs

1.2.113 Information systems within the Department did not enable the utilisation and costs incurred in relation to the operation of major items of agricultural plant or scientific equipment to be identified.

1.2.114 Although considerable progress has been made in establishing asset recording systems, to improve the usefulness of these systems the Department needs to clearly identify individual assets and define the ownership of items purchased with research funds.

Management response

In the form of its assets register, the Department has established the basis of an effective information system. It is recognised that this system will require ongoing refinement and development. Audit's suggested refinements will be taken into consideration in future developments of the assets register. In undertaking this, careful consideration will need to be given to balancing the resources required for the development of the information system against the expected benefit to be derived from the system.

DISINCENTIVES TO THE DISPOSAL OF SURPLUS OR OBSOLETE ITEMS

1.2.115 Methods used for disposing of plant and equipment varied within the organisations examined. These methods included trade-in, sale by auction or tender, donation and scrapping.

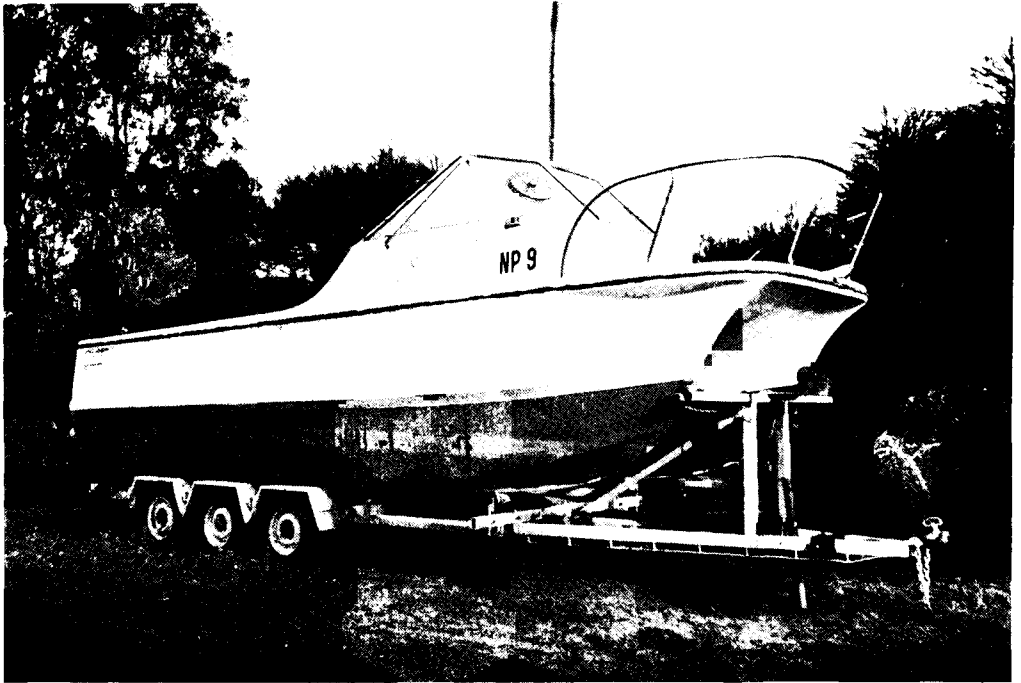
1.2.116 During the review it was noted that a substantial number of unused, technically obsolete and unserviceable items had been retained by organisations. For example:

- ◆ Within laboratories at the University of Melbourne and the Department of Agriculture and Rural Affairs many unused items of scientific equipment were stored on benches, in cupboards, store rooms and corridors;
- ◆ A number of boats had been retained by the Department of Conservation, Forests and Lands which were unserviceable or surplus to the Department's requirements. In one instance, a twin hull boat which had not been used for several years, was stored in a regional workshop yard. The effects of open storage had resulted in deterioration of the boat's condition and appearance. The present realisable value of the boat is between \$10 000 and \$20 000; and
- ◆ Obsolete and unserviceable items of agricultural plant were retained at research establishments of the Department of Agriculture and Rural Affairs. In some cases items had been retained although they had not been used for over 10 years, including a 1948 tractor which had not been used for 16 years. In some instances unserviceable agricultural plant occupied covered storage areas while serviceable items were stored in the open.

1.2.117 Delays of up to 2 years had also occurred in the disposal of plant and equipment withdrawn from service and identified for disposal.

1.2.118 Legislation relating to a number of organisations requires that all moneys resulting from the disposal of plant and equipment are to be paid into the Consolidated Fund. It was apparent that this requirement acted as a disincentive to the identification and disposal of unused plant and equipment within these organisations. This issue was previously raised in the *Auditor-General's First Report to Parliament for the 1985-86 year* (page 73), as part of a review of departmental asset holdings.

1.2.119 Costly and time consuming disposal procedures such as advertising items in the press prior to disposal and the administration of tendering processes, also discouraged the disposal of items. Although items may have cost substantial amounts at the time of purchase, their value at the time of disposal was often not significant due to their technical obsolescence. In such cases administrative costs associated with disposal may exceed the returns to be gained.



Unserviceable twin hull boat retained by the Department of Conservation, Forests and Lands.

1.2.120 The retention of these items of plant and equipment resulted in:

- ◆ inefficient use of space;
- ◆ loss in value due to deterioration, obsolescence and unavailability of spare parts; and
- ◆ loss of interest to the State on amounts which could have been recouped from disposal.

1.2.121 Although organisations indicated that items are retained for emergency use or spare parts, the number of items retained for this purpose was excessive.

1.2.122 Recommendations to organisations stressed the need to review present disposal practices to ensure that they facilitate optimum returns on disposal of plant and equipment. Consideration also needs to be given to the introduction of a system that explicitly takes into account the net proceeds from the sale of surplus holdings when allocating resources to organisations funded through annual appropriations.

1.2.123 Specific comments on disposal procedures were communicated to relevant organisations in detailed management letters.

Management responses

Department of Conservation, Forests and Lands

The current process for identifying unserviceable and surplus items is generally adequate. Some delays in disposal of individual items have resulted from the need to complete State-wide surveys prior to disposal action.

More detailed procedures for timely identification of unserviceable minor items will be developed. More equitable arrangements for the disposal of used plant and equipment will be negotiated with the Department of Management and Budget.

Department of Agriculture and Rural Affairs

While there may be some economic benefit to the State from disposal, as proceeds are returned to the Consolidated Fund, there is a funding disadvantage in that costs of disposal are borne by the Department. In some cases there is greater benefit to retain obsolete items for repair parts.

The Department has unsuccessfully approached the Department of Management and Budget on 2 previous occasions with a view to retaining funds derived from disposal of goods.

PART 2

YOUTH GUARANTEE

SUMMARY OF MAJOR AUDIT OBSERVATIONS

2.1.1 In March 1985, the Victorian Government introduced a major initiative, the Youth Guarantee, to provide better opportunities for the employment and education of young people in Victoria.

2.1.2 An audit review of various aspects of the Youth Guarantee confirmed that there is an urgent need to improve management of the Guarantee so as to increase the efficiency and effectiveness of the implementation of this initiative. In particular, the overall responsibility for the implementation of the Government's policy in relation to the Guarantee needs to be clearly assigned. While audit identified a number of other shortcomings and deficiencies, it acknowledges that some efforts have been and are being made to introduce the necessary systems and procedures to improve the management of the Guarantee, but complex social and economic issues are involved and a good deal remains to be done. The improvement of the management of the Guarantee is essential in view of the ongoing nature of the initiative and its impact on future funding.

2.1.3 Notwithstanding the Director-General's suggestion to review an ongoing departmental program, the level of co-operation received from the Department of Labour during the review was disappointing. It is appreciated that the substantial lack of information available to monitor the effectiveness of the Guarantee was a contributing factor to the long delays in the Department providing information requested during the review. In several instances published departmental information was at variance with that provided to audit.

2.1.4 Key audit observations are summarised below.

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| ADDITIONAL TERTIARY PLACES NOT TARGETED TO DISADVANTAGED STUDENTS |
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| Since 1986 an additional 3 585 tertiary places intended for specific courses and targeted at disadvantaged school leavers have been created under the Guarantee at a cost of \$33.2 million. |
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|--|
| Not all educational institutions reviewed gave effective consideration to disadvantaged students when creating additional tertiary places. |
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| Information was not available to management to enable an assessment of the initiative's effectiveness in assisting disadvantaged students. |
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| Minimal guidance on funding objectives and conditions relating to the initiative was provided to the educational institutions by the agencies originally responsible for the administration of this aspect of the Guarantee, including the Victorian Post-Secondary Education Commission. |
|---|

MAJORITY OF TRAINEESHIPS IN THE VICTORIAN PUBLIC SECTOR AWARDED TO INELIGIBLE APPLICANTS *page 51*

In excess of \$16 million has been expended over the past 3 years on traineeships in the Victorian public sector intended for people under 19 years of age, unemployed for more than 6 months and who had not completed Year 12 at school.

Seventy-six per cent of the traineeships reviewed were awarded to individuals who did not meet the selection criteria.

The number of public sector traineeships commenced declined from 1 360 in 1985-86 (109 per cent of budget) to only 77 in 1987-88 (15 per cent of budget).

The initiative was adversely affected by industrial and budgetary factors, substantial management changes and difficulty in convincing public sector agencies to employ people in traineeships.

IMPACT OF THE EMPLOYMENT COUNSELLOR AND PLACEMENT SERVICE NOT EFFECTIVELY MEASURED *page 54*

The Employment Counsellor and Placement Service, which commenced in June 1987 with a primary objective of placing young people in work, training or education through the provision of individual counselling, had placed 1 333 people by 30 June 1988 at a cost of \$1.7 million.

The Department of Labour could not effectively measure the impact of the Service and did not provide adequate training and supervision to key employment counselling personnel.

LACK OF PERFORMANCE INDICATORS *page 57*

Effective and reliable performance indicators were not in place to progressively measure the impact of the Guarantee and provide information to assist in periodic decision making.

There is some concern over the validity of the Youth Guarantee achievements claimed by the Department of Labour in its publications.

**PROMOTIONAL EXPENDITURE NOT IN ACCORDANCE WITH
GOVERNMENT DIRECTIVES**

page 61

Department of Labour expenditure to promote the Guarantee, of approximately \$2.4 million over the 3 year period, was not in accordance with government directives relating to the tendering processes and the monitoring and evaluation of consultancies.

BACKGROUND

2.2.1 The principal objective of the Youth Guarantee is to provide all Victorians between 15 and 18 years of age with the option of full-time work, full-time education, full-time training, or some acceptable structured arrangement for work, education and training.

2.2.2 In essence, the Guarantee was developed as a consequence of a number of problems which surfaced in the early 1980s, including:

- ◆ high youth unemployment;
- ◆ poor school retention; and
- ◆ insufficient numbers of young people with post-secondary education.

2.2.3 In response to these and related issues, the Australian Government commissioned the Kirby Inquiry into Labour Market Programs and the Victorian Government commissioned the Blackburn Inquiry into Victorian Educational Requirements. The recommendations of these inquiries were subsequently used as the basis for the development of strategies to be pursued under the Youth Guarantee.

2.2.4 To achieve the Guarantee's objectives, a series of initiatives have been developed in 4 reform areas, namely:

- ◆ information and promotion;
- ◆ education;
- ◆ work and training; and
- ◆ full-time employment.

2.2.5 The strategic management of the Guarantee is undertaken by the Youth Guarantee Cabinet Committee. The development and implementation of the initiative is the responsibility of the Guarantee Secretariat which is a section within the Department of Labour. The Department indicated that, in practice, responsibility for the funding and management of additional tertiary places rested with the Department of Management and Budget (DMB) and the Victorian Post-Secondary Education Commission (VPSEC).

OBJECTIVES AND SCOPE OF THE REVIEW

2.2.6 The Youth Guarantee initiative was selected for audit due to the significant expenditure involved; the ongoing nature of the Guarantee, which will impact on future State budgets; and community sensitivity over the lack of employment and educational opportunities for youth.

2.2.7 In view of the above it was concluded that it was in the public interest to provide Parliament and management with:

- ◆ an objective and independent assessment of the efficiency and effectiveness of the implementation of the Guarantee; and
- ◆ constructive recommendations for the future management of the Guarantee.

2.2.8 The review of the Guarantee covered:

- ◆ additional tertiary places in universities and colleges of advanced education;
- ◆ traineeships in the Victorian public sector;
- ◆ the Employment Counsellor and Placement Service;
- ◆ program-wide performance indicators; and
- ◆ promotion of the Guarantee.

2.2.9 During the course of the review, particular attention was directed towards the nature of procedures established, including performance measures, for periodic evaluation of the effectiveness of the Guarantee and the implications of such procedures on Guarantee decision making.

2.2.10 Detailed comments on important issues arising out of the review are outlined in this section of the report.

ADDITIONAL TERTIARY PLACES - UNIVERSITIES AND COLLEGES OF ADVANCED EDUCATION

2.2.11 In recent years demand for higher education in Victoria has exceeded the supply of available places. Since 1986, as an initiative of the Guarantee, the State Government has funded an additional 3 585 places in universities and colleges of advanced education at an aggregated cost of \$33.2 million to 30 June 1988.

2.2.12 The additional tertiary places were intended for studies linked to occupations in which qualified people were in short supply, including mathematics, science and commerce, and were targeted at disadvantaged school leavers who would not have otherwise been offered a place. The distribution of places was negotiated between VPSEC, and universities and colleges of advanced education. Funding to the educational institutions was provided directly to VPSEC from DMB.

Inadequate policy guidelines

2.2.13 As overall responsibility for the implementation of the Guarantee had not been clearly assigned to any one agency, VPSEC received minimal guidance on funding objectives and conditions relating to this initiative. Consequently, guidelines governing the use of the funds were not issued by VPSEC to the educational institutions. VPSEC acknowledged that its responsibility concerning this initiative had not been clearly determined. However, VPSEC advised that it has recently taken action to assume total responsibility for this initiative.

Allocation and monitoring of placements

2.2.14 VPSEC formed the view that the aims of the funding were twofold, namely:

- ◆ to achieve a 50 per cent transition rate from secondary to tertiary education with emphasis on priority courses; and
- ◆ targeting of disadvantaged students.

2.2.15 VPSEC primarily directed emphasis towards achieving the 50 per cent transition rate and was not well placed to assess the extent to which disadvantaged groups had benefited under the Guarantee.

2.2.16 A selective review by audit found that while a number of educational institutions had created additional tertiary places under this initiative, it confirmed that consideration given to disadvantaged students was minimal.

2.2.17 The educational institutions were not required to maintain statistics on the progress of students occupying additional places funded under this initiative. It is understood that few institutions actually kept these statistics for their own management purposes. In such circumstances the various government agencies involved in the implementation of this initiative were not well placed to identify the number of eligible students holding additional tertiary positions, their progress through the tertiary education system or the ongoing funding requirements.



Youth Guarantee trainees in the classroom.

2.2.18 Although it is apparent that a 50 per cent transition rate from secondary to tertiary education has been achieved, it is a matter of concern that information was not available to enable an assessment of the initiative's effectiveness in assisting disadvantaged students. As a consequence, management does not have the necessary information on which to make an overall assessment of the effectiveness of the program which at 30 June 1988 involved the outlay of \$33.2 million. In audit opinion this position can be largely attributed to the absence of guidelines, incorporating lines of responsibility, governing the management of the initiative.

2.2.19 To improve future management of this initiative there is a need:

- ◆ to assign overall responsibility for the Guarantee to one agency or body; and
- ◆ for all participating agencies to have a clear understanding of this initiative's objectives and establish an effective monitoring framework.

Management responses

Victorian Post-Secondary Education Commission

The transition objectives established for the scheme have clearly been achieved and although the objectives relating to disadvantage are more difficult to evaluate quantitatively, strategies have been implemented which should ensure their achievement. In 1988, VPSEC has adhered to its policy of increasing the transition rate of secondary school graduates to higher education to at least 50 per cent, with the targeting of places to disadvantaged individuals who would not otherwise have been offered a place for studies linked to occupations with high demand.

Department of Labour

The Department of Labour had no managerial role or oversighting role with respect to the tertiary placement aspects of the Government's Youth Guarantee Policy and Program. The Department of Labour cannot accept any responsibility for whatever may have happened.

TRAINEESHIPS IN THE VICTORIAN PUBLIC SECTOR

2.2.20 A specific initiative of the Guarantee which was managed by the Department of Labour was to fund traineeships providing employment and training opportunities within the Victorian public sector. The traineeships were intended for people under 19 years of age who had been unemployed for more than 6 months and who had not completed Year 12 at school. Traineeships consisted of structured 12 month programs of course work and on-the-job training at public sector agencies. At the conclusion of the traineeship, it was anticipated that the trainee would be offered permanent employment by the agency.

2.2.21 The Department's financial reporting system could not readily identify the total cost of funding this initiative. Identifiable costs exceeded \$16 million, including \$12.1 million for trainees' salaries. However, other Youth Guarantee costs relating to matters such as publicity and promotion, corporate services and management were not readily available.

Progress in developing and delivering traineeships

2.2.22 There has been a substantial fall in the number of traineeships commenced between 1985-86 and 1987-88 compared with targeted numbers for those years. Relevant details are shown in Table 2.2A:

TABLE 2.2A. YOUTH GUARANTEE-FUNDED PUBLIC SECTOR TRAINEESHIPS

| <i>Item</i> | <i>Unit</i> | <i>1985-86</i> | <i>1986-87</i> | <i>1987-88</i> | <i>Total</i> |
|------------------------|---------------|----------------|----------------|----------------|--------------|
| Traineeship target | (number) | 1 250 | 1 000 | 500 | 2 750 |
| Traineeships commenced | (number) | 1 360 | 228 | 77 | 1 665 |
| Traineeships commenced | (% of target) | 108.8 | 22.8 | 15.4 | 61 |

Source: Department of Labour.

2.2.23 The Department attributed the low commencement rate of 61 per cent to unforeseen industrial relations difficulties. However, in audit opinion additional factors such as budgetary constraints, difficulties experienced by agencies in absorbing trainees, rapid organisational structural changes within the Department and inadequate departmental planning would have contributed to the low commencement level.

2.2.24 Twenty-two per cent of the 1 665 traineeships commenced during the period were not completed.

Target group not adequately represented in traineeships

2.2.25 The group specifically targeted to benefit from traineeships under this initiative was specified as persons under 19 years of age, unemployed for at least 6 months and yet to complete Year 12 at school.

2.2.26 An analysis of information provided by the Department to the Commonwealth Department of Employment and Industrial Relations on 570 trainees who commenced between 1985-86 and 1986-87 found that:

- ◆ 76 per cent had been unemployed for less than 6 months;
- ◆ 20 per cent had completed Year 12 at school; and
- ◆ 20 per cent were not under 19 years of age.

2.2.27 These findings indicated that a large proportion of traineeships funded by the Department were allocated to individuals who did not meet the selection criteria specified for this initiative.

2.2.28 Doubt exists as to the effectiveness of this particular initiative due to:

- ◆ the significant decrease in the number of traineeships commenced, relative to targets, during the 3 year period; and
- ◆ the large proportion of traineeships awarded to individuals who did not meet the selection criteria (76 per cent of the sample reviewed).

2.2.29 As well as unforeseen industrial relations difficulties, rapid changes in management structure and responsibilities within the Department of Labour, failure to convince agencies to employ young people in traineeships, and industrial and budgetary factors have also impinged on the overall effectiveness of the initiative.

2.2.30 In audit opinion the Department needs to:

- ◆ provide regular monitoring of the effectiveness of the initiative;
- ◆ identify traineeships which are perceived by agencies to be worthwhile; and
- ◆ stabilise lines of responsibility for the future management of the initiative.

Management response by Department of Labour

The target levels mentioned in the report are in error. They were:

*1985-86: 1 250 work/study traineeships;
1986-87: 500-600 work/study traineeships; and
1987-88: 250 work/study traineeships with a further 250 if required
in the Cabinet Committee's judgement.*

The Cabinet Committee decided to concentrate on the private sector in 1986-87 and 1987-88 and to use public sector traineeships as a "backup".

It is accepted that some agencies did not adhere to the target groups in the first 2 years and as a result agencies were informed that they would not be funded in future unless they employed young people from the target group.

The criteria was established as formal policy on 24 February 1987. As such, it relates only to the latter half of the 1986-87 year and the whole of 1987-88. It also allows for Year 12 graduates who have been long-term unemployed to participate.

Further audit comment

The target levels in Table 2.2A, considered to be in error by the Department of Labour, were obtained from departmental publications.

EMPLOYMENT COUNSELLOR AND PLACEMENT SERVICE

2.2.31 The Employment Counsellor and Placement Service commenced in June 1987 with a primary objective of placing people in work, training or education through the provision of individual counselling. The specified target group was young people of 18 years or under, not in full-time education and who had been unemployed for more than 6 months. The benefits provided under the Service were limited to persons within the target group who responded to a public relations campaign.

2.2.32 Approximately 2 145 people responded to the Department's public relations campaign promoting the Service of which 1 333 (62 per cent) had been placed by the Service at 30 June 1988 at a cost of \$1.7 million.

Effectiveness of the Service

2.2.33 The Department, in measuring the effectiveness of the Service, only considered the number of placements achieved. In discussions with the Department, audit conveyed the view that the Department's approach to measuring the effectiveness of the Service were too narrowly based. Audit suggested that consideration of the following factors would also assist in measuring the effectiveness of the Service:

- ◆ eligibility of participants;
- ◆ duration of individual placements; and
- ◆ levels of response rate from the target group.

2.2.34 In addition, audit found that certain information critical to effective management of the Service was not readily available within the Department. Such information includes:

- ◆ the length of time that participants remained in their placement;
- ◆ reasons for withdrawals from the Service;
- ◆ whether the placement was for casual or temporary work; and
- ◆ the extent of ongoing counselling required by participants under the Service.

2.2.35 A review of participants' data provided by the Department disclosed that in excess of 10 per cent of participants did not meet the eligibility criteria under this initiative. However, audit formed reservations as to the overall integrity of the Service's database, due to inaccuracies and omissions in the recording of information submitted by field counsellors. In view of these reservations, there is significant concern as to the overall accuracy of information contained in the reports used by the Department as a prime measure of the Service's performance.

Destruction of departmental files

2.2.36 Audit found that many files relating to Service participants critical to the evaluation of the initiative had been destroyed by certain counsellors. *The Department advised that the files were destroyed because of the confidential information contained in them.*

Training and supervision

2.2.37 An evaluation of the training and supervision of field counsellors found that:

- ◆ training given to staff, who came from a diverse range of occupations and generally had little counselling experience, did not adequately address:
 - the interaction process between field counsellors and participants; and
 - the availability to counsellors of assistance from external resources, such as Commonwealth employment agencies and trade unions; and
- ◆ counsellors' day-to-day activities were not monitored and supervision of their case loads only occurred if assistance was requested.

Summary comment

2.2.38 The Department's systems and procedures were too narrowly based to effectively measure the impact of the Service.

2.2.39 In addition, the Department did not provide adequate training and supervision to key service personnel.

2.2.40 The Department needs to critically evaluate its experiences of the Service with a view to identifying avenues by which management of this initiative may be improved. Particular attention should be directed towards:

- ◆ the importance of having in place meaningful performance indicators including benchmarks against which program effectiveness may be progressively monitored;
- ◆ the requirement for management information systems to adequately support this initiative; and
- ◆ the nature and extent of training and supervision necessary for counsellors and other staff.

Management response by Department of Labour

The Employment Counsellor and Placement Service has been an outstanding success. At an individual cost of \$1 255 per placement the Service placed 1 333 young people with a retention rate of 84.3 per cent.

The question of placements being casual or temporary is irrelevant as all staff were instructed to place their clients in mainstream full-time work. The only exceptions to this rule occurred in 3 country centres and involved a very small number of clients.

The Department does not admit to any inaccuracies in the database.

Training was not limited. Training of counsellors began with an intensive one week program supplemented by regular regional training sessions and a further extensive in-service session in August 1987.

Concern about supervision and monitoring is exaggerated. Counsellors provided weekly reports, kept client files, maintained field diaries and completed vehicle log books. Four senior head office staff supervised the counsellors on a roving basis. In addition, some counsellors had their services terminated because of unsatisfactory work performance. This sort of accountability is the exception rather than the rule in the Victorian Public Service.

Further audit comment

While the Department does not admit to any inaccuracies in its database, the audit review disclosed a range of inaccuracies and omissions. It would appear that subsequent to completion of the audit field work, significant remedial action has been implemented by the Department. As part of this remedial action, the Department, since March 1988, has maintained information on retention rates for placements.

PERFORMANCE INDICATORS

2.2.41 Performance indicators are an important mechanism available to management to assist in the evaluation of progress towards achievement of Guarantee objectives.

2.2.42 The Department has devised several performance indicators to assist in the ongoing review of the Guarantee. The performance indicators focus on 3 areas, namely:

- ◆ job creation;
- ◆ school retention; and
- ◆ youth unemployment.

2.2.43 The reliability and effectiveness of these performance indicators are commented on below.

Job creation

2.2.44 One of the principal aims of the Guarantee as stated in the Department's *Annual Report* for 1984-85 and 1985-86 is to increase the supply of permanent work and, as a consequence, the number of work options for young people in both the public and private sectors.

2.2.45 The Guarantee's 1987 progress report published by the Department stated that "... 270 000 new jobs had been created in Victoria with youth employment growth accounting for 35 000 or 13.5 per cent of these new jobs". More recent literature published by the Department also stated that full-time jobs for young people had increased.

2.2.46 However, data collated by the Australian Bureau of Statistics (ABS) on movements in full-time employment indicated that full-time jobs for the Guarantee's target group, 15-18 year olds, actually decreased in Victoria by 4.7 per cent between August 1985 and August 1987. Part-time employment during this period did however increase by 22.4 per cent.

2.2.47 The relevant ABS data is shown in Table 2.2B:

TABLE 2.2B. EMPLOYMENT OF 15-18 YEAR OLDS IN VICTORIA

| <i>August</i> | <i>Full-time employment</i> | <i>Part-time employment</i> |
|---------------|---------------------------------|---------------------------------|
| 1985 | 65 600 | 44 700 |
| 1986 | 69 800 | 44 600 |
| 1987 | 62 500 | 54 700 |

Source: Australian Bureau of Statistics, The Labour Force, Victoria (Cat. 6202.2 and other unpublished ABS data).

2.2.48 Another authoritative source ⁽¹⁾, a leading academic in youth affairs, stated that while there had been a decrease in full-time employment during the period of the Guarantee, there had been substantial growth in part-time employment for 15-19 year olds. The author further stated that 68 per cent of part-time jobs were held by teenagers who were still at school and concluded that the increase in part-time employment for young people would have had minimal impact on job opportunities for the Guarantee's target group.

2.2.49 An important strategy of the Guarantee is the introduction of reforms in public sector recruitment practices designed to increase the intake of young people. Although this strategy received a high priority and visibility in Guarantee literature, performance measures to monitor progress towards achievement of the strategy have not been developed by the Department.

2.2.50 The Youth Affairs Council of Victoria, in a 1988 article entitled *The Youth Guarantee: A Progress Report?* reported on the progress of the Guarantee and expressed the view that, despite the commitment to increase the intake of young people in the public sector, minimal action to implement this commitment had been taken to date. The Council suggested that budgetary cut-backs and freezes on public sector staffing were inhibiting factors in the recruitment of young people.

School retention

2.2.51 Another key aim of the Guarantee is to encourage young people to remain at school until Year 12. The Guarantee's 1987 progress report published by the Department referred to the increases in school retention between 1982 and 1987 and stated "... more than 58 per cent of students who commenced secondary school stayed on to Year 12, compared with 54 per cent in 1986 and just 42 per cent in 1982".

2.2.52 However, an analysis of data compiled by ABS indicated that, although school retention rates were increasing in Victoria (the only State with a Youth Guarantee initiative), other States were also experiencing similar increases. In Victoria, 50 per cent of the increase over the period from 1982 to 1987 occurred prior to the introduction of the Guarantee in 1985.

(1) S. M. Rimmer, "Long-term Youth Unemployment Training Programs and the Youth Guarantee", in *The Bulletin of the National Clearinghouse for Youth Studies*, May 1988, vol. 7, no. 2, p. 11.

2.2.53 Table 2.2C shows the percentage retention rates of secondary school students remaining at school to Year 12.

TABLE 2.2C. RETENTION RATES OF SECONDARY SCHOOL STUDENTS TO YEAR 12

| Year | States and Territories | | | | | | | |
|------|------------------------|------|------|------|------|------|------|-------|
| | N.S.W. | Vic. | Qld | S.A. | W.A. | Tas. | N.T. | A.C.T |
| 1982 | 33.7 | 34.3 | 42.1 | 41.0 | 37.4 | 21.9 | 18.2 | 72.5 |
| 1983 | 37.5 | 38.8 | 47.2 | 47.6 | 40.4 | 24.7 | 20.6 | 72.2 |
| 1984 | 41.4 | 43.3 | 53.1 | 50.1 | 45.5 | 27.6 | 24.4 | 79.8 |
| 1985 | 41.7 | 45.4 | 55.1 | 51.2 | 47.5 | 28.7 | 30.1 | 77.1 |
| 1986 | 44.4 | 46.8 | 57.7 | 54.8 | 50.3 | 30.3 | 34.1 | 77.7 |
| 1987 | 47.1 | 52.5 | 62.5 | 60.2 | 54.4 | 33.0 | 40.7 | 79.0 |
| 1988 | Not available | | | | | | | |

Source: Australian Bureau of Statistics, *National Schools Statistics Collection, Australia* (Cat. 4221.0).

2.2.54 The Youth Affairs Council of Victoria, in its evaluation of the Guarantee's effectiveness, commented that factors other than the impact of the Guarantee, for example, changes in parental expectations and growing awareness of the competitive labour market, would have contributed to improved retention rates.

Youth unemployment

2.2.55 The Department has used movements in youth unemployment as an indicator of the overall effectiveness of the Guarantee. The Guarantee's 1987 progress report published by the Department commented that *"In May 1983, Victoria's effective teenage unemployment rate stood at 9.2 per cent. Four years later the figure had fallen to 4.5 per cent"*.

2.2.56 The information published by the Department also indicated that the major reduction in youth unemployment occurred in the period preceding implementation of the Guarantee in 1985. **For the period of the Guarantee, youth unemployment only declined from 4.6 to 4.5 per cent.**

Summary comment

2.2.57 Key performance material published by the Department conveyed a clear impression that the Guarantee's services had been delivered effectively. However, when this material was examined in conjunction with information compiled by other authoritative sources, audit found it difficult to reach firm conclusions on the overall effectiveness of the Guarantee.

2.2.58 Effective and reliable performance indicators need to be designed and implemented by the Department to:

- ◆ progressively measure the impact of the Guarantee;
- ◆ form the basis of periodic decision making; and
- ◆ support performance data published from time-to-time by the Department.

Management response by Department of Labour

The objective of increasing the supply of permanent work needs to be judged against government activity.

The State Government has had a number of subsidies in place, encouraging the employment of apprentices and the development of group apprenticeship schemes. The growth in those 2 areas has exceeded that of any other State and Victoria is still the only State which has group schemes covering the whole of the State. Officers were also involved with respect to the development of traineeships in both the public and private sectors. These are the only 4 direct ways in which the Government has directly attempted to increase the supply of permanent work. However, generally speaking, through the economic strategy, the Victorian Government has attempted to expand the employment base across Victoria.

The Department maintains it has very reliable performance indicators based on published and unpublished ABS data.

In the complex real world it is usually difficult (if not impossible) to conclusively prove anything. However, 2 observations are very pertinent:

- ◆ The latest ABS statistics show that Victoria has 75.7 per cent of its 15-18 year old population in education compared with 71.6 per cent for Australia as a whole. The favourable comparison has remained so throughout the period. In addition, Victoria has a lower percentage of its 15-18 year olds unemployed and not in education, and throughout the life of the program Victoria has had the lowest teenage unemployment rate in 32 months out of 43. This combination of high performance on education participation and low unemployment rates means that Victorian teenagers have been less at risk than those in other States; and*
- ◆ In recent months, the Department has been approached by Queensland and New South Wales who have started to implement a program based on the Victorian Youth Guarantee methods of delivery. Other States such as South Australia and Western Australia have also shown strong interest.*

PROMOTION OF THE GUARANTEE

2.2.59 Over the 3 year period, the Department expended approximately \$2.4 million on the promotion of the Guarantee and related consultancies. Extensive use was made of external consultants for promotional purposes, particularly in the electronic media.

Reaffirming the Youth Guarantee objectives

A guarantee that all Victorians 15 to 18 years of age will have an option of full-time work, full-time education, full-time training, some acceptable arrangement for training and work.

EMPLOY
COUNSELLORS



Which Job?
What Course?



The Youth Guarantee - A progress report, 1987

Directing the efforts of Government, industry & commerce towards our common task

PROJECT SCHOOL

INDUSTRY

EMPLOYERS

UNIONS

STUDENTS

TEACHERS

PARENTS

Selection of promotional material produced for the Youth Guarantee.

2.2.60 In promoting the Guarantee, the majority of expenditure did not comply with the Treasury Regulations 1981, the Treasurer's guidelines for engagement of consultants and procedures required by the Effectiveness Review Committee. In addition, the promotional activities were not based on a specific marketing plan and the Department could not provide evidence of any systematic evaluation of the effectiveness of these activities.

2.2.61 The Department incurred substantial expenditure in promoting the Guarantee without ensuring that processes established by government to monitor and evaluate such expenditure were complied with.

2.2.62 The Department needs to develop marketing strategies for the future management of the Guarantee and to ensure that future promotional expenditure, including the engagement of consultants, is managed in accordance with established processes.

Management response by Department of Labour

It is recognised that there have been occasions of expenditure outside the established processes, but this situation is being corrected at present. It is not true to state that there has not been a monitoring and evaluation process in place. In fact, regular meetings took place between the Minister, senior officers and the advertising agency.

In addition Quantum Research monitored and evaluated the first 12 months of the Youth Employment and Communication Strategy. As a result some modifications were made to the Strategy in August 1988 and further evaluation is occurring at present.

An overhaul of the administrative systems in the Youth Guarantee Secretariat has commenced and will be completed during November 1988. An instruction is about to be issued to all staff stressing the seriousness of this matter and clarifying their liability if they do not follow the established processes.

Further audit comment

Notwithstanding the comment by the Department that the situation of incurring expenditure outside the established processes is now being corrected, a further \$887 000 was expended on promotional activities in September/October 1988 without the necessary approvals.

In previous reports of the Auditor-General to Parliament, the Department of Labour has been identified as the major offender in by-passing the established approval processes required by the Treasurer when entering into consultancy arrangements.

The strong action now proposed by the Department is long overdue.