AUDIT VICTORIA

REPORT ON MINISTERIAL PORTFOLIOS

MAY 1992

VICTORIAN AUDITOR-GENERAL'S OFFICE

"Auditing in the Public Interest"

U

VICTORIA

AUDITOR-GENERAL
OF VICTORIA

REPORT ON MINISTERIAL PORTFOLIOS, MAY 1992

Ordered by the Legislative Assembly to be ...

ERRATUM

Page 13 **Geelong Regional Commission**
Amount shown as $8.6 million should read $3.4 million.

Page 239 **Geelong Regional Commission**
Amount shown as $8.6 million should read $3.4 million.
Amount shown as $4.6 million should read $1.2 million.
Amount shown as $2.8 million should read $1 million.

... GOVERNMENT PRINTER
1992

No. 213

AUDIT VICTORIA

VICTORIA

AUDITOR-GENERAL
OF VICTORIA

REPORT ON MINISTERIAL PORTFOLIOS, MAY 1992

Ordered by the Legislative Assembly to be printed

MELBOURNE
L.V. NORTH GOVERNMENT PRINTER
1992

No. 213

AUDIT
VICTORIA

May 1992

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

Sir

Under the authority of section 48 of the *Audit Act* 1958, I transmit a Report on the audit of ministerial portfolios. The Report also contains a section on the Parliament of Victoria as well as a section on matters of broad scope interest.

This Report completes the cycle of my auditing activities in relation to the 1990-91 financial year, and reflects ministerial portfolios and responsibilities operative at the end of March 1992.

Yours faithfully

C.A. BARAGWANATH
Auditor-General

OFFICE OF THE AUDITOR-GENERAL OF VICTORIA
evel 14, 222 Exhibition St, Melbourne Vic. 3000 Telephone: 651 6012 Fax: 651 6050

CONTENTS

PART 1

EXECUTIVE SUMMARY

1.1

FOREWORD

In the Foreword to my Report last year on Ministerial Portfolios, I commented that many resource management issues reported on by successive Auditors-General had remained unresolved for several years and that more strenuous follow-up and remedial action was needed.

Following the tabling of that Report, the Premier outlined an initiative designed to resolve issues raised by my Office, and to enhance public sector administration and improve the long-term financial management of the State.

As a result of this initiative, the then Minister for Finance, in November 1991, tabled in Parliament a report detailing the progress of government departments and agencies in responding to matters raised by my Office in the past. At the time, I advised the Minister for Finance that *"The processes you have put in place not only ensure that my comments and recommendations are fully evaluated but, in my opinion, will enhance confidence in public sector administration and improve the financial management of the State"*. The benefits arising from the government initiative are readily apparent from this Report which reflects a significant reduction in the number of previously unresolved issues.

It is pleasing to note that of the 250 issues covered by the 1991 Finance Ministry report, 236 (94 per cent) were regarded as being issues of legitimate concern warranting remedial action by government departments and agencies. The remaining 14 issues have been classified by the Ministry as judgemental disputes involving *"a matter of government policy or where a difference in opinion on accounting treatment exists between the Auditor-General's Office and the portfolio"*.

I consider that there is greater scope for the senior management of many government departments and agencies to emulate the Finance Ministry and adopt a more positive approach to issues raised by my Office. Unfortunately, many of the management responses included in this Report appear to me unduly defensive and aimed more at protecting the interests of their organisations than achieving the Government's objective of improving resource management and remedying deficiencies disclosed by the audit reviews.

I appreciate that there is a natural inclination for bureaucrats to deflect criticism in an attempt to protect their organisations, particularly in a volatile period such as the present. Nevertheless, I am concerned that in reacting to audit comments they may lose sight of what should be their fundamental objective, namely, to ensure that Victoria's public resources are used in the most efficient and effective manner possible.

Although this Report reflects some divergence of views between audit and departmental management, an Auditor-General's Report to Parliament which provides only information on which there is consensus between management and audit may not be in the best interest of either Parliament or the taxpayer. If an Auditor-General firmly believes that the audit findings are sound and supported by appropriate evidence, then it is in the public interest that such findings should be reported to Parliament.

1.2 EXECUTIVE SUMMARY

1.2.1 Key findings arising from the audit reviews are highlighted at the beginning of each individual section of this Report.

1.2.2 Major findings are summarised below.

PARLIAMENT OF VICTORIA **Page 23**

- It is unlikely that the State Parliament Refreshment Rooms will be able to comply with the House Committee's policy and be self-supporting without recourse to a subsidy from the Consolidated Fund.

  Paras 2.1.7 to 2.1.12

- There is an urgent need for the Refreshment Rooms to review its credit arrangements.

  Paras 2.1.17 to 2.1.19

ABORIGINAL AFFAIRS **Page 35**

- The Echuca Aboriginal Co-operative Society Ltd used government capital funding of $320 000 without authority.

  Paras 3.1.5 to 3.1.13

ATTORNEY-GENERAL **Page 53**

- The Office of the Director of Public Prosecutions, as a matter of priority, needs to undertake a detailed review of alternatives to the use of private counsel.

  Paras 3.3.7 to 3.3.12

- Annual savings of up to $2.1 million could have been made if additional prosecutors were employed in-house to handle the more complex and expensive cases.

  Paras 3.3.7 to 3.3.12

CONSERVATION AND ENVIRONMENT — Page 69

- The Department of Conservation and Environment's restructuring program undertaken during 1990 and 1991 was poorly planned and implemented.

  Paras 3.5.1 to 3.5.10

- Accumulated losses of the Albert Park Committee of Management at 31 December 1991 totalled $6.9 million. A new committee has since been formed with management responsibility vested in the Melbourne and Metropolitan Board of Works.

  Paras 3.5.20 to 3.5.25

- The future financial viability of the Melbourne Sports and Entertainment Centre remains in doubt.

  Paras 3.5.26 to 3.5.36

CONSUMER AFFAIRS — Page 89

- Since its establishment early in 1990-91, the investigations unit of the Liquor Licensing Commission has detected over $1 million in avoided licence fees.

  Paras 3.6.1 to 3.6.10

EMPLOYMENT, POST-SECONDARY EDUCATION AND TRAINING — Page 95

- Staff at one TAFE college made frequent use of the live work facility but the college did not monitor usage and ensure staff did not benefit financially.

  Paras 3.8.15 to 3.8.18

- Actions by the Council of Adult Education have failed to reverse the unfavourable financial results of its commercial operations.

  Paras 3.8.31 to 3.8.32

- Maintenance costs of the La Trobe University will increase significantly in future years as a result of an ad hoc approach to building maintenance.

  Para. 3.8.58

FINANCE

Page 133

- Proceeds from asset sales for the first 9 months of 1991-92 amounted to $33 million, representing only 8 per cent of the total budgeted revenue of $400 million for the year.

  Paras 3.10.10 to 3.10.12

- It has been necessary for the Government to extend the scope of the 1991-92 asset sales program to encompass the sale and lease-back of buildings valued at $155 million which are not surplus to operational needs in order to achieve its revenue target. This action, if successful, will lead to annual associated financing costs of around $14 million a year.

  Paras 3.10.13 to 3.10.14

- There were delays in the disposal of 2 properties. The value of these properties has subsequently declined from $29 million to $7 million due to the deterioration in the property market.

  Paras 3.10.21 to 3.10.27

FOOD AND AGRICULTURE

Page 147

- After incurring losses of $391 800 from its involvement with 2 former subsidiaries, Daratech returned a profit of only $139 000 on the Government's investment of $5 million.

  Paras 3.11.24 to 3.11.25 and
  Paras 3.11.40 to 3.11.56

- Daratech has a financial exposure of over $580 000 in respect of advances provided to 2 associated companies whose financial viability is in doubt.

  Paras 3.11.57 to 3.11.68

HEALTH

Page 169

- WorkCare levies in State psychiatric hospitals increased by 345 per cent over the past 5 years due to the high incidence of workplace injuries. As a result, these hospitals are among the worst performing industries in terms of WorkCare claims in Victoria.

  Paras 3.13.7 to 3.13.12

- Three officers who were deemed fit to return to work by the State Superannuation Board as far back as 1985 have still not been re-engaged by the Department.

  Paras 3.13.49 to 3.13.54

- Statistics relating to the number of in-patients treated by public hospitals are not prepared on a consistent basis and therefore are not a reliable measure of hospital performance.

  Paras 3.13.83 to 3.13.92

- Staff meals in psychiatric hospitals were subsidised by $1.6 million a year, according to departmental calculations. However, the level of the subsidy identified by the Department was substantially understated.

  Para. 3.13.105 and
  Paras 3.13.111 to 3.13.113

- At one psychiatric hospital, 4 staff were engaged at weekends to produce on average only 23 employee meals per day.

  Para. 3.13.115

LABOUR

Page 215

- At December 1991, there was a backlog of over 650 WorkCare fraud allegations, which could take up to 18 months to resolve.

  Paras 3.14.15 to 3.14.16

- Although the Accident Compensation Commission's Investigation Branch has estimated that if 6 vacant investigators' positions were filled it could achieve savings of around $16 million, the positions have remained vacant for at least 8 months.

  Paras 3.14.17 to 3.14.18

- A loophole identified in the legislation enabling claimants to double claim for the same injury, has the potential to cost WorkCare many millions of dollars.

  Paras 3.14.19 to 3.14.22

- While there has been a decrease in the number of reported WorkCare claims and in the level of weekly benefit payments, all other associated claims payments have increased substantially.

  Paras 3.14.32 to 3.14.38

MANUFACTURING AND INDUSTRY DEVELOPMENT — Page 239

- Agencies have not evaluated the effectiveness of the Winter Energy Concession Scheme.

  Paras 3.15.5 to 3.15.8

- The Geelong Regional Commission's involvement in tourist-related developments warrants review in light of losses of $8.6 million incurred to date.

  Paras 3.15.50 to 3.15.71

- Specialised theatre equipment, known as the IMAX system, purchased by the Commission for $1.8 million, has remained in storage since its purchase in 1989.

  Paras 3.15.70 to 3.15.72

- Productivity at the Port of Melbourne Authority workshops is adversely affected by overstaffing and poor work practices.

  Paras 3.15.81 to 3.15.112

- The cost of maintaining and repairing the Authority's container cranes could be reduced by up to $1.2 million a year.

  Para. 3.15.94

PLANNING AND HOUSING — Page 271

- The State's net financial contributions to the Home Opportunity Loans Scheme have risen significantly over the years to $22.8 million at March 1992.

  Paras 3.16.11 to 3.16.17

- The level of the Home Opportunity Loans Scheme's doubtful debts escalated to $5.6 million at 30 June 1991, but could be substantially higher as a detailed assessment of the loan portfolio has not been undertaken.

  Paras 3.16.18 to 3.16.22

- The Department's Construction Group has an unfair advantage over private sector competitors.

  Paras 3.16.32 to 3.16.38

- Low-interest housing loans are provided to borrowers on the condition that they must not sublet the mortgaged property, but up to 400 cases of subletting may currently exist.

  Paras 3.16.39 to 3.16.44

POLICE AND EMERGENCY SERVICES — Page 291

- Revenue of up to $4.4 million was forgone by the State due to the Traffic Camera Office allowing enforcement procedures for over 7 000 corporate offenders to lapse.

Paras 3.15.1 to 3.15.12

- It is planned to relocate the Police Hospital at a cost of $3 million. However, justification for its continuation is highly questionable.

Paras 3.15.13 to 3.15.27

SPORT AND RECREATION — Page 319

- The Harness Racing Board incurred an operating loss of $1.7 million for the 1990-91 racing year, compared with a profit of $131 000 in the previous year.

Paras 3.21.1 to 3.21.7

- The Government's 12 year assistance package of $144 million and Tennis Australia's obligation to hold the Australian Open at the National Tennis Centre for the next 25 years will enhance the long-term financial viability of the Centre.

Paras 3.21.12 to 3.21.22

- Tabaret's performance has improved substantially with monthly revenue rising to approximately $23.3 million by February 1992, some 540 per cent higher than February 1991.

Paras 3.21.33 to 3.21.40

TOURISM — Page 333

- The Government needs to take decisive action to resolve the financial viability of the Swan Hill Pioneer Settlement Authority.

Paras 3.22.1 to 3.22.7

TRANSPORT

Page 339

- The Public Transport Corporation could achieve annual savings in excess of $13 million through greater efficiency and improved productivity in its workshop operations.

  Paras 3.23.30 to 3.23.37

- On average, 113 employees were absent on sick leave each day at the Corporation's workshops, which represents around 20 days sick leave per employee.

  Paras 3.23.83 to 3.23.86

- The Corporation's current cost levels for repairs and maintenance of trains are between 30 and 40 per cent higher than preliminary yardsticks announced by the National Rail Corporation for the new national rail freight system.

  Paras 3.23.132 to 3.23.137

- Approximately $2.7 million of the Public Transport Corporation's outstanding rental balances of $5.2 million had been in arrears for more than 150 days.

  Paras 3.23.169 to 3.23.172

- Substantial revenue has been forgone by the State in providing transport fee concessions to ineligible persons.

  Paras 3.23.191 to 3.23.196

- Eleven thousand pensioners, in receipt of motor vehicle fee concessions of $2 million, own vehicles but do not hold drivers' licences, indicating potential abuse of the concession system.

  Paras 3.23.197 to 3.23.201

- The improvement in the Transport Accident Commission's financial position has been so significant that by 30 June 1992 its solvency level is likely to reach 36.5 per cent, compared with a minimum solvency level of 15 per cent specified under Commonwealth legislation.

  Paras 3.23.230 to 3.23.237

TREASURER **Page 407**

- For the 9 months to 31 March 1992, the overall deficit of the Consolidated Fund, which was funded from borrowings, was $2 billion.

Paras 3.24.8 to 3.24.12

- Public Account borrowings of $9.7 billion managed by VicFin will mature within the next 10 years. To date, maturing borrowings have been refinanced rather than repaid, resulting in a continual deferral of borrowing repayments to future years.

Paras 3.24.15 to 3.24.19

WATER RESOURCES **Page 429**

- The withholding of 1990-91 rates by the farming community resulted in the Rural Water Commission forgoing approximately $1.1 million in revenue.

Paras 3.25.53 to 3.25.58

ADMINISTRATION OF FLEXIBLE WORKING HOURS IN THE BUDGET SECTOR **Page 463**

- A post-implementation review to assess the effectiveness of the system of flexible working hours in terms of the original objectives set in 1977 has not been undertaken on a State-wide basis.

Paras 4.2.7 to 4.2.12

PUBLIC SECTOR SUPERANNUATION SCHEMES **Page 473**

- The increase of $1.5 billion in the State's unfunded superannuation liability during 1990-91 has placed a greater burden on future taxpayers to pay for superannuation benefits attributable to periods of past employment.

Paras 4.3.17 to 4.3.20

COMPANIES, TRUSTS, JOINT VENTURE ARRANGEMENTS AND INCORPORATED ASSOCIATIONS **Page 481**

- Action, including the development of a comprehensive legislative framework, needs to be undertaken by the Government to improve the accountability processes of companies in the public sector.

Paras 4.4.18 to 4.4.22

QUALIFIED AUDIT OPINIONS, 1990-91 **Page 489**

- To improve the standard of financial reporting in the Victorian public sector, the Ministry of Finance needs to take a more active role in addressing the continuing high incidence of audit qualifications.

Paras 4.5.1 to 4.5.18

PART 2

PARLIAMENT OF VICTORIA

2.1

PARLIAMENT OF VICTORIA

KEY FINDINGS

- It is unlikely that the State Parliament Refreshment Rooms will be able to comply with the House Committee's policy and be self-supporting without recourse to a subsidy from the Consolidated Fund.

  Paras 2.1.7 to 2.1.12

- The extension of the Refreshment Rooms' activities to cater for public and private functions has further aggravated its liquidity position and there is an urgent need for the Refreshment Rooms to review its credit arrangements.

  Paras 2.1.17 to 2.1.19

PARLIAMENT OF VICTORIA

PARLIAMENT OF VICTORIA

2.1.1 The Parliament of Victoria is composed of the Crown (represented by the Governor), the Legislative Council and the Legislative Assembly which collectively form the legislature.

2.1.2 The Legislative Council and Legislative Assembly are serviced by 5 parliamentary departments, namely:

- The Department of the Legislative Council which provides technical and administrative support services for the Legislative Council and its committees;
- The Department of the Legislative Assembly which provides technical and administrative support services for the Legislative Assembly and its committees;
- The Parliamentary Library which provides specialised information and research services to Members of Parliament, parliamentary committees, and their associated research and academic staff;
- The Parliamentary Debates (Hansard) Department which reports and publishes the debates of Parliament in the official report *Hansard* and reports minutes of evidence taken by parliamentary committees; and
- The Joint House Committee which co-ordinates the provision of the ancillary services necessary to facilitate the operations of the legislature. These services include financial management and all accounting services, the operation of the Refreshment Rooms, the maintenance of parliamentary gardens and buildings, and the management of all State electorate offices.

2.1.3 Officers of the Parliament are employed under the provisions of the *Parliamentary Officers Act* 1975 and as such are not subject to the conditions of the *Public Service Act* 1974.

2.1.4 Under the *Parliamentary Officers Act* 1975 the persons holding the offices of Clerk of the Legislative Council, Clerk of the Legislative Assembly, Librarian, Chief Reporter of the Victorian Parliamentary Debates and Secretary of the House Committees are the chief administrative officers of the respective parliamentary departments.

FINANCIAL TRANSACTIONS

2.1.5 As there is no legislative requirement to present audited financial statements to Parliament, the payments of the Parliament of Victoria for the year ended 30 June 1991, together with comparative figures for the previous year, are detailed in Table 2.1A on a parliamentary department/program basis.

TABLE 2.1A. PARLIAMENT OF VICTORIA, PAYMENTS
($'000)

Program	*1989-90*	**1990-91**
Legislative Council Program -		
Members' salaries and expenses	3 475	**3 696**
Committee expenses (incl. Select Committee)	647	**748**
Payroll tax	270	**312**
Office staff salaries and expenses	668	**843**
	5 060	**5 599**
Legislative Assembly Program -		
Members' salaries and expenses	6 331	**6 797**
Committee expenses (incl. Select Committee)	671	**756**
Payroll tax	494	**553**
Parliamentary printing	2 061	**2 435**
Office staff salaries and expenses	1 643	**1 793**
	11 200	**12 334**
Parliamentary Library Program -		
Payroll tax	43	**43**
Salaries and payments in the nature of salary	690	**652**
Administrative expenses	175	**170**
	908	**865**
Parliamentary Debates Program -		
Payroll tax	70	**80**
Salaries and payments in the nature of salary	1 128	**1 231**
Administrative expenses	30	**43**
	1 228	**1 354**
Parliamentary Support Services Program -		
Payroll tax	380	**525**
Salaries and payments in the nature of salary	5 669	**7 661**
Administrative expenses	835	**1 358**
Refreshment Rooms	611	**358**
Electorate offices expenses	5 810	**5 231**
Other	847	**810**
	14 152	**15 943**
Net Program payments	32 548	**36 095**
Parliamentary Contributory Superannuation Fund Contributions	3 450	**3 450**
Total of all payments	35 998	**39 545**

STATE PARLIAMENT REFRESHMENT ROOMS

Audit arrangements

2.1.6 The State Parliament Refreshment Rooms are located in the precincts of Parliament House and provide dining room and bar facilities for 132 Members, staff and the general public. In addition, the Refreshment Rooms have, since January 1991, extended into activities to cater for private functions for public and private sector organisations. The audit of the Refreshment Rooms is undertaken in accordance with a resolution of the Joint House Committee dated 2 September 1952.

Operating result

2.1.7 The operating result for 1990-91 was a surplus of $23 750 (1989-90, deficit $25 000). However, if subsidies from the Consolidated Fund amounting to $489 000 (1989-90, $867 000) relating to the cost of wages for Refreshment Rooms staff had not been provided from the Consolidated Fund, the actual operating result would have been a deficit of $465 250 (1989-90, deficit $892 000). Additionally, the operating deficits in each year would have been considerably greater if other Refreshment Rooms costs such as telephone, gas, electricity and certain administrative costs were identified and charged to the Refreshment Rooms. These costs are currently borne by the Consolidated Fund.

2.1.8 The appropriation to Parliament in 1991-92 did not provide a specific amount for the Refreshment Rooms. Audit was advised that the appropriation item *"Parliamentary Support Services - Operating Expenses"* contained an unallocated amount which could be used for whatever operating expense purpose Parliament decided, including the payment of a subsidy to the Refreshment Rooms.

2.1.9 On 22 August 1991 the House Committee implemented a policy of full recovery of the cost of the operations of the Refreshment Rooms without using the subsidy from the Consolidated Fund. **It was the intention of the House Committee that the Refreshment Rooms would be self-supporting without recourse to the subsidy.**

2.1.10 The operating results together with a high value of outstanding debtors has placed substantial pressures on the day-to-day liquidity and made it necessary for the Refreshment Rooms to digress from its policy and utilise $70 000 of the subsidy appropriated from the Consolidated Fund to meet its day-to-day operations. In addition, the Refreshment Rooms had also exceeded its bank overdraft limit of $30 000 by $34 540 at 31 December 1991.

2.1.11 Audit analysis of the unaudited financial statements of the Refreshment Rooms for the 6 months period ended 31 December 1991 indicated that **it is unlikely that the Refreshment Rooms will be able to operate without drawing on the subsidy**. Some key indicators extracted from the financial statements at 30 June 1991 and 31 December 1991 are set out in Table 2.1B.

TABLE 2.1B. REFRESHMENT ROOMS FINANCIAL OPERATIONS
($)

Item	*At 30 June 1991 (including subsidy from the Consolidated Fund of $489 000)*	*At 31 December 1991 (excluding subsidy from the Consolidated Fund of $70 000)*
Operating surplus/(deficit)	23 750	**(120 630)**
Trade debtors	50 387	**114 281**
Bank overdraft (limit $30 000)	27 513	**64 540**

2.1.12 The House Committee needs to address the financial position of the Refreshment Rooms and develop a realistic operational plan to meet the House Committee's policy of full cost recovery.

RESPONSE provided by Speaker of the Legislative Assembly

A policy was developed to move towards full cost recovery and came into operation from 1 September 1991. The policy was not expected to cover the period prior to the operational date nor expected to fund the full year having regard for the anticipated phasing-in period before the policy could be fully realised.

Amounts outstanding at 31 December 1991 reflect the extended activities of the Refreshment Rooms in providing catering opportunities for a wider client base and a more extensive range of items for sale marketed during that period.

Unpaid meal accounts

2.1.13 Comment was made in the 2 previous *Reports on Ministerial Portfolios* concerning the increase in unpaid meal accounts and the length of time that certain accounts remained unpaid.

2.1.14 It is pleasing to report that unpaid meal accounts decreased by 77 per cent from $158 000 at 31 December 1990 to $36 300 at 31 December 1991, and that the amount relating to Members' accounts unpaid for periods in excess of 3 months had decreased by 67 per cent from $12 600 to $4 100 during the same period.

2.1.15 However, unpaid meal accounts for Parliamentary Committees outstanding for more than 1 month increased by 300 per cent from $900 at 31 December 1990 to $2 700 at 31 December 1991.

2.1.16 The expenses of the Committees are met from Parliamentary appropriation, therefore, payment in a more timely manner would help reduce the overdraft and minimise interest charges incurred.

RESPONSE provided by Speaker of the Legislative Assembly

It should be noted that the House Committee has implemented the policy of automatic deductions from salaries for outstanding accounts.

Accounts outstanding for Parliamentary Committees are attributable to several functions held over the usual trading period, although it is accepted that payment should be met in a more timely manner.

Unpaid private function accounts

2.1.17 Under the terms of payment for private functions, costs are payable in full 14 days after the receipt of the invoice, i.e. after the function. The audit review of debtors at 31 December 1991 disclosed that a total of $78 000 was outstanding for such functions and that $24 700 or 32 per cent, payable by private organisations, was outstanding for periods in excess of 60 days.

2.1.18 Audit was advised that amounts totalling $15 200 due from 2 private organisations was unlikely to be collected.

2.1.19 In light of the difficulties encountered by the Refreshment Rooms in collecting outstanding debts from both public and private organisations, and the adverse impact these difficulties are having on the cash liquidity position, there is an urgent need for the terms of payment for private functions to be reviewed. Commercial terms, similar to those of private reception and catering centres, whose terms are full payment prior to or on the date of the function could be considered.

RESPONSE provided by Speaker of the Legislative Assembly

The House Committee has developed further conditions for private functions held at Parliament House. All such functions require the approval of the Presiding Officers and a deposit paid prior to the occasion. Accounts are required to be settled within 14 days of the function.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced	
Ministerial Portfolios, April 1991, p.14	Unpaid accounts of the State Parliament Refreshment Rooms.	For further comments, refer to paragraphs 2.1.13 to 2.1.19 of this Report.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Parliament of Victoria	30 June 1991	No reporting requirements. Audit conducted under *Audit Act* 1958, s.31.	5 February 1992	28 February 1992
State Parliament Refreshment Rooms	30 June 1991	No reporting requirements. Audit conducted at request of Joint House Committee.	17 February 1992	24 March 1992

PART 3

AUDIT OF MINISTERIAL PORTFOLIOS

3.1

ABORIGINAL AFFAIRS

KEY FINDINGS

- Unauthorised use by the Echuca Aboriginal Co-operative Society Ltd of government capital funding of $320 000.

  Paras 3.1.5 to 3.1.13

- A substantial delay in finalisation of the State's position on the Echuca issue is diminishing the likelihood of recovery of funds.

  Paras 3.1.5 to 3.1.13

The Department of Aboriginal Affairs is the only entity subject to audit by the Auditor-General for which the Minister for Aboriginal Affairs is responsible.

The Department was established as a separate administrative unit on 15 August 1991 under the *Public Service Act* 1974. At the date of preparation of this Report, the Department had not been designated as an administrative unit for the purposes of the *Annual Reporting Act* 1983.

DEPARTMENT OF ABORIGINAL AFFAIRS

ROLE OF THE DEPARTMENT OF ABORIGINAL AFFAIRS

3.1.1 In April 1990, responsibility for administration of Aboriginal affairs was transferred from the Ministry for Planning and Environment to the Ministry of Consumer Affairs. In August 1991, the Government established the Department of Aboriginal Affairs as an administrative unit in its own right.

3.1.2 For a number of years, the role within government of administering Aboriginal affairs has been defined as the co-ordination of provision of services by government agencies in respect of Aboriginal affairs. This role was reinforced in the Government's *Budget Paper No.5, Program Budget Outlays 1991-92*, in the following terms:

> *"... to co-ordinate the provision of services in agencies and to provide programs to promote economic and social development and awareness of Aboriginal cultural heritage".*

3.1.3 For some time, the scope and intensity of this responsibility for Aboriginal affairs have imposed substantial pressures on the relevant organisational unit. As a consequence of the Government's response to the *1991 Report of the Royal Commission into Aboriginal Deaths in Custody*, the Department has been assigned the responsibility to chair a special inter-agency committee to monitor implementation of the Royal Commission's recommendations. This function will also encompass an evaluation of the extent to which existing resources of the Department are sufficient to effectively discharge its responsibilities for Aboriginal affairs.

3.1.4 The establishment by the Government of a separate department with responsibility for Aboriginal affairs is indicative of the importance now placed on this responsibility.

RESPONSE provided by Director, Department of Aboriginal Affairs

The Department agrees with this comment and the Minister for Aboriginal Affairs has indicated his support for increasing the profile and capacity of the Department. The Department will also approach the Public Service Board to carry out a review of the Department's resources to enable it to more effectively carry out the role required by the Government and in response to the recommendations of the Royal Commission into Aboriginal Deaths in Custody.

Funding of construction projects at Echuca Aboriginal Co-operative Society Ltd

3.1.5 In 1989, the Government provided capital funding of $270 000 to the Echuca Aboriginal Co-operative Society Ltd for construction of a factory at a property at Echuca known as the Baroona farm. The factory was intended to house the Co-operative's building, clothing and craft activities.

3.1.6 Initially, funding for the factory project, which had an estimated cost of $540 000, was to be shared equally between the State and Commonwealth Governments.

3.1.7 The State's contribution of $270 000 was made direct to the Co-operative in advance of the granting to the Co-operative of a planning permit by the Echuca City Council. Subsequently, following some initial site works, difficulties arose with the issue of this permit and the Commonwealth Government determined not to proceed with its funding commitment for the project.

3.1.8 On the understanding that its earlier contribution of $270 000 was held in trust by the Co-operative, the State Government, in June 1990, paid a further amount of $54 000 to enable the Co-operative to purchase land from the Echuca City Council to accommodate a smaller factory than originally planned. **Late in 1990, the Government became aware that the Co-operative was in serious financial difficulties and that its total funding of $320 000 had in fact been used by the Co-operative to pay salaries of its employees.**

3.1.9 A complex and somewhat sensitive process evolved from this point with:

- The appointment of an administrator by the Registrar of Co-operative Societies to oversee the financial affairs of the Co-operative;
- On-going liaison, sometimes less than fruitful, during 1991 between the Department and the responsible Commonwealth body, the Aboriginal and Torres Strait Islander Commission (ATSIC);
- A proposal from the administrator that the Government stand as a deferred creditor in an arrangement designed to resolve the Co-operative's financial difficulties. The administrator's proposal centred on an offer made by ATSIC, in October 1991, to provide $1.3 million for the setting up of a new Aboriginal Corporation to acquire properties from the Co-operative (these properties were previously funded by the Commonwealth) which would enable all creditors, **other than the State,** to be paid out in full. In return for the State standing aside from the settlement of creditors, the administrator would attempt to persuade ATSIC to lift a caveat, earlier placed on the Baroona farm, so that the farm could be subdivided and a portion sold to meet the State's liability; and
- The Minister seeking progressive legal advice on the State's position.

3.1.10 At the date of preparation of this Report, the Department had not reached a final position on this matter and the State's exposure of $320 000 remained, even though some 5 months had transpired since ATSIC's offer to provide significant additional funding for a new Aboriginal Corporation.

3.1.11 The importance of a speedy resolution of this issue from the State's standpoint, is reinforced by the following factors:

- there is uncertainty as to the availability of the funding of $1.3 million from ATSIC beyond June 1992;
- additional costs are accruing to the Co-operative from its creditors at the rate of $260 per day; and
- a notice of court action relating to the winding-up of the Co-operative has recently been filed by the Deputy Commissioner of Taxation with the Australian Securities Commission.

3.1.12 It can be clearly seen that the longer it takes for the State to finalise its position on this issue, the likelihood of any recovery of funds diminishes.

3.1.13 Audit has stressed to the Department the importance of an early decision on the issue and of meaningful lines of communication with its counterpart Commonwealth body.

RESPONSE provided by the Director, Department of Aboriginal Affairs

The Department has always been of the view that decisive action is required in relation to resolving the situation with the Echuca Aboriginal Co-operative Society Ltd. However, our ability to respond has been affected by the need to receive legal advice at various times from the Victorian Government Solicitor and the Solicitor-General as well as our efforts to liaise with the Aboriginal and Torres Strait Islander Commission to seek to improve the Department's position.

We have sought to establish regular contact with the ATSIC State Manager and Regional Manager to improve communication and relations and this was particularly done in the context of this situation with this Co-operative. In addition, this Department participates in regular cross-agency co-ordination meetings in local areas with ATSIC staff. Also, the Director of the Department attends regular ATSIC zone conference meetings and ATSIC Regional Councillors meetings, when requested.

The Department has provided final advice on 10 April 1992 to the Minister for Aboriginal Affairs on the matter, together with legal advice from the Solicitor-General of 7 April 1992. This advice seeks to resolve the situation in the interests of the Aboriginal community and all parties.

Already existing arrangements are implemented as a result of the situation with the Co-operative to prevent the recurrence of this situation. Specifically, funds are released to project management trust accounts for progress payment release on certification by the project manager which is a qualified architectural firm. Smaller projects are also on the basis of progress payment release with cheques made out to the supplier of goods or services.

Capital funding for properties and construction

3.1.14 Since 1989, the Department has, in most cases, followed the practice of placing funds earmarked for Aboriginal co-operatives in solicitors' trust accounts prior to final disbursement by the solicitors for the approved capital purpose. Under this procedure, moneys are not paid direct to co-operatives.

3.1.15 In 1991, the Department determined to improve the protection over government-funded capital assets provided for Aboriginal communities by registering conditional first mortgages on purchased properties. This practice has also been extended to registering mortgages over properties acquired in previous years.

3.1.16 Under these procedures, a mortgage is enforceable in the event of any co-operative seeking to sell an asset without prior ministerial approval or the placing of a co-operative into liquidation.

3.1.17 **The practice of registering mortgages on assets purchased with State capital funding represents an important initiative designed to ensure that such assets remain with, and are used solely for the benefit of, Aboriginal communities.**

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*
	Matter resolved or action commenced	
Ministerial Portfolios, May 1990, pp. 216-18	Insufficient attention given to evaluation of business ventures proposed by, and funding provided to, various aspects of capital advanced to Aboriginal co-operatives.	Capital funding over the past 18 months has essentially been directed to the acquisition of property rather than business ventures.

3.2

ARTS

KEY FINDING

- Over 900 items of works of art in the State Collection of the National Gallery cannot be located.

Paras 3.2.13 to 3.2.18

The Minister for the Arts is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ministry for the Arts

Public bodies

Council of the Museum of Victoria
Council of the State Film Centre of Victoria
Council of the State Library of Victoria
Council of Trustees of the National Gallery of Victoria
Film Victoria
Geelong Performing Arts Centre Trust
Victorian Arts Centre Trust

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

MINISTRY FOR THE ARTS

INADEQUATE MONITORING OF INTERNAL AUDIT FUNCTION

3.2.1 An internal audit unit comprising an audit manager and a senior auditor was established within the Ministry in 1989. This action was in response to the Government's 1987 policy on internal audit which required the establishment of an internal audit function within all budget sector entities. An audit committee, consisting solely of internal personnel, was formed at the time to overview the performance of the internal audit unit.

3.2.2 For most of the calendar year 1991, the internal audit manager was the sole member of the internal audit unit. An audit evaluation of the effectiveness of the work undertaken by the internal audit manager revealed that very little work of any substance was performed during the year. Specifically, audit found:

- no evidence of strategic audit planning or an assessment of risks inherent in the operations of the Ministry;
- only 6 reports in draft or final form were prepared and these reports dealt with quite minor issues;
- an absence of detailed audit programs to support work undertaken in those reviews; and
- a lack of satisfactory workpapers to evidence audit testing performed and conclusions reached.

3.2.3 In summary, audit concluded that the contribution during 1991 made by the internal audit manager in terms of high level independent advice to management on key aspects of the Ministry's operations had been minuscule.

3.2.4 In November 1991, the internal audit manager ceased employment with the Ministry following acceptance of his expression of interest to participate in the Government's Early Retirement Package.

3.2.5 In discussions with the Ministry on this issue, audit was informed that the audit committee was generally unaware of the poor quality of the internal audit manager's output during 1991. Since the manager's departure, the audit committee has examined several options relating to re-establishment of the Ministry's internal audit unit. In the interim, there has been no internal audit activity within the Ministry.

3.2.6 The Ministry should immediately re-establish an internal audit function. In addition, the role and composition of the audit committee should be reviewed to ensure more effective monitoring of the important services provided to the organisation by internal audit.

RESPONSE provided by Deputy Director, Resources, Ministry for the Arts

Audit comment regarding the performance of the internal audit manager during 1991 is noted.

The Ministry notes audit recommendation regarding the re-establishment of an internal audit function and wishes to advise that the Ministry is currently in the process of filling the position of Internal Audit Manager.

The Ministry's Audit Committee comprises the Chief Administrator (Chair), Deputy Director, Resources, and Finance Manager of the Ministry (Central Office), and the Director/Chief Executive Officer of most of the agencies of the Ministry for the Arts.

While it is considered that the composition of the Committee is appropriate, audit recommendation that "the role and composition should be reviewed..." is noted and will be addressed at the next Committee meeting.

MUSEUM OF VICTORIA

LOSSES, THEFTS AND IRREGULARITIES

3.2.7 The Council of the Museum of Victoria has notified my Office of the following losses and thefts.

3.2.8 The prestigious gold nugget *"Pride of Australia"*, with an insured value of $250 000, which was on loan from the then State Bank of Victoria was stolen from the Museum in August 1991.

3.2.9 The Council has advised audit that the circumstances surrounding the theft of the nugget have been the subject of police investigation. In addition, because its sophisticated alarm system failed to prevent the theft, the Council has commenced its own investigation into the matter. This process has included a consultancy review on the overall adequacy of security at the Museum. At the date of preparation of this Report, the Council had commenced implementation of the recommendations arising from the review.

3.2.10 In the meantime, the Council is pursuing negotiations with its insurance company with a view to recovering the insured value of the gold nugget.

3.2.11 The Council has also informed audit of the loss or theft of other items of equipment amounting to $6 300 during 1991.

STATE LIBRARY OF VICTORIA

LOSSES, THEFTS AND IRREGULARITIES

3.2.12 The Council of the State Library of Victoria has notified my Office that during 1990-91, Library staff detected the theft of several items from the State Collection. The Council has advised that the value of items stolen from the Library amounted to $35 000 and estimates that the cost of repairing material damaged during the theft will cost $55 000. The matter has been the subject of police investigations. The Council is currently reviewing procedures in order to prevent a recurrence of this type of theft.

NATIONAL GALLERY OF VICTORIA

MISSING WORKS OF ART

3.2.13 For some years, Reports of the Auditor-General have commented upon the slow progress of the Council in compiling a register of all works of art in the State Collection. The Reports have commented upon the inadequacy of the Council's manual registers in that they did not record all items or their valuation, a position which precluded regular physical stocktakes. Audit also recommended that consideration be given to computerisation of the register.

3.2.14 At the date of preparation of this Report, the Council had progressed to the point where it considered that all works of art in the State Collection had been entered in its computerised register, with approximately 82 per cent of items physically verified.

3.2.15 **During its physical verification of Collection items, the Council found that 960 items could not be located.** These missing items comprise:

- 695 prints, reproductions and drawings;
- 120 ceramics;
- 105 metalwork items; and
- 40 Australian and European paintings.

3.2.16 The remaining works of art to be physically verified by the Council comprise prints and drawings, costumes and textiles. Because all works of art have not been valued by the Council, it is not possible to place a value on the unaccounted items. However, audit has been advised by the Council that some of the missing Australian and European paintings, particularly those with early purchase dates, could be quite valuable.

3.2.17 To date, the Council has not formally advised audit of the stock discrepancies. The Ministry for the Arts, as the co-ordinating agency, has indicated to audit that it is awaiting the final outcome of the total stocktaking process before determining the nature of action to be taken.

3.2.18 Given the importance of the State Collection, the Council should give priority to completion of its inventory verification process and investigation of the circumstances surrounding the missing works of art.

RESPONSE provided by General Manager, National Gallery of Victoria

The stocktake of the Collection has now been in progress since 1986 and with funding made available by the Government, staff have been engaged on a full-time basis on this task since 1989. The Council of Trustees expects that work will be completed at the end of 1991-92 and from then on any ongoing program of updating will be initiated as the Collection expands.

The views expressed in the 1990-91 Annual Report relative to the valuation of the Collection have not changed and it is not proposed to take action in this matter at this time.

In relation to the works of art unaccounted for, the Council of Trustees is aware that in a number of areas, works have not been located and has acknowledged the need to write them off. This will be formalised through the Ministry for the Arts when the final results of the stocktake are known. I must point out, however, that even though some works will be written-off they may yet be located when the museum storage areas are cleared at the time the Museum is relocated to its new building. This situation arises because the National Gallery of Victoria was co-located with the State Library and Museum of Victoria for approximately 100 years prior to the construction of its current premises in 1968. In the collective memory of staff at the Gallery, none of the items referred to in your Report have ever been sighted at 180 St Kilda Road, Melbourne.

I also offer comment on the missing photo reproductions (650) *which should never have been listed as part of the State Collection. These reproductions were obtained for distribution to schools throughout Victoria for use in art classes. It was never intended that they be returned to the Gallery and indeed it is extremely unlikely that any remain in existence today.*

In relation to the missing Australian and European works, it is true that some may be valuable but once again none of these works have ever been sighted in this building.

I assure you that the Council of Trustees will continue to move as quickly as possible towards finalising both the stocktake and, where necessary, the write-off of works unaccounted for.

STATE FILM CENTRE OF VICTORIA

UPDATE ON MATTERS ADDRESSED IN 1991 AUDIT REVIEW

3.2.19 Since 1983, the Council of the State Film Centre of Victoria has been responsible for provision of an education and theatre exhibition program at the State Film Centre, and for the management of a film and video collection.

3.2.20 The *Auditor-General's Report on Ministerial Portfolios, April 1991* included comment and recommendations arising from an audit review of the various activities of the Council.

3.2.21 The overall conclusion reached by audit was that in respect of the Council's theatre activities, factors such as poor attendance levels and accumulated losses indicated a need for decisive strategic action to determine the future viability of the State Film Centre's theatre.

Significant reduction in funding to the Council

3.2.22 In August 1991, the Government announced that financial assistance to the Council would be reduced with a view to rationalising the State Film Centre's operations. Funding for the Council was subsequently reduced in the 1991-92 Budget to $569 000 for the year (1990-91, $1.4 million). The allocated level of funding was to cover salary and other expenses up to December 1991 only.

3.2.23 Following the decision to reduce the level of funding for 1991-92, the Council closed its film and video library, ceased all education activities and the theatre exhibition program, gave notice to temporary and casual staff, and advised permanent staff that their positions could not be guaranteed beyond December 1991.

Work undertaken by Ministerial working party on Council's future

3.2.24 At the time of the announcement of the reduced level of funding for the Council, the Minister for the Arts established a working party to report on the on-going role for the State Film Centre and to examine a number of strategic issues pertinent to the future of the Council's operations.

3.2.25 Following consideration of the working party's recommendations, the Minister determined that the State Film Centre is an important cultural and educational institution and should therefore continue to operate.

3.2.26 An interim organisational structure for the Centre requiring 12 positions has been implemented and existing permanent staff have been appointed under the Arts and Entertainment Administration Award. Staff not appointed to the interim structure have been offered the Government's Early Retirement Package or have been redeployed.

3.2.27 In addition, the Council determined to provide funding of $345 000 from its own internally-generated resources to enable a limited program of free lending to support educational activities, people with impaired hearing and public libraries for the remainder of 1991-92.

Future government funding of the Centre

3.2.28 Following receipt of the working party's review of the Centre, the Minister for Finance endorsed funding of $569 000 for 1992-93 to cover anticipated expenditure by the Centre for that year. The Minister also approved a government contribution of $170 000 to reimburse 50 per cent of the funds allocated by the Council to continue its free lending program in 1991-92.

3.2.29 In agreeing to the above future funding base, the Minister for Finance expressed concern at the number of unresolved issues which arose in the working party's review and requested that a business plan, to concentrate on minimising expenditures and maximising revenues, be developed as soon as possible. The Minister pointed out that the plan may impact on the funding base for the Centre in future years.

3.2.30 At the date of preparation of this Report, the Council was in the final stages of completing its business plan.

3.2.31 The Government's intention is for the State Film Centre to recommence operations from July 1992 with the reinstatement of the film and video library lending service to the public on a membership fee basis. In addition, it is intended to again make the theatre available for hire, to develop a program in support of film culture and to operate an educational program to include a variety of services for schools, teachers and seminars.

VICTORIAN ARTS CENTRE TRUST

LOSSES, THEFTS AND IRREGULARITIES

3.2.32 The Victorian Arts Centre Trust has notified my Office that it has incurred a loss of approximately $18 500 which it suspects to be the result of systematic pilfering of certain stage equipment. Since investigation of the matter was undertaken by police, the Trust has noted a reduction in the rate of loss of such equipment.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced

Ministry for the Arts

Ministerial Portfolios, May 1990, pp. 30-1	Deficiencies in the Ministry's procedures relating to the provision of grants and subsidies to public libraries and regional art galleries.	The Ministry is now providing grants and subsidies under the procedures required by government guidelines.

Council of the Museum of Victoria

Fourth Report, 1983-84, p. 29 *Second Report*, 1985-86, p. 65 *Ministerial Portfolios*, May 1990, p. 32	Slow progress has been made in compiling a centralised register of the State Collection.	The compilation of a centralised register is continuing. The Council has registered a significant portion of the science collection and expects to complete the process shortly after the opening of the Spotswood Science and Technology Museum in March 1992.
Second Report, 1985-86, p. 65	Delays in finalising financial statements.	The earlier delays in excess of one year have been eliminated, however, for 1990-91, the Council again did not meet its legislative reporting deadline in finalising its financial statements.
Second Report 1986-87, p. 36	Land, buildings and other real and personal fixed assets not quantified or valued.	Compilation of asset registers has commenced with a focus on heritage collections. Valuation of land and buildings by the Valuer-General is underway. Compilation of asset registers for heritage assets and the valuation of land and buildings has now commenced.
Ministerial Portfolios, May 1989, pp. 25-7 *Ministerial Portfolios*, May 1990, p. 31	Inadequate storage facilities causing damage to State Collection at a rate of several million dollars annually.	Appropriate storage facilities have been incorporated in the designs for the new Science and Technology Museum in Spotswood. The Museum was opened to the public on 29 March 1992.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced - *continued*

Council of the State Film Centre of Victoria

Ministerial Portfolios, April 1991, pp. 27-36	An audit review of various activities of the Council identified the need for decisive strategic action to be taken to determine the future viability of the State Film Centre's theatre.	For further comments, refer to paragraphs 3.2.19 to 3.2.31 of this Report.

Council of the State Library of Victoria

Second Report 1985-86, p. 66	State Collection not valued.	The Council is currently compiling a complete register of the State Collection but has not taken steps to obtain a reliable valuation for financial reporting purposes.

Council of Trustees of the National Gallery of Victoria

Ministerial Portfolios, May 1990, p. 33	Slow progress has been made in compiling a register of all items in the State Collection.	For further comments, refer to paragraphs 3.2.13 to 3.2.18 of this Report.
Ministerial Portfolios, May 1990, p. 33	State Collection not valued.	State Collection still not valued. The Gallery is currently compiling a complete list of these assets.
Ministerial Portfolios, May 1990, p. 34	Inadequate procedures relating to bookshop and publication activities.	Adequate procedures are now in place.
Ministerial Portfolios, May 1990, p. 35	Excessive amounts owed to the Council for extended periods.	More effective procedures for collection of debts have been introduced.
Ministerial Portfolios, May 1990, p. 35	Non-compliance with the Government's accounts payable policy.	Accounts now paid in accordance with government policy.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced - *continued*

Film Victoria

Second Report 1986-87, pp. 38-40 *Ministerial Portfolios*, May 1990, p. 36	Little progress has been made by the Corporation in developing performance measures.	While the Corporation considers that the results of the Public Bodies Review Committee inquiry provide evidence of the adequacy of performance measures developed to date, it is currently involved in formulation of specific measures for evaluation of performance.
Ministerial Portfolios, May 1990, p. 37	Lack of independent verification of information included in film producers' reports to support applications for financial assistance.	Producers' reports are examined by the Corporation's Finance Manager. The Corporation also relies on information provided by the Australian Film Corporation and the Australian Film Finance Corporation which monitor progress and verify producers' reports.
Ministerial Portfolios, May 1990, pp. 37-9	Inadequate return on the Corporation's feature films and television investments.	Profit from investments for 1990-91 improved marginally from $19 000 to $30 000. However, the Corporation's annual rate of return on investments remains very low (0.1 per cent).
Ministerial Portfolios, May 1990, p. 40	Interest is not charged on outstanding loan balances.	The Corporation has ceased to make these loans and the interest accrued is diminishing as loans are repaid or written-off.
Ministerial Portfolios, May 1990, pp. 40-1	Excessive write-off of non-recoverable loans.	While some measures were initiated by the Council to improve loan recovery performance, the Council has continued to convert non-performing loans to grants, a practice which audit has previously viewed as, in substance, equivalent to write-off action.
Ministerial Portfolios, April 1991, pp. 26-7	Concerns raised on the financial viability of the Australian Film Studio and the need to undertake a cost/benefit analysis to support the provision of substantial funds.	All significant projects are subject to review by the Board of the Corporation which obtains budget details for all projects before committing funds.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	No action taken	
Film Victoria		
Ministerial Portfolios, April 1991, pp. 24-5	A qualified audit opinion was issued on the 1989-90 financial statements of the Corporation with respect to an amount of $2.6 million applied for capital purposes but incorrectly recorded as part of revenue.	The 1990-91 financial statements were qualified on the same basis in respect of an amount of $2 million.
Ministerial Portfolios, April 1991, p. 26	Need to apply *'user-pays'* basis to reduce the substantial subsidy provided to government agencies for production of films and videotapes.	Level of subsidy to government agencies has increased substantially in 1990-91 from $341 000 in the previous year to $716 000. The Corporation is still to review possible alternative arrangements for this area including adoption of a *'user-pays'* approach.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits		
Ministry for the Arts	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	11 October 1991	17 October 1991
Council of the Museum of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	20 November 1991	20 November 1991*(a)*
Council of the State Film Centre of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	13 September 1991	3 October 1991
Council of the State Library of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	3 October 1991	30 October 1991*(a)*
Council of Trustees of the National Gallery of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	17 October 1991	30 October 1991*(a)*
Film Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	25 September 1991	30 September 1991*(a)*
Geelong Performing Arts Centre Trust	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	8 October 1991	24 October 1991
Victorian Arts Centre Trust	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	26 September 1991	31 October 1991*(a)*

(a) Qualified audit report issued.

3.3

ATTORNEY - GENERAL

KEY FINDINGS

- Fees paid to private counsel over the last 4 years have increased, in real terms, by 34 per cent

  Paras 3.3.5 to 3.3.6

- Annual savings of up to $2.1 million could have been made if more prosecutors were employed in-house to handle the more complex and expensive cases.

  Paras 3.3.7 to 3.3.12

- The Office of the Director of Public Prosecutions, as a matter of priority, needs to undertake a detailed review of the viable alternatives to the use of private counsel.

  Paras 3.3.7 to 3.3.12

The Attorney-General is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

Attorney-General's Department
Office of the Director of Public Prosecutions

Public bodies

Accident Compensation Tribunal
Credit Co-operatives Reserve Board *(a)*
Estate Agents Board
Friendly Societies Reserve Board *(b)*
Guardianship and Administration Board
Law Reform Commission of Victoria
Legal Aid Commission of Victoria
Legal Aid Commission Staff Superannuation Fund
Office of the Public Advocate
Patriotic Funds Council
State Trust Corporation of Victoria
Victorian Institute of Forensic Pathology

(a) The Act establishing the Credit Co-operatives Reserve Board received Royal Assent on 10 December 1991.

(b) The Act establishing the Friendly Societies Reserve Board received Royal Assent on 17 September 1991.

Comments on matters of significance arising from the audit of the Office of the Director of Public Prosecutions are discussed below.

OFFICE OF THE DIRECTOR OF PUBLIC PROSECUTIONS

PAYMENTS MADE TO PRIVATE BARRISTERS

Background

3.3.1 The principal function of the Office of the Director of Public Prosecutions is to prepare, institute and conduct on behalf of the Crown, all criminal proceedings including appeals in the High Court of Australia and the Supreme and County Courts of Victoria.

3.3.2 In conducting prosecutions, the Director of Public Prosecutions utilises the services of the prosecutors for the Queen (Crown Prosecutors), a group of counsel skilled in the criminal law who are appointed by the Governor-in-Council upon the recommendation of the Attorney-General. It is understood that the prosecutors for the Queen are autonomous in their operations and do not report to any government body. At 30 June 1991 there were 13 Crown Prosecutors. Apart from appearing on behalf of the Director of Public Prosecutions to prosecute in criminal trials, the duties of Crown Prosecutors also include tendering legal advice to various government bodies, giving Notices of Trial, instituting Director's appeals and the acceptance of guilty pleas to lesser or fewer charges.

3.3.3 As there are insufficient Crown Prosecutors to appear in all of the criminal trial courts operating daily, there is a continuous need to engage private counsel to conduct prosecutions. The Office also employs approximately 100 in-house lawyers whose duties involve the preparation and, in some instances, the conduct of cases in court where their role is that of an instructing solicitor to prosecuting counsel.

3.3.4 By contrast with Victoria, other Australian Director of Public Prosecution Offices all employ substantial numbers of in-house prosecutors who report to the respective Director of Public Prosecutions. The New South Wales Office of the Director of Public Prosecutions, for example, currently employs 76 in-house prosecutors under the direction of the Director. The use of private counsel was confined to those cases where specialist expertise was required or peaks in case workloads necessitated their employment.

Cost of professional assistance

3.3.5 In view of the level of professional assistance payments, audit undertook a review to determine if the Office of the Director of Public Prosecutions had undertaken an evaluation of the use of private counsel and possible alternatives to the current method of conducting prosecutions in this State.

3.3.6 Table 3.3A shows significant expenditure by the Office on professional assistance, during the period 1987-88 to 1990-91, which principally consists of fees paid to private counsel. Expenditure on professional assistance has increased by 64 per cent over the 4 year period, partly due to increases in the number of court sitting days. In light of the fact that the Office anticipates an expansion in the number of lengthy and complex cases, and past growth in the number of court sitting days, it is apparent that the upward trend in professional assistance expenditure will continue. Even if an allowance is made for the average inflation rate of 6.95 per cent over the period, based on Australian Bureau of Statistics figures, **expenditure has still grown, in real terms, by 34.1 per cent.**

TABLE 3.3A
PROFESSIONAL ASSISTANCE EXPENDITURE

Year	*Total expenditure*	*Annual increase*	*Annual percentage increase*
	($'000)	*($'000)*	*(%)*
1987-88	4 129	1 450	54.1
1988-89	5 266	1 137	27.5
1989-90	5 903	636	12.1
1990-91	**6 774**	**871**	**14.8**

RESPONSE provided by Director of Public Prosecutions, Office of the Director of Public Prosecutions

Audit has correctly identified an expenditure growth of 34.1 per cent in real terms over the last 4 years in payments made to the private Bar. However, over that time, County Court judge sitting days have increased by 37 per cent. Further, annual expenditure comparisons do not take into account the profile of cases handled during these periods. When one considers the increased workloads and the profile of cases handled, and compares that to the increase in expenditure, a considerable productivity improvement is demonstrated.

Comparison between costs of private and in-house prosecutors

3.3.7 Scale fees paid to private counsel by the Director of Public Prosecutions generally vary according to the years of experience of counsel. In other instances, such as cases where specialist expertise is required, fees may be negotiated.

3.3.8 Audit undertook an analysis of all payments made in 1991 to private counsel with a view to determining whether any savings could be achieved by employing in-house lawyers.

3.3.9 From the audit analysis the employment of private counsel at the lower end of the fee scale was economical by comparison with in-house costs. However, as Table 3.3B illustrates, **by employing more in-house prosecutors at the higher end of the fee scale (i.e. $600 and above per day) to handle the more complex and expensive cases, very significant savings of up to $2.1 million could have been made.** However, some allowance would need to be made in the savings estimates for the use of private counsel where specialist expertise was required or peak workloads necessitated their employment.

TABLE 3.3B. ESTIMATE SAVINGS, 1991
(Fee rate of $600 and above per day or more)
($million)

Item	*Appearance*	*Preparation*	*Total*
Actual cost of using private counsel	3.4	1.8	5.2
Estimated cost of using in-house counsel	1.8	1.3	3.1
Estimated savings	**1.6**	**0.5**	**2.1**

3.3.10 The Office has never undertaken a comprehensive, documented analysis of payments to private counsel and possible alternatives to their use. However, the Office has endeavoured in recent times to limit the amount of professional assistance payments by making greater use of the services of prosecutors for the Queen in conducting prosecutions. The ability of the Office to make greater use of prosecutions for the Crown is limited in that, due to the nature of their appointment, they are not accountable to the Director. Audit was informed that although the Director has had discussions with the Attorney-General with a view to making further Crown prosecutor appointments, a detailed analysis was not available to justify whether this was a more cost-effective alternative for the State.

3.3.11 Although the operating environments of the interstate Offices may not be directly comparable with the Victorian situation, the use of in-house prosecutors is significantly less costly than paying for the services of private counsel. The Commonwealth Director of Public Prosecutions Office initiated a review on this issue and audit was informed that from the preliminary findings, cost-savings in the order of 50 per cent were being achieved through the use of in-house prosecutors. Another alternative to the use of private barristers, as adopted by the Commonwealth Director of Public Prosecutions, which has resulted in considerable cost savings, has been the employment of private barristers on contract as in-house prosecutors. This scheme has purportedly worked well with counsel performing a valuable training function in addition to the cost savings.

3.3.12 The Office, as a matter of priority, needs to undertake a detailed review of viable alternatives to the use of private counsel. Such alternatives would include the employment of additional in-house counsel and/or contract staff under the direct control of the Office. The outcomes of the review could also be of relevance to other public bodies utilising the services of private counsel.

RESPONSE provided by Director of Public Prosecutions, Office of the Director of Public Prosecutions

The Office rejects audit's conclusion that savings of up to $2 million a year could be achieved. Even if some savings could be achieved the Office doubts whether their achievement would be worthwhile in the overall context of efficient, professional and ethical prosecution in this State.

Audit's analysis makes a number of unwarranted assumptions:

- *that sufficient members of the Bar with the required degree and range of experience and expertise would be available and willing to take up appointment at the salary range used in the analysis;*
- *that even if a number of suitable counsel were appointed the spread of cases requiring specific expertise was such that a specific prosecutor with that expertise would always be available for a particular case; and*
- *that even if a number of suitable counsel were appointed then all cases, regardless of any special expertise required, could be prosecuted without the need to engage further counsel from the private Bar.*

Further, the analysis ignores the peculiar needs of the court listing system and the peaks and troughs in demand for counsel which that system produces. It ignores the fact that if they were to be employed in this Office, members of the Bar would have to have their names taken off the Bar Roll - a career move in itself which would not be attractive to counsel with the expertise required. The effect on the proper presentation of cases on behalf of the Crown (both as to issues of competence and independence) is not even addressed.

With respect, the analysis is a disconcerting oversimplification of a very complex problem. Each of the other Australian jurisdiction is quite different to Victoria and to each other. A review of those differences is beyond the scope of this response. However, there are some comments the Office should make.

Since July 1991 a comprehensive management system has been in place for prosecutors for the Queen. This has resulted in a productivity increase in terms of days in court by prosecutors for the Queen of something well over 50 per cent in the period July 1991 - December 1991. Making the prosecutors for the Queen more effective has had positive budgetary effects. However, the level of their salaries compared with the level of fees paid to private barristers means that they are cost-effective, if at all, only at the very upper end of the prosecution range - the very area where the expertise of particular counsel from the private Bar is required. Such cost-effectiveness also depends upon their, at least, maintaining their present output; something that until very recently they were unable to do.

While one of the functions of prosecutors for the Queen is to approve indictment in the higher courts it is important that, all other considerations apart, their numbers be maintained. Accordingly, it has been intended for some time to appoint a further 2 or even 3 such prosecutors.

The Commonwealth Director of Public Prosecutions, to whom reference is made, prosecutes in a completely different area to that of any of the State DPPs. His use of "in-house" lawyers is confined to Magistrates' Court cases. In no case prosecuted in the higher courts, in Victoria at least, has the Commonwealth DPP ever used employed "in-house" counsel.

It should also be noted that recently the Legal Aid Commission of Victoria conducted a comprehensive study of the economic viability of using "in-house" counsel as public defenders. That study rejected the use of "in-house" employed lawyers as being uneconomic.

However, having regard to audit's report, the Office shall undertake a detailed review of alternatives to the use of private counsel as suggested.

Case management system

3.3.13 Audit considers that a critical factor impacting on the Office's ability to complete a detailed appraisal of the methodology employed in conducting prosecutions has been limitations in the management information systems currently utilised.

3.3.14 The Office of the Director of Public Prosecutions has a computerised case management information system. The system provides information in relation to 3 areas, namely:

- *Case Tracking* - information on the whereabouts and status of cases;
- *Resource Management* - information on the workloads of preparation officers; and
- *Barrister Finances* - information about the briefing of barristers and payment details.

3.3.15 The audit review of the case management system disclosed a number of limitations to the system which restrict the benefits available to management for monitoring and decision-making purposes.

3.3.16 The system only records the full details of Melbourne County Court cases. Other than financial data on payments to barristers, information held on the system for cases conducted in other courts is confined to the registration of the case on the system. No case tracking or resource management data is recorded on the system for these cases, with reliance being placed on manual records for relevant data. More importantly, only standardised reports can be produced from the system which does not enable a great degree of flexibility in the type of data that could be produced for management purposes. Further, the system does not contain an ability to complete any degree of statistical analysis of the data extracted.

3.3.17 These limitations on the case management system limit the ability of the Office to effectively monitor court cases and the related expenditure and make sound, well-informed decisions on resource usage. Audit was informed that the Office had sought funding to upgrade its computer facilities since the establishment of the case management system in 1986-87.

3.3.18 The case management system needs enhancement to enable full details of all court cases to be recorded. In addition, computer programs could be developed to provide greater flexibility in the use of data for report production purposes and system generated statistics of relevance to management for decision-making purposes.

RESPONSE provided by Director of Public Prosecutions, Office of the Director of Public Prosecutions

The existing case management system was developed in 1986 as a small pilot system. Each year since its development further funding has been sought to fully-develop a comprehensive computerised case management system. Such funding has never been forthcoming. The Office completely concurs with audit's observations that enhancement of the system is essential and funding submissions will continue to be prepared and pressed in this regard.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced	
Attorney-General's Department		
Third Report, 1983-84, p. 32 *Second Report,* 1985-86, pp. 70-1 *Ministerial Portfolios,* May 1990, pp. 226-7 *Ministerial Portfolios,* May 1991, pp. 368-70	Debtors understated in Department's financial statements.	The financial statements were qualified with regard to outstanding warrants held by the Information Bureau of the Office of the Chief Commissioner of Police. Responsibility for the outstanding warrants transferred to the Sheriff's Office on 21 June 1991.
Ministerial Portfolios, May 1990, pp. 52-3	Inability to prepare reliable financial information on a timely basis.	Considerable improvement made, but internal audit still not involved.
State Trust Corporation of Victoria		
Ministerial Portfolios, May 1989, p. 34	Lack of centralised register of beneficiaries' assets.	A computerised register of beneficiaries' assets has been established. However, the register has still not been reconciled with manual records.
	No action taken	
Accident Compensation Tribunal		
Ministerial Portfolios, April 1991, p. 315	Office of Complaints not required to report, and is not accountable, to Parliament.	Position remains unchanged.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial period ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Attorney-General's Department	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	30 October 1991	31 October 1991*(a)*
Office of the Director of Public Prosecutions	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	16 September 1991	21 October 1991
Accident Compensation Tribunal	30 September 1990	31 October. *Accident Compensation Act* 1985, s.69.	29 October 1990	9 November 1990
.. ..	31 December 1990	31 January. *Accident Compensation Act* 1985, s.69.	30 January 1991	7 February 1991
.. ..	31 March 1991	30 April. *Accident Compensation Act* 1985, s.69.	30 April 1991	13 May 1991
.. ..	30 June 1991	30 September. *Accident Compensation Act* 1985, s.69.	23 September 1991	30 September 1991
Estate Agents Board	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	16 September 1991	24 September 1991
Guardianship and Administration Board	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	17 September 1991	30 September 1991
Law Reform Commission of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	21 October 1991	28 October 1991
Legal Aid Commission of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	17 September 1991	30 September 1991
Legal Aid Commission Staff Superannuation Fund	30 June 1991	30 September. *Legal Aid Commission Act* 1978, s.42.	17 September 1991	30 September 1991
Office of the Public Advocate	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	7 October 1991	14 October 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits - *continued*		
Patriotic Funds Council	Period 7 July 1990 to 31 December 1990	No date specified. *Patriotic Funds Act* 1958, s.28.	*(b)*	*(b)*
State Trust Corporation of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	22 October 1991	25 October 1991
Victorian Institute of Forensic Pathology	30 June 1991	30 September, *Annual Reporting Act* 1983, s.9.	20 September 1991	25 September 1991

(a) Qualified audit report issued.
(b) Financial statements not prepared as no transactions occurred.

3.4

COMMUNITY SERVICES

KEY FINDING

- Investigations initiated by the Department of Community Services have revealed many irregularities and improper use of funds at institutions.

Paras 3.4.1 to 3.4.8

The Department of Community Services is the only entity subject to audit by the Auditor-General for which the Minister for Community Services is responsible.

Comments on matters of significance arising from the audit of the Department are discussed below.

DEPARTMENT OF COMMUNITY SERVICES

INSTITUTIONAL INVESTIGATIONS INITIATED BY THE DEPARTMENT

3.4.1 In September 1990, following the conviction of a long standing departmental employee for charges relating to rape, indecent assault and false imprisonment at the Department's Pleasant Creek Training Centre in Stawell, the Minister announced an independent inquiry into allegations of sexual assault at Pleasant Creek. Ms Jude Wallace, Deputy Chairperson of the Law Reform Commission, headed the inquiry and in May 1991, reported the results to the Department.

3.4.2 After consideration of the results of the Wallace inquiry, which focused on sexual abuse and other serious incidents, the Department commenced investigations of other activities at Pleasant Creek and a similar exercise was initiated at the Caloola Training Centre at Sunbury. Further investigations at Caloola indicated the likelihood of malpractices at other institutions.

3.4.3 As the investigation at Caloola proceeded, the Department moved to establish an Institutional Investigation Task Force to carry out sensitive investigations of procedures and practices at departmental institutions.

3.4.4 At the date of preparation of this Report, the investigations by the Task Force at Caloola had been completed and further investigations were underway at Janefield Training Centre and Kew Cottages.

3.4.5 The Department has formally advised audit that, to date, its investigative initiatives at institutions had identified:

- instances where medical practitioners and other staff, employed on a full-time basis and not permitted to engage in other employment, were found to be working in private practice within their particular disciplines;
- residents' funds had been misused and there was evidence, in particular cases, that the funds had been applied for the benefit of staff;
- alleged theft from a resident's private bank account through unauthorised use of a debit card;
- alleged improper use of residents' assets by staff members;
- allegations of theft of stores and government property; and
- inadequacies in accountability for disbursements from residents' trust funds.

3.4.6 To date, findings which indicate criminal activity at institutions have been referred by the Department to Victoria Police.

3.4.7 Based on the results of its investigations, the Department has undertaken a major review of all policies and procedures relating to the management of residents' funds.

3.4.8 The Department should be commended for its initiatives in identifying and acting upon unsatisfactory procedures and practices at its institutions.

IRREGULARITIES AT ARADALE TRAINING CENTRE, ARARAT

3.4.9 Up to November 1991, Aradale Training Centre was administered by Health Department Victoria (HDV) and provided facilities for both psychiatric and intellectually disabled persons.

3.4.10 The *Report of the Auditor-General, October 1982* included the results of an audit of several psychiatric hospitals and training centres administered by the then Health Commission of Victoria. The Report included the following conclusions:

- the Commission had failed to ensure that proper control was exercised by certain centres and institutions over public property in their possession;
- specific guidelines had not been established to regulate expenditure from patients' trust accounts; and
- the practice adopted at Aradale with regard to the provision of financial assistance to sporting clubs from the patients' trust account needed to be reviewed.

3.4.11 It is apparent that adequate remedial action was not taken on these audit conclusions, as similar problems have recently been found to exist at Aradale following a number of allegations made to the Public Advocate.

3.4.12 In May 1991, HDV undertook an examination of activities at the Centre which found:

- a lack of documentation to support disbursements of patients' and residents' funds;
- inadequate accountability over funds expended in relation to official outings and trips; and
- widespread breaches of legislative provisions governing the operation of patients' and residents' trust accounts.

3.4.13 On 1 December 1991, responsibility for management of Aradale Training Centre was transferred to the Department.

3.4.14 Since assuming responsibility for the Centre, the Department has appointed a new Chief Executive Officer and Manager, Resources and Administration, to oversee the operations of the Centre.

3.4.15 The agreement to transfer the Centre from HDV to the Department specifically requires that disciplinary charges arising from the Aradale investigation be pursued by HDV.

OTHER IRREGULARITIES REPORTED TO AUDIT BY THE DEPARTMENT

Losses and thefts of equipment and cash

3.4.16 The Department has advised audit that during 1991 losses and thefts of equipment and cash totalling $61 100 occurred at various departmental premises.

3.4.17 In most cases, the Victoria Police have been notified of the occurrence of the theft or loss and have attended the premises. The Department has assisted police in their investigations and taken action to recover losses, where possible, and to improve security measures in place to prevent recurrence.

Substantial duplicate payments unrecovered to date

3.4.18 During 1990-91, the Department made duplicate payments to the value of $218 000 to 2 suppliers. Of this amount, $57 000 has since been recovered by the Department. The balance of $161 000 relates to a payment through the Department's computerised system covering 12 invoices for the purchase of motor vehicles which had previously been settled by way of a manually-prepared cheque.

3.4.19 The supplier involved with the unrecouped duplicate payment has since been declared bankrupt and placed in liquidation. The Department obtained legal advice from the Victorian Government Solicitor on recovery options available. The legal advice indicated that the unrecovered debt would rank with other unsecured creditors and, since the remaining assets of the supplier were secured by a finance company, the Department would not be in a position to recoup the amount owing.

3.4.20 The Department has taken appropriate action to minimise the recurrence of duplicate payments of this nature.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORT

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced	
Ministerial Portfolios, May 1989, p. 40	Personnel practices and management procedures at training and reception centres require review with the aim of eliminating practices which contribute to higher levels of overtime and allowances.	A number of improvements, including a review of work practices, have been implemented.
Ministerial Portfolios, May 1990, p. 64	Scope for improved economy and efficiency in the delivery of food services in State training centres.	The Department is in the process of implementing recommendations resulting from its review of management of food services in institutions.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audit		
Department of Community Services	30 June 1991	31 October. *Annual Reporting Act* 1983,s.8.	23 October 1991	24 October 1991

3.5

CONSERVATION AND ENVIRONMENT

KEY FINDINGS

- The Department of Conservation and Environment's restructuring program undertaken during 1990 and 1991 was poorly planned and implemented.

  Paras 3.5.1 to 3.5.10

- The proposed sale of the Department's softwood plantations did not proceed as envisaged in 1991.

  Paras 3.5.11 to 3.5.18

- Accumulated losses of Albert Park Committee of Management at 31 December 1991 totalled $6.9 million. A new committee has now been formed with management responsibility vested with the Melbourne and Metropolitan Board of Works.

  Paras 3.5.20 to 3.5.25

- Doubts still remain as to the future financial viability of the Melbourne Sports and Entertainment Centre.

  Paras 3.5.26 to 3.5.36

The Minister for Conservation and Environment is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Conservation and Environment

Public bodies

Albert Park Committee of Management Incorporated
Bundoora Park Committee of Management
Healesville Sanctuary Trading Pty Ltd
Mount Macedon Memorial Cross Committee of Management
Olympic Park Management
Penguin Reserve Committee of Management
Port Bellarine Committee of Management
Shrine of Remembrance Trustees
State Swimming Centre Committee of Management
Victorian Conservation Trust
Victorian Institute of Marine Sciences
Victorian Institute of Marine Sciences Superannuation Fund
Yarra Bend Park Trust
Zoological Board of Victoria
Zoological Board of Victoria Superannuation Fund

On 21 January 1992, the responsibility for entities within the Victorian water sector was transferred to the Minister for Water Resources.

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF CONSERVATION AND ENVIRONMENT

EFFECTIVENESS OF MANAGEMENT OF MAJOR RESTRUCTURING OF DEPARTMENT

Extent of structural changes since 1983

3.5.1 The Department of Conservation and Environment has been the subject of considerable restructuring and change over the last 8 years as outlined in Table 3.5A.

TABLE 3.5A
MAJOR STRUCTURAL CHANGES IN DEPARTMENT SINCE 1983

Year	*Nature of change*
1983	Department of Conservation Forests and Lands (CFL) created by the amalgamation of the Department of Crown Lands and Survey, Forests Commission and the transfer of certain functions from the former Ministry for Conservation.
1985	Division of Survey and Mapping transferred from CFL to Department of Property and Services, and functions relating to commercial fisheries to Department of Agriculture and Rural Affairs.
1987	Formation of 3 new divisions within CFL - Public Lands and Forests, Fisheries, and National Parks and Wildlife.
1990	Department of Conservation and Environment formed by the amalgamation of CFL, the Department of Water Resources, and most of the Heritage and Environment Divisions of the Ministry of Planning and Environment.
1991	Land Conservation Council and Environment Protection Authority added to the Department of Conservation and Environment.
1992	Water Resources functions reverted back to a separate Department of Water Resources.

3.5.2 Notwithstanding the substantial changes of the past, in April 1990 the Department initiated a further major organisation-wide restructuring program. Although no specific aims for the restructuring program were documented at the time of the announcement, subsequent departmental *Annual Reports* indicate that, in broad terms, the underlying rationale for the restructure was to:

- provide greater efficiencies in internal administration;
- develop an organisation that is professionally expert, financially well-managed and a rewarding place to work in;
- ensure better service delivery; and
- improve the operations of head office and the regions.

3.5.3 The restructuring was proposed to be undertaken in 3 stages, namely:

- *Stage 1* - Scheduled for completion by May 1990
  - Absorption into the departmental structure of functions relating to water resources and the environment.
- *Stage 2* - Scheduled for completion by January 1991
  - A complete reorganisation of the Department's head office accompanied by creation of a new management structure.
- *Stage 3* - Scheduled for completion by March 1991
  - A review of service delivery arrangements, including the potential for devolution of responsibilities from head office to the regions.

3.5.4 Audit carried out a review of the strategies and procedures followed by the Department in the implementation of its restructuring program. This review identified a range of deficiencies in the manner in which the program was progressively developed and implemented in that:

- Information substantiating the need for a major restructuring, e.g. problems with existing organisational and management frameworks, had not been gathered and documented prior to the actual decision to restructure;
- Each stage of the program was addressed in isolation of the other stages rather than managed in a complementary manner, as part of one integrated process;
- Cost/benefit analyses were not carried out in the evaluation of alternative options for implementation of stages 2 and 3;
- An absence of a set of ground rules, including staff and union consultation, to deal with the implementation of stage 3, and the means of resolving disputes;
- The sensitive elements of stage 3, such as the devolution of responsibilities to regional centres and the likely transfer of staff to regions, created a considerable groundswell of staff unrest and opposition, and culminated in protest meetings and the imposition of certain industrial bans;
- Although a press release in June 1991 regarding stage 3 stated that *"... the costs involved in progressively relocating several hundred of the Department's staff would be more than recouped by the longer term savings through the increased efficiency of the new structure and better service delivery"*, costs associated with the relocation of staff had not been identified and recorded within the Department; and
- There was a lack of early consultation with all key client organisations, such as the Victorian National Parks and Wildlife Association and the Victorian Farmers' Federation. It was not until after the issue of a consultants' report in April 1991 that the views of these organisations were sought on the restructuring by the Department.

3.5.5 In addition to the above, documentation supporting the Department's application to the Effectiveness Review Committee and the Tender Board for the appointment of consultants, at a cost of $66 000, to assist and advise on the implementation of stage 3 indicated that one reason for the consultants' appointment was a need to reduce departmental staff by 310 positions during 1991-92 because of an anticipated decrease of $12 million in that year's budget allocation. The relationship between the restructuring program and the downsizing of staff had not previously been specified as an objective of the restructuring.

3.5.6 In the same application a further reason given to support the use of consultants was that it would legitimise the restructuring program as staff would be more receptive to views expressed by external consultants.

3.5.7 Because of the strength of staff opposition to the stage 3 proposals, the then Minister decided in October 1991 to suspend further action and call a *"truce"* with the industrial union pending resolution of differences.

3.5.8 The factors summarised above indicate that the restructuring program was poorly planned and implemented, with the most critical shortcomings being the absence of well-structured objectives and mechanisms to ensure effective consultation and participation by staff and liaison with other interested external parties.

3.5.9 The recently appointed Minister has now halted the plans to shift policy formulation and planning functions to regional offices. In addition, a Procedures Committee has been set up to advise the Minister on proposals for changes to staff structures and reporting relationships in the Department. **Importantly, the membership of the Committee includes union and staff representatives.**

3.5.10 It was encouraging to find that the Committee's terms of reference include the creation of a *Process for Change Document* which will outline the consultative principles and processes to be used in the management of any change having a significant impact on staff. A draft of this document has already been issued for early consideration and comment by the union's departmental delegates.

RESPONSE provided by Director-General, Department of Conservation and Environment

While it is true that no formal organisational "diagnosis" was conducted prior to the decision to restructure the Department, considerable anecdotal evidence existed which indicated the presence of significant structural and procedural problems. It should be noted that during the review period no interest group or other body including the SPSFV (formerly the VPSA) disputed the existence of these problems.

Problems with existing organisational and management structures and procedures were documented in the course of the stage 3 review, and objectives identified well before any structural options were put forward. A large number of departmental staff from all sections of the Department participated in the process of identification and documentation of issues and options to address them.

The Victorian Auditor-General's Office would be aware that it is not unusual and, indeed, fairly commonplace for a department to undertake a structural review which includes formal diagnosis as part of the process.

It should be noted that many of the recommendations arising from stage 3 have been accepted and are being successfully implemented.

DELAYS EXPERIENCED IN SALES OF SOFTWOOD PLANTATIONS

3.5.11 The Department manages around 106 000 hectares of Victoria's publicly-owned softwood plantations and 500 hectares of plantations on private land under revenue-sharing agreements. Gross royalties to the Government have been $20.1 million and $23.7 million in the financial years ended 30 June 1990 and 30 June 1991, respectively.

3.5.12 In the 1990-91 budget the Government announced that certain specified assets of the State, including softwood plantations, would be sold for an estimated $600 million. The proceeds from the sale of these assets were to be utilised in the repayment of the State's debt, thereby relieving the ongoing interest burden on the State.

3.5.13 Following this government announcement, the Department engaged consultants to advise on marketing strategies and to evaluate options for the sale of the plantations. A comprehensive report was presented to the Minister in January 1991.

3.5.14 The report indicated a number of impediments to the sale, including:

- The majority of softwood plantations are sited on reserved forest land; *the Forests Act* 1958 requires land taken from reserved forest land be substituted by other land. The Government, however, does not have suitable land readily available for substitution; and
- Legal advice which indicated that agreements for the supply of softwood from the plantations to major customers were not assignable.

3.5.15 In view of the findings by the consultants, and the depressed economic climate, **in May 1991 the Government decided that immediate sale of the plantations would not proceed.**

3.5.16 Although the plantations are presently not listed for sale, the Department has taken certain initiatives to streamline their management and place them on a firm commercial basis. The improved management of the plantations will ensure that the Department will be much better placed if it is decided to proceed with their sale in the future.

3.5.17 The initiatives taken by the Department included:

- The creation of a team to develop an appropriate accounting system to apply to the operations of all the Department's timber plantations generally, including softwood plantations.

  The Department has produced accrual-based financial statements for 1990-91 for its timber operations. Although these inaugural statements are intended for internal use only, the Department is considering publication of the 1991-92 statements in its *Annual Report*.

  This positive step will demonstrably improve the Department's accountability. The development of financial statements based on sound commercial accounting principles will enable financial performance to be evaluated and calculation of the return obtained from the investment of public moneys.
- Requesting the Valuer-General to provide valuations of the plantations. A proper valuation of the softwood plantations will facilitate the provision of meaningful commercial financial statements, and assist management in the consideration of pricing strategies necessary to meet the Government's needs.
- A set of progressive financial targets to apply to the future performance of the timber plantations.

- The preparation of a business plan entitled *State-Owned Plantations in Victoria - A Business Plan.* The plan, which was approved in principle by the Department's Director-General in January 1992, provides for commercially-oriented plantations management and the development, in stages, of a business enterprise for the plantations, with possible ultimate corporatisation.

3.5.18 Although the Government's aim of selling the softwood plantations in 1990-91 was not achieved, the Department's initiatives, if successfully implemented, will ensure that it is in the best possible position to maximise proceeds from sales when the economic position improves.

RESPONSE provided by Director-General, Department of Conservation and Environment

The Department concurs with the views of the Auditor-General.

THEFTS AND LOSSES

3.5.19 My Office has been notified by the Department that losses and thefts amounting to $159 800 occurred within the Department during the period 1 January to 31 December 1991.

ALBERT PARK COMMITTEE OF MANAGEMENT

STRATEGIES ADOPTED TO IMPROVE THE FINANCIAL VIABILITY OF THE COMMITTEE

3.5.20 The Auditor-General's *Report on Ministerial Portfolios, April 1991* highlighted that the Albert Park Committee of Management had incurred average annual deficits of $970 000 for the 3 years to 31 December 1989 and, at that date, accumulated deficits totalled $4.7 million. **The Committee incurred a further deficiency of $663 000 for 1990 and expects to report a deficiency of $1.5 million for 1991, bringing its accumulated losses to $6.9 million at 31 December 1991.**

3.5.21 The April 1991 Report indicated that the Government had requested the Department of Sport and Recreation to examine the Committee's operations as part of a review of certain government-owned sporting complexes. Consequently, a consultant was appointed to review the Committee's operations and, in September 1991, the findings of the review were submitted to the Minister. The principal conclusions from the consultancy review were that:

- Albert Park was in a poor physical condition;
- most buildings were of inferior construction and in poor condition;
- the quality of the sporting fields was low;

- the public recreation and access facilities were in disrepair; and
- the level of physical services to the sporting facilities was inadequate.

3.5.22 The review contained numerous recommendations concerning the management of Albert Park and its facilities including:

- Melbourne and Metropolitan Board of Works (MMBW) be appointed as the managing authority for the Park;
- a cost/benefit analysis be undertaken to determine the feasibility of leasing the golf course and associated commercial complex to a private operator;
- the preparation of a 3 year works program covering all major facilities and expenditure proposed on the Park; and
- the need to draft, as a matter of urgency, new regulations.

3.5.23 In view of the findings of the consultant, the deteriorating financial position of the Committee and the considerable remedial works that needed to be carried out on the Park, the Minister determined, effective from 1 January 1992, to:

- remove the existing members of the Albert Park Committee of Management and appoint 3 MMBW officers to the Committee for a term of 3 years; and
- authorise the reconstituted Committee to also manage the Albert Ground Reserve (a ground situated in the vicinity of Albert Park).

3.5.24 The Minister also announced that the MMBW would spend $2 million on capital works, over the next 3 years, on a major clean-up operation and upgrade of the grounds and facilities. In addition, a further $4 million would be spent by sporting clubs that use the facilities at Albert Park.

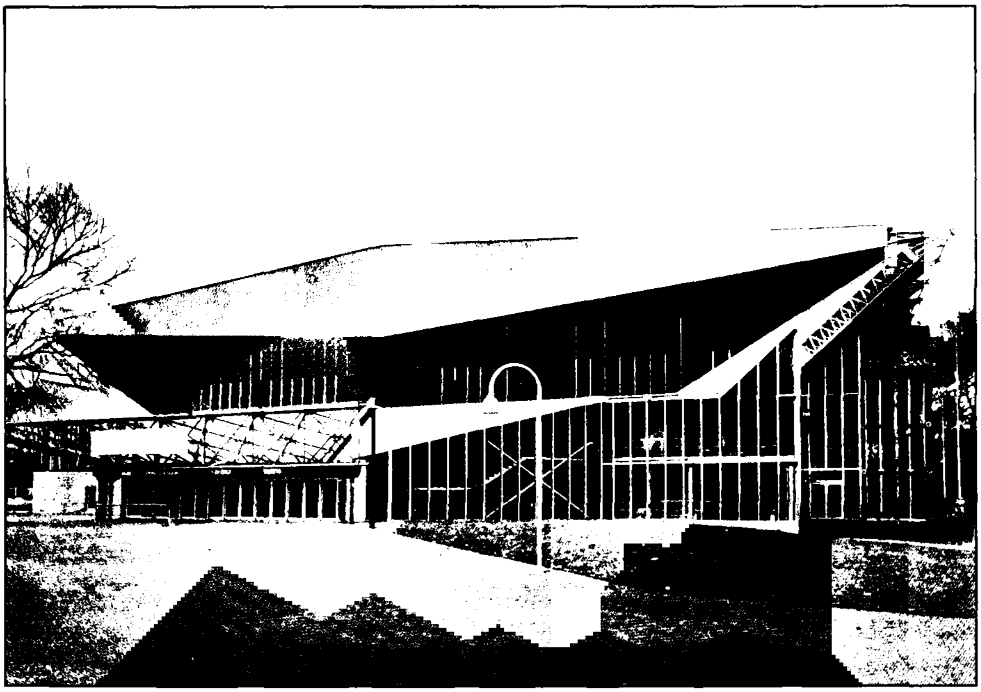
3.5.25 The Minister indicated that the transfer of management of Albert Park to MMBW will provide the necessary resources to deal with the complex issues facing the Park and that the revival of Albert Park will create opportunities for many other improvements and increase public patronage.

OLYMPIC PARK MANAGEMENT

DETERIORATING FINANCIAL POSITION OF THE MELBOURNE SPORTS AND ENTERTAINMENT CENTRE

3.5.26 The Auditor-General's *Report on Ministerial Portfolios, April 1991* drew attention to the continuing deterioration in the operating results of the Committee arising from the substantial decline in patronage and income from commercial events held at the Melbourne Sports and Entertainment Centre since 1986-87. The principal contributing factor to this decline was the loss of large commercial events to the National Tennis Centre located directly opposite the Centre. **The key conclusion from the 1991 Report was that, without effective strategic measures to improve the financial performance of the Entertainment Centre, its economic justification remained in doubt.**

3.5.27 The April 1991 Report commented that various initiatives taken by the Committee since 1987 to improve its overall financial position had little impact in arresting the decline in income from commercial events at the Centre.



The Melbourne Sports and Entertainment Centre.

Update of financial performance of the Centre

3.5.28 Since the previous Report, senior management of the Committee have met to discuss strategies such as the identification of additional sources of revenue and enhancements to sales and marketing programs principally aimed at improving the overall financial position of the Centre. A strategy plan was prepared by management in early February 1992 and submitted for consideration and approval by the Committee's Board of Management on 27 February 1992. The Board endorsed the plan for immediate implementation.

3.5.29 During 1990-91, there was a further fall in revenue from events held at the Centre, with revenue from non-commercial events showing the greatest decline.

3.5.30 Table 3.5B shows the movements in income and attendance statistics relating to the Entertainment Centre for the past 4 financial years.

TABLE 3.5B
ENTERTAINMENT CENTRE INCOME AND ATTENDANCE STATISTICS

Item	*1987-88*	*1988-89*	*1989-90*	*1990-91*
	INCOME ($'000)			
Commercial events	1 272	846	494	**465**
Basketball	92	159	407	**458**
Non-commercial events	124	202	334	**191**
Total income	**1 488**	**1 207**	**1 235**	**1 114**
	ATTENDANCES ('000)			
Commercial events	432	249	144	**152**
Basketball	80	111	241	**227**
Non-commercial events *(a)*	..	..	..	..
Total attendances	**512**	**360**	**385**	**379**

(a) Statistics not available as such events are privately sponsored.

3.5.31 While the overall fall in revenue from events held at the Centre during 1990-91 was not as severe as in previous years, a review of the financial performance of the Centre for the first 6 months of 1991-92 revealed a substantial worsening of the situation in that **revenue earned to 31 December 1991 was only $556 000, the lowest level for this period since 1985**.

3.5.32 The Committee advised audit that, in common with many other commercial organisations, its operations during 1991-92 have been adversely affected by the general economic downturn, the high level of unemployment and declining investment returns.

Emerging factors which pose a further financial threat to the Centre

3.5.33 In audit opinion, the financial performance of the Centre in 1991-92 is likely to deteriorate further because of the following recent developments which impact upon the future financial viability of the Centre:

- a public announcement in January 1992 that 2 of the basketball clubs currently contracted to the Centre have entered into arrangements to play their matches at the National Tennis Centre from the commencement of the 1992 basketball season;
- refurbishment works about to commence at the State Swimming Centre, which is also located in the Olympic Park precinct, to accommodate marketing and promotional functions, and other activities similar to those available at the Centre; and
- the recent construction of the Great Southern Stand at the Melbourne Cricket Ground which will offer catering and other function facilities and thus compete with services provided by the Centre.

3.5.34 The Committee has estimated that the move by the 2 basketball clubs to the National Tennis Centre will lead to a loss of revenue of around $360 000 for the basketball season from April to September. It is optimistic that it will be able to replace this revenue from alternative events. The Committee does **not** view the other developments identified by audit as a threat to its revenue base.

3.5.35 Audit does not share the optimistic stance taken by the Committee. Clearly, the important recent developments described above, together with the difficult economic climate, will accentuate the competitive pressures facing the Committee in maintaining the financial viability of the Centre.

3.5.36 In audit opinion, the seriousness of the circumstances warrant a far more decisive approach by the Committee if it is to remove any doubts as to the Entertainment Centre's future financial viability.

RESPONSE by Chairman, Olympic Park Management

The audit report concludes that the financial viability of the Melbourne Sports and Entertainment Centre (MSEC) remains in doubt and that the Committee has been indecisive in removing this doubt. Audit has reached these conclusions on the basis of a number of assertions, each of which are strongly refuted by the Committee of Management.

- *The assertions in last year's Auditor-General's Report were comprehensively rejected. The Committee maintains its position.*
- *A strategy plan was prepared immediately by the management following the announcement of the loss of 2 basketball teams to the National Tennis Centre (on 17 January 1992). This plan involves broadening the usage at MSEC and seeking new and alternative hirings.*

- *The audit report highlights a drop in revenue for the first half of the financial year 1991-92 but fails to take into account firstly, the effect of the recession on buildings such as MSEC and secondly, the significant improvement in business in the second half of the year. Present indicators reveal that the second half of the year will not only be ahead of budget but will compensate for the budget shortfall in the first half. Olympic Park Management will, in other words, meet budget expectations in 1991-92.*
- *Audit firmly believes that refurbishment work on the State Swimming Centre (which involves improved dressing rooms, and the introduction of a cafe) and the construction of the Great Southern Stand at the Melbourne Cricket Ground (MCG) (including the establishment of five 200 seat restaurants) will have a detrimental impact on MSEC's future financial viability. The Committee dismisses these contentions as it is unable to ascertain any financial threat whatsoever. Audit appears to have missed the point that the increased number of events at the MCG will have a positive effect on Olympic Park's car park revenue.*
- *The audit report is again premised on the fact that MSEC revenue has declined since 1988. The Committee has consistently predicted such a decline since the announcement of the National Tennis Centre in the mid-1980s and it is of no surprise to them.*
- *MSEC's potential revenue base must now be reduced to approximately 50 per cent of 1987-88 earning and audit expectations need to be similarly lowered. A substantial part of the difference of opinion with audit is based on their unrealistically high expectations for commercial activity at the MSEC since the opening of the National Tennis Centre.*
- *In looking at MSEC's revenue alone, audit has totally missed the real efficiencies gained in all aspects of Olympic Park's operations, specifically improved revenue in other areas and the tightening of expenditure levels throughout the Park.*
- *This overall success of Olympic Park, which can be measured by a consistent trading surplus (before depreciation) of at least $700 000 each year since 1988, is such that the financial viability of the Olympic Park complex is not in question either now or in the foreseeable future. Audit has focused its attention on the income and attendance statistics for one segment of Olympic Park's complete business without reviewing the net position for that segment.*
- *The Committee is confident of Olympic Park's future financial viability, such that its repair and maintenance program and capital development program for the next 5 years remains firmly in place.*

MSEC will never again reach the income levels achieved in the 1980s when it monopolised the commercial and entertainment business in Melbourne. Audit must be prepared to accept a lower revenue base from MSEC in the future. MSEC will remain viable for as long as Olympic Park as a whole remains viable. The Committee has every reason to believe that it can face the future with optimism.

Therefore, the Committee again rejects audit conclusions on MSEC's future on the basis of Olympic Park Management's remarkable success for the last 5 years, and its overall financial security for the future.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced	
Department of Conservation and Environment		
Third Report, 1983-84, p. 22 *First Report,* 1984-85, p. 81 *Ministerial Portfolios,* May 1989, p. 46	Inadequate procedures existed to either collect outstanding licence fees for occupied Crown land or terminate tenancies.	The progressive implementation of the Land Information Management System has enabled the Department to improve performance and management of this area.
Second Reports, 1985-86 and 1986-87 *Ministerial Portfolios,* May 1989, pp. 45-6 *Ministerial Portfolios,* May 1990, pp. 68-70	Deficiencies in the debtors/revenue collection system. Potential interest forgone.	The Department has developed a detailed credit management policy for staff to follow. At January 1992 debtors amounted to $15.2 million compared with $17.1 million in January 1991. However, the level of debtors outstanding in excess of 6 months is still considered too high.
Ministerial Portfolios, May 1989, pp. 46-8	Need to improve the accountability and monitoring of the activities of committees of management.	A State-wide review of the committees of management system has been undertaken by the Department. The Department is currently considering the findings of the review.
Ministerial Portfolios, May 1990, pp. 70-3	Need for the Department to: • review the viability of its weedicide resale scheme; and • assess the adequacy of stores management procedures in place for weedicides.	A draft business plan regarding the supply of agricultural chemicals is under consideration by the Department. The Department is gathering data regarding stockholdings, sales and usage of weedicides to enhance its stock management strategies.
Ministerial Portfolios, May 1990, pp. 218-19	Shortcomings in revenue collection procedures in Infringement Notice System administered by the Environment Protection Authority.	The Authority has implemented a new Infringement Notice System and revised staffing responsibilities.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Matters resolved or action commenced - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolios, May 1990, pp. 219-21	Over $375 000 not collected due to the failure to monitor reports detailing Environment Protection Authority licence holders.	A new licensing and revenue information system has been implemented by the Authority. Substantial improvements are expected to eventuate during 1991-92 in outstanding debtors.
Ministerial Portfolios, May 1990, pp. 219-21 *Ministerial Portfolios,* April 1991, p. 57	Self-monitoring of waste discharge and stack emissions has the potential of being manipulated by Environment Protection Authority licence holders.	The self-monitoring program is and will remain an integral part of the Authority's enforcement and pollution prevention program.
Ministerial Portfolios, April 1991, pp. 56-7	The lack of an information technology strategic plan has an impact on the ability of the Environment Protection Authority to develop pro-active strategies to deal with pollution or environment degradation.	In June 1990, the Authority adopted an information technology strategic plan to cover the 5 year period 1990-1994. the Authority has advised audit that it now has mechanisms in place to overcome the audit concerns.
Ministerial Portfolios, April 1991, p. 58	More emphasis should be directed by the Environment Protection Authority towards a challenging approach to dischargers and polluters through the introduction of a formalised risk management framework.	A formalised risk management framework will be incorporated in a new information system for licensing and works approvals currently under development.
Ministerial Portfolios, April 1991, p. 61	The Environment Protection Authority should be conducting audits of the industrial processes of industry either itself or by contract as a regular function under a formalised risk management strategy.	The environmental audit group of the Authority commenced its program of audits in mid-1991. Audits are undertaken under a co-operative program with the companies concerned.
Ministerial Portfolios, April 1991, p. 62-3	Although improvements in cost recovery from industry for servicing the Environment Protection Authority's licensing system are foreseeable, the conditions for full adoption of the "user pays" principle have not been created, nor are they likely to be created in the near future.	The Authority is of the view that the Environment Protection Fees Regulations 1991, which came into effect on 3 November 1991 and provide for increased licence fees, will have the effect of bridging the cost recovery gap.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Matters resolved or action commenced - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolios, April 1991, p. 66	While the Environment Protection Authority continues to direct efforts to use publicity to complement penalties imposed, the effectiveness of such efforts may have been impaired by the scale of those penalties.	Legislative amendments in 1991 imposed minimum penalties for any person or organisation found guilty of an offence in the previous 5 years, and penalties in general were increased. The Authority believes that publicity about offenders has a significant impact on corporate attitudes.
Ministerial Portfolios, April 1991, p. 100	Equipment to the value of approximately $5 000 stolen from the Department's Marine Science Laboratory.	A departmental officer was charged with theft, placed on a 12 month good behaviour bond and ordered to pay $500 into the Court's poor box. All stolen items have now been recovered.
Ministerial Portfolios, April 1991, p. 100	A case of suspected theft and fraud at the Keith Turnbull Research Institute.	The matter has been investigated by the Department's internal auditor and the Police. The Department has been advised by the Police that criminal prosecution not be proceeded with and by the Government Solicitor that civil proceedings were not appropriate in the circumstances. The Department has reassigned the employee to revised duties and charged him under the *Public Service Act* 1974. The hearing process took place in March 1992, however, at the time of preparation of this Report, a decision had not been handed down.
Albert Park Committee of Management		
Ministerial Portfolios, April 1991, pp. 95-6	Charges levied by the Committee are insufficient to recover all operating costs, resulting in recurring annual deficits and large accumulated losses.	For further comments, refer to paragraphs 3.5.20 to 3.5.25 of this Report.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced - *continued*

Olympic Park Management

Ministerial Portfolios, April 1991, pp. 96-7	For a number of years, the operating results of the Committee have deteriorated, mainly because of the substantial decline in patronage and income from commercial events held at the Melbourne Sports and Entertainment Centre.	For further comments, refer to paragraphs 3.5.26 to 3.5.36 of this Report.

State Swimming Centre Committee of Management

Fourth Report, 1983-84, pp. 76-7	Action required to recover costs and obtain compensation for structural defects in the Centre's building.	Legal action against builder has been settled with the builder required to pay $48 700 to the Government. Case against engineer was dismissed, however, the Government has entered an appeal.

No action taken

Department of Conservation and Environment

Ministerial Portfolios, April 1991, pp. 59-60	The Environment Protection Authority needs to extend its role into the areas of environment protection and pollution prevention to more adequately fulfil its role.	The Authority has advised that it has not taken action because such powers were rejected by the Parliament in the Environment Protection (Fees and Penalties) Bill 1990.
Ministerial Portfolios, April 1991, pp. 63-4	While audit could not quantify the degree to which the enforcement function has suffered because of the Environment Protection Authority's human resource base, audit considered that this could have a negative impact on the timeliness of pollution investigation.	The Authority has advised that it continues to suffer from shortages of suitably skilled and experienced staff.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits		
Department of Conservation and Environment	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	28 October 1991	31 October 1991
Albert Park Committee of Management Incorporated	31 December 1990	No reporting requirements. *Crown Land (Reserves) Act* 1978, s.15 provides for the audit of the accounts.	23 July 1991	7 October 1991 *(a)*
Bundoora Park Committee of Management	30 June 1990	No reporting requirements. Crown Land (Reserves) Act 1978, s.15 provides for the audit of the accounts.	25 March 1992	26 March 1992 *(a)*
Healesville Sanctuary Trading Pty Ltd *(b)*	Period 1 July 1990 to 28 June 1991	No reporting requirements. Audit conducted at request of Treasurer.	27 September 1991	30 September 1991
Mount Macedon Memorial Cross Committee of Management	31 December 1990	No reporting requirements. Audit conducted at request of Treasurer.	22 January 1992	18 March 1992
.. ..	31 December 1991	.. ..	22 January 1992	18 March 1992
Olympic Park Management	30 June 1990	No reporting requirements. *Crown Land (Reserves) Act* 1978, s.15 provides for the audit of the accounts.	27 March 1991	8 April 1991 *(a)*
.. ..	30 June 1991	.. ..	3 March 1992	13 April 1992 *(a)*
Penguin Reserve Committee of Management	30 June 1990	No reporting requirements. *Crown Land (Reserves) Act* 1978, s.15 provides for the audit of the accounts.	28 June 1991	12 July 1991 *(a)*

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits - *continued*				
Port Bellarine Committee of Management	30 September 1990	No reporting requirements. *Port Bellarine Tourist Reserve Act* 1981, s.21 provides for the audit of the accounts.	5 April 1991	30 May 1991
.. ..	30 September 1991	.. ..	16 December 1991	8 January 1992
Shrine of Remembrance Trustees	30 June 1990	No reporting requirements. Audit conducted at request of Treasurer.	16 April 1992	23 April 1992
.. ..	30 June 1991	.. ..	16 April 1992	23 April 1992
Victorian Conservation Trust	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	25 September 1991	30 September 1991 *(a)*
Victorian Institute of Marine Sciences	31 December 1989	31 March. *Victorian Institute of Marine Sciences Act* 1974, s.26.	18 March 1991	29 April 1991 *(a)*
.. ..	31 December 1990	.. ..	9 January 1992	16 January 1992 *(a)*
Yarra Bend Park Trust	30 June 1991	31 October. *Kew and Heidelberg Lands Act* 1933, s.15.	31 October 1991	31 October 1991 *(a)*
Zoological Board of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	27 September 1991	30 September 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Incomplete audits		
Albert Park Committee of Management Incorporated	31 December 1991	No Reporting requirements. *Crown Land (Reserves) Act* 1978, s.15 provides for the audit of the accounts.	Financial statements withdrawn by the new Committee of Management pending results of an asset revaluation.	
Bundoora Park Committee of Management	30 June 1991	No reporting requirements. *Crown Land (Reserves) Act* 1978, s.15 provides for the audit of the accounts.	Financial statements not received from Committee.	
Penguin Reserve Committee of Management	30 June 1991	No reporting requirements. *Crown Land (Reserves) Act* 1978, s.15 provides for the audit of the accounts.	Financial statements recently received from the Committee. Audit will be undertaken shortly.	
State Swimming Centre Committee of Management	30 June 1991	No reporting requirements. *Crown Land (Reserves) Act* 1978, s.15 provides for the audit of the accounts.	Audit substantially completed.	
Victorian Institute of Marine Sciences	31 December 1991	31 March. *Victorian Institute of Marine Sciences Act* 1974, s.26.	Financial statements not received from Institute.	
Victorian Institute of Marine Sciences Superannuation Fund	Years 30 June 1988 to 30 June 1991	No reporting requirements. Audit conducted at request of Treasurer.	Financial statements not received from trustees of Fund.	
Zoological Board of Victoria Superannuation Fund	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer.	Financial statements not received from Trustees of Fund.	

(a) Qualified audit report issued.
(b) Final audit. Company placed in voluntary liquidation on 28 June 1991.

3.6

CONSUMER AFFAIRS

KEY FINDINGS

- Since its establishment early in 1990-91, the investigations section of the Liquor Licensing Commission has detected over $1 million in avoided licence fees.

  Paras 3.6.1 to 3.6.10

- The Commission needs to upgrade its investigations program for licence transfers, interstate sales, liquor imports and cash transactions.

  Paras 3.6.1 to 3.6.10

The Minister for Consumer Affairs is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ministry of Consumer Affairs

Public bodies

Liquor Licensing Commission

Comments on matters of significance arising from the audit of the Liquor Licensing Commission are discussed below.

LIQUOR LICENSING COMMISSION

INVESTIGATION OF FEE AVOIDANCE

3.6.1 The Liquor Licensing Commission is responsible for the issue of liquor licences and permits, and for control over activities of participants in the liquor and hospitality industries.

3.6.2 Each year, the Commission collects substantial levels of revenue on behalf of the Consolidated Fund. Total revenue from liquor licences and permit fees credited to the Consolidated Fund in 1990-91 was $149 million. (1989-90, $120 million).

3.6.3 Liquor licence fees are calculated on the basis of declarations furnished by licencees, wholesalers and retailers to the Commission on the level of their liquor transactions.

3.6.4 Given the magnitude of the Commission's revenue management responsibilities, it is important that it has in place a soundly-based and effective investigative program to ensure:

- the accuracy of liquor purchases specified in declarations submitted by industry participants; and
- that all fees due to the State on account of liquor transactions are paid.

3.6.5 Prior to 1990-91, investigations were not accorded a high priority and the level of investigations carried out in any one year was mainly dependent on the availability of resources from other areas of the Commission's operations.

3.6.6 Early in 1990-91, the Commission moved to rectify the shortcomings in its approach to investigations by the establishment of a separate investigations section comprising 3 full-time staff.

3.6.7 An audit review of the operation of the new investigations section found that:

- 177 investigations were completed during 1990-91, which resulted in the detection of avoided licence fees of $571 000;
- in the first 6 months of 1991-92, a further 88 investigations had been completed and action has commenced to collect detected avoided fees of $564 000;
- based on investigations currently planned by the Commission, there is potential for detection of a further $1.7 million in avoided licence fees; and
- the Commission has recently obtained approval from the Government for expansion of the investigations section from 3 to 7 staff.

3.6.8 The audit examination revealed that very few of the Commission's investigations undertaken during 1990-91 related to cases involving the transfer of licences from one party to another. Avoided fees of $200 000 were identified from only 16 investigations in this category performed by the Commission during the year. With around 800 transfers of licences occurring annually, there is considerable scope for the Commission to expand its examination of licence transfers.

3.6.9 In addition, the review found that there was potential for more effective liaison by the Commission with interstate liquor controlling bodies for the exchange of information on liquor transactions between interstate parties and to improve identification of fee evasion in respect of such transactions. Also, the Commission needs to improve the exchange of information with the Commonwealth Government on the monitoring of fees payable by importers on imported liquor and to focus greater attention on detection of licence fee avoidance in cash transactions within the liquor industry.

3.6.10 It is important that the Commission builds on the gains achieved to date under its investigation strategies by expanding surveillance of fee avoidance in licence transfers, interstate sales, liquor imports and cash transactions.

RESPONSE provided by Chief Executive Officer, Liquor Licensing Commission

This report identifies opportunities to further enhance the effectiveness of the investigations function. The function was introduced in July 1990 and its techniques of investigations, and systems and procedures are continuing to evolve. The issues raised are elements of a fully functioning investigations activity and will be progressively introduced. Resourcing of the unit was increased from 3 to 7 in March 1992.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORT

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced	
Ministry of Consumer Affairs		
Ministerial Portfolios, May 1989, pp. 54-6	There is a need to review various aspects of operations and administration of the Residential Tenancies Fund.	The Ministry has been progressively addressing the issue raised in conjunction with its action in response to the report of the Residential Tenancies Steering Committee which was tabled in Parliament in August 1989.
Ministerial Portfolios, May 1990, p. 82	There is a need to take a pro-active approach to detection of unlicensed motor car traders.	The Ministry has established a task force and introduced an education campaign to reduce unlicensed traders. In 1990-91, 4 unlicensed traders were prosecuted.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits		
Ministry of Consumer Affairs	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	4 October 1991	9 October 1991
Liquor Licensing Commission	30 June 1991	30 September *Annual Reporting Act* 1983, s.9.	30 September 1991	30 September 1991

3.7

CORRECTIONS

KEY FINDING

- The audit of the financial statements of entities within the portfolio proved satisfactory.

The Minister for Corrections is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Office of Corrections

Public bodies

Victorian Prison Industries Commission

The audit of the financial statements of entities within this portfolio proved satisfactory.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*
Matters resolved or action commenced		
Victorian Prison Industries Commission		
Second Report, 1985-86, pp. 76-82 *Ministerial Portfolios*, May 1990, pp. 86-7 *Ministerial Portfolios*, April 1991, pp. 116-31	Matters of major audit significance included deficiencies in management controls and practices.	The Commission has continued to take action on the issues raised by audit and recommendations are being progressively implemented by management.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Office of Corrections	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	6 November 1991	7 November 1991
Victorian Prison Industries Commission	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	28 October 1991	31 October 1991*(a)*

(a) Qualified audit report issued.

3.8 EMPLOYMENT, POST-SECONDARY EDUCATION AND TRAINING

KEY FINDINGS

- There is an absence of central State Training Board policies and guidelines in respect to the practice of live work training in TAFE colleges, and policies and procedures issued by the colleges did not define live work training or state its objectives.

  Paras 3.8.6 to 3.8.9

- The link between particular live work projects and the course syllabus or training module was not specified.

  Para. 3.8.14

- Audit found that in one college, a number of staff made frequent use of the live work facility and there were no guidelines in place to monitor this usage and ensure staff do not benefit financially.

  Paras 3.8.15 to 3.8.18

- In another college the purchase, restoration and sale of damaged vehicles was not adequately controlled.

  Paras 3.8.19 to 3.8.22

- The use of disclaimers by the colleges to minimise the risk of litigation for any damages arising from live work activities needs to be improved.

  Paras 3.8.23 to 3.8.24

- The Council of Adult Education's 1991 financial statements disclose a consolidated deficit of $232 000 and an unfavourable consolidated liquidity position.

  Para 3.8.30

- The Council's action to date have failed to reverse the unfavourable financial results of its commercial operations particularly the Tours Division and the bookshop.

  Paras 3.8.31 to 3.8.32

- La Trobe University needs to formalise a comprehensive maintenance program which identifies preventative, corrective and emergency maintenance.

  Paras 3.8.54 to 3.8.56

- The cost of upgrading all La Trobe University and government-owned buildings to an efficient operating condition is unknown, however, the University has, at 30 June 1991, identified certain essential projects estimated to cost $2 million.

  Para. 3.8.57

- Maintenance costs of La Trobe University will increase significantly in future years as a result of past and current building maintenance being performed on a breakdown basis rather than a more cost-effective preventative approach.

  Para. 3.8.58

The Minister for Employment, Post-Secondary Education and Training is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Employment and Training

Public bodies

Colin Badger Trust
Council of Adult Education
Goulburn Valley Driver Education Complex Limited
Post-secondary education institutions:
- 5 universities and 18 associated companies, trusts and foundations;
- 11 colleges of advanced education;
- 31 colleges of technical and further education; and
- 2 institutes of tertiary education.

Sir John Monash Business Centre
State Training Board
Victorian Post-Secondary Education Commission
Victorian Tertiary Admissions Centre

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

AUTOMOTIVE TRAINING PRACTICES IN TAFE COLLEGES

LIVE WORK IN TAFE COLLEGES

Background

3.8.1 During the past 10 years, greater use has been made in colleges of Technical and Further Education (TAFE) of live work training as a method of delivering training in a range of vocational courses such as automotive, carpentry, hospitality and hairdressing studies.

3.8.2 Live work training has been defined in a report published by the State Training Board (STB) entitled *Cost/Benefit of Training through Live Works* as *"training situations in which TAFE teachers supervise students using the appropriate equipment and full-sized materials to build a full-size, permanent product on a potential cost recovery basis".*

3.8.3 While the objectives of live work training are not specifically stated in STB literature, course syllabi contain learning objectives which live work, as a method of training, would achieve.

3.8.4 During 1991 audit sought details by way of questionnaire from a number of TAFE colleges to determine the extent of live work undertaken. Based on those findings audit reviewed the accountability and effectiveness of live work training provided in vocational courses related to the automotive trade at the Batman Automotive, Dandenong and Richmond Colleges of TAFE.

Overall conclusion

3.8.5 In audit opinion there is a need to strengthen controls over the system of live work training to ensure that it is operating in accordance with its intended purpose, i.e. to provide the appropriate practical training to produce high quality tradespersons.

Policies and guidelines

3.8.6 A review of information available from the STB revealed an absence of centrally-developed policies or guidelines in relation to the administration of live work training in TAFE colleges. As such, TAFE colleges using this form of training apprentices have had no direction in the formulation of their internal live work training policies and procedures.

3.8.7 Policies and guidelines established by the colleges reviewed were not comprehensive in terms of defining live work, the objectives of this method of training, the associated administrative arrangements and the requirements for the management of live work training by various college personnel. In many instances, the actual practice of live work training in college departments did not comply with the provisions outlined in college policies or guidelines.

3.8.8 **The STB needs to undertake a review of live work training practices in all TAFE colleges with a view to developing standard policies and guidelines covering the purpose and administration of live work training, so that the learning objectives can be achieved effectively and consistently throughout the State training system.**

RESPONSE provided by Acting General Manager, Department of Employment and Training

The Office of the State Training Board (OSTB) agrees that live work should be, and usually is, related to curriculum and learning objectives, particularly in TAFE colleges.

The study of live work undertaken by the State Training Board, published in 1991 and which investigated Live Work Training in the Building Industry found strong support for its application from industry people, trainees and teachers alike.

The OSTB believes that the application and control of live work is very much a program delivery issue, and one which in a developed system like Victoria's TAFE system should remain the responsibility of individual colleges.

In addition, there are sensitive industrial issues relating to the negotiation of live work which make it important that colleges have reasonable freedom of manoeuvre.

Policy and practices in relation to the implementation of live work in colleges will be reviewed, and consideration given to issuing appropriate central policy guidelines.

3.8.9 College live work training policies and guidelines should clearly define live work training as it exists at the relevant college and state the objectives of such training. In addition, colleges need to ensure that the practice of live work training in their departments reflects procedures contained in college policies and guidelines.

- *RESPONSE provided by President of the Council, Batman Automotive College of TAFE*

  Our College live work policy, defines that "Live Work" must have relevance to the Department's teaching program, comply with the specifications of the relevant syllabus and fulfil student training needs". Our College live work procedures further strengthens this point. We will, however, review our Policy and Procedures to further emphasise the "definition" as well as the objective/purpose of live work.

- *RESPONSE provided by President of the Council, Dandenong College of TAFE*

  The College accepts the recommendations and has begun a review of its automotive live work guidelines covering all of the aspects highlighted. A draft set of guidelines has been completed and is currently being examined by management.

Extent of live work training in colleges

3.8.10 An analysis of responses from TAFE colleges to the audit questionnaire on the operation of live work training disclosed that:

- live work training is used extensively in TAFE colleges as a method of delivering vocational training to apprentices (e.g. automotive studies, building studies, hospitality, hairdressing);
- the number of live work training projects undertaken by colleges varies widely, however in many cases college records were not adequate to provide details of the number or cost of live work projects undertaken;
- the majority of colleges stated that live work training was cost neutral as the *"customer"* provided the necessary parts and materials for the project; and
- in the majority of instances live work training generated no revenue for the college, however, it often served to reduce expenditure on teaching materials.

3.8.11 As indicated by the findings of the STB report and audit discussions with college personnel, the volume of live work training in colleges has increased over the past few years. Live work training is considered by colleges to be the best method of training delivery as far as motivating students and teaching them a *"real life"* aspect of the trade. In addition, the practice of live work training can assist colleges by supplementing their government funding.

3.8.12 Audit found the 4 main sources of live work projects, at the colleges reviewed, to be:

- college students;
- college staff (including staff within the State training system and relatives of staff);
- external persons (including private individuals, private businesses and volunteer/charitable organisations); and
- college purchases of damaged vehicles for restoration and resale.

3.8.13 A review of live work project sheets available at the colleges indicated that the majority of live work projects stemmed from college personnel and students with an average of 35 per cent of projects directly attributable to college personnel.

3.8.14 The review also highlighted that the link between particular live work projects and the course syllabus or training modules was not specified.

3.8.15 An analysis of live work projects recorded at the Richmond College of TAFE between 1984 and 1990 revealed that college staff had made regular use of the facility with some members of staff using the facility up to 21 times. In addition, audit was advised by the College that staff within the College had personally purchased damaged vehicles for renovation at the College and subsequently sold the vehicles to external buyers for their own gain.

3.8.16 Audit also noted that projects had been performed by the College for external businesses, e.g. panel shops and auto wreckers. While there was no detailed documentation to support these arrangements, audit was advised that these projects were used to provide training for specific apprentices from the panel shops involved and to compensate auto wreckers for supplying the College with automotive parts.

3.8.17 The review found that none of the colleges limited the number of projects which any one staff member could submit for live work in a year as this was seen to be too restrictive.

3.8.18 There is a risk that a high volume of live work projects could distort the original intention of live work training which is to provide training for apprentices, and not to provide restoration services for vehicles owned by college staff. The volume of live work projects needs to be reviewed to ensure that it is necessary and relevant to the requirements of the course syllabus. In addition, college management needs to monitor and control the use of live work training by staff to ensure that staff do not benefit financially.

- *RESPONSE provided by President of the Council, Batman Automotive College of TAFE*

  Our live work policy will be revised to define those sources eligible to submit vehicles for live work as well as priorities and limits. The Live Work Co-ordinator will request proof of ownership of vehicles and in case of doubt, he will deny the live work request.

- *RESPONSE provided by Director of Richmond College of TAFE*

  The position is that suitable live work is not always readily available as the work performed often involves delays both in commencing and while being carried out which are not acceptable to many prospective clients. Further, the work while supervised, is carried out by trainees and this is a deterrent to many. In times of shortage of appropriate work, we are only too pleased to have staff offer their vehicles for training purposes.

Restoration of damaged vehicles

3.8.19 In 1988, Dandenong College of TAFE commenced a program of purchasing damaged vehicles for restoration and subsequent resale or use by the College.

3.8.20 The College views the program as having a number of benefits including:

- educational and motivational value to both students and staff; and
- revenue generation or cost minimisation for the College.

3.8.21 Despite the program being into its fourth year of operation, the College had not developed formal policies and procedures for the purchase of damaged vehicles, recording costs of restoration and calling tenders for their sale.

3.8.22 In audit opinion, if the level of restoration activity is not monitored and controlled, there is a risk that the primary intention of live work training (to provide training for apprentices) could be overtaken by the secondary purpose, which is to generate additional college revenue. There is also a risk that teaching resources will be absorbed in restoration activities which may not be directly related to the teaching program.

RESPONSE provided by President of the Council, Dandenong College of TAFE

The College notes the recommendations and will institute a review of all aspects of damaged vehicle recovery. The College had begun a process of establishing each vehicle as a separate project and this will achieve all of the points raised in the recommendations. The College has developed formal tendering procedures which will address the issues raised. Legal advice has been sought.

Insurance and disclaimers

3.8.23 To protect the college against liability, owners of vehicles worked on by students are required to complete a disclaimer. In many instances audit found that the disclaimer had not been completed. Audit was advised of a number of cases where damage had been inadvertently caused to vehicles, or property stolen from vehicles while being worked upon, and subsequently the owners were compensated by the college.

3.8.24 Teaching staff need to be fully advised of the importance of ensuring that disclaimers are signed and accepted by the customer prior to commencement of the work by students.

- *RESPONSE provided by President of the Council, Batman Automotive College of TAFE*

  In a senior management meeting held among the Heads of Departments and Live Work Co-ordinators the College has addressed this point and the Live Work Co-ordinator will be responsible for ensuring that the disclaimer is signed by the customer.

- *RESPONSE provided by President of the Council, Dandenong College of TAFE*

  The College is currently updating its live work procedures in respect of liability. Legal advice has been obtained in relation to the matters raised in the report. The live work contract will be revised and staff will be fully briefed on all aspects of live work.

COUNCIL OF ADULT EDUCATION

3.8.25 The *Reports on Ministerial Portfolios* for May 1990 and April 1991 commented on various deficiencies in the financial management and accountability processes adopted by the Council of Adult Education.

3.8.26 Specific matters raised were:

- the continuing deterioration in the financial position of the Council, as demonstrated by a number of common measures of liquidity;
- the financial viability of several commercial activities of the Council, including its participation in the Sir John Monash Business Centre joint venture; and
- the Council practice of not allocating all overhead costs to its commercial activities in order to determine the full cost of such activities.

3.8.27 In its response, management outlined certain measures it was implementing to address the issues raised, including formulation of a business plan, productivity improvements and a full cost absorption study to allocate all overheads. The Council anticipated that these measures would result in a *modest budget surplus* for Council. Specific budget estimates for the Council's commercial activities are outlined in Table 3.8A.

3.8.28 In view of the response, audit reviewed the Council's liquidity position and its operating result for 1991.

Overall conclusions

3.8.29 The Council's actions to date have failed to reverse the unfavourable financial results of its commercial operations particularly the Tours Division and the Bookshop. If the Council regards such activities as part of its core business, action needs to be taken to reverse the unfavourable results. However, if such activities are regarded as peripheral to the Council's primary function, the Council needs to re-assess the desirability of continuing such activities particularly in the light of the results achieved over the last 3 years.

OVERALL FINANCIAL POSITION

3.8.30 The Council's financial statements for 1991 disclosed a consolidated deficit for the year of $232 000. The unfavourable consolidated liquidity position, which is demonstrated by an excess of current liabilities over current assets of $1.7 million, continues to place pressure on the day-to-day operations of the Council.

RESPONSE provided by Chairperson, Council of Adult Education

The increasing consolidated deficit of $232 000 in 1991 ($142 000 to 30 June 1990) is calculated after including allowances for non-cash items totalling $464 000. These non-cash items include depreciation and amortisation of non-current assets totalling $332 000 and $124 000 for the increase in the provision for long service leave (LSL). The increase in LSL was in the main due to recognition of prior service for staff recently recruited to the CAE. The prior service recognised in 1991 exceeded 55 years and the whole cost was brought to account in that year. LSL also impacts unfavourably on the liquidity position in that unfunded LSL provisions are classified as current liabilities. The CAE contacted the Ministry of Finance in October 1991 to request details of a funding arrangement for such inherited liabilities but has not yet received a reply.

Action was taken in 1991 to correct the working capital deficit by negotiating the purchase of the City Centre building. The purchase was finalised on 10 February 1992 and should provide substantial financial benefit in future years.

Financial results of commercial activities

3.8.31 Table 3.8A shows the results of the major commercial activities conducted by the Council, as reported in the Council's cost centre management reports for the year ended 31 December 1991.

TABLE 3.8A
BUDGET/ACTUAL RESULTS, YEAR ENDED 31 DECEMBER 1991
($)

Item	*Tours Division*	*Bookshop*	*Flinders Consulting Services*	*Conference Centre*
Budgeted surplus	94 586	38 346	97 662	279 804
Surplus (deficit) as per cost centre management report	(94 497)	(16 773)	112 518	248 455

3.8.32 While it is pleasing to see that the Flinders Consulting Services and the Conference Centre are generating surpluses, the Council needs to monitor the performance of the remaining 2 commercial activities.

RESPONSE provided by Chairperson, Council of Adult Education

The CAE's activities are educationally-based and not established primarily as commercial or retail outlets. The inability to achieve any short-term turn-around in the results of educational tour and bookshop activities has been impacted on by the poor state of the economy. In addition, the international educational tour operations were adversely effected by the Gulf War in the first part of 1991 when several potentially profitable tours were cancelled and all moneys refunded to clients. Some rationalisation of support to educational tours was implemented in 1991 and close monitoring by management of these activities is in place for 1992. The CAE bookshop is a student support service and it reflected the generally poor performance of the retail sector in 1991. A complete redesign of the bookshop was completed in February 1992 and sales in the 3 months to 31 March 1992 have exceeded budget by over 12 per cent.

SIR JOHN MONASH BUSINESS CENTRE

3.8.33 In addition to the abovementioned activities, the Sir John Monash Business Centre, in which the Council has a 50 per cent shareholding, incurred an operating loss of $155 000 in the 1990-91 year. This brought the total accumulated losses since incorporation to $339 000.

3.8.34 An analysis by audit of the Centre's financial operations for the 1991 year revealed a shortfall of funds totalling $80 000, which necessitated the Council providing further financial support amounting to $93 000. The total financial support given to the Centre by the Council at 31 December 1991 was $134 000. The analysis also disclosed that the Centre was relying on short-term trade credit to fund its day-to-day operations

3.8.35 In response to previous audit comment that the Council needed to consider its continued participation in the Centre, the Council stated that *"... Day-to-day bookings have improved, and projects undertaken by the Centre and contributions made from running programs are contributing to overall profitability ...".*

3.8.36 Notwithstanding the perceived improvement, the Centre has continued to rely on financial support from the Council and short-term credit facilities to fund its operations.

RESPONSE provided by Chairperson, Council of Adult Education

The CAE is committed to making the investment in the Sir John Monash Business Centre Pty Ltd an educational and financially successful activity. The development of programs for major clients, the recent agreements reached with the Motorola University of the USA and negotiations to reduce rental costs are aimed at producing a profitable result for 1992. Action has been taken to ensure demands on the CAE's current account are settled on a monthly basis.

NON-ALLOCATION OF OVERHEADS

3.8.37 The Council incurs overhead expenditure relating to its Service Department and the Planning and Development Department totalling **$5.3 million which should, in audit opinion, be allocated over all the Council's commercial activities**.

3.8.38 However, information is not directly available to the Council Board from its current accounting and reporting systems to enable such allocations to be made.

3.8.39 If these expenditures were allocated across the commercial activities of the Council, as has been recommended by audit in the past, it would adversely impact on the disclosed results of such commercial activities.

RESPONSE provided by Chairperson, Council of Adult Education

The allocation of overheads to selected activities is carried out from time-to-time through a cost absorption study. The allocation of costs to departments throughout the year is based on charging controllable costs directly to the departments where those costs can be readily identified. Allocation of other non-direct costs to activity centres required a significant investment in management information systems although some overhead costing routines do exist, for example, the cost of in-house printing and photocopying. Enhancement of the cost analysis system is being undertaken for each set of programs.

LA TROBE UNIVERSITY - BUILDING MAINTENANCE

BACKGROUND

3.8.40 The La Trobe University is located on 4 campuses: 3 in the metropolitan area and one in Albury/Wodonga.

3.8.41 The 3 metropolitan campuses which are located at Bundoora, Carlton and Abbotsford utilise University and government-owned buildings with a replacement cost of approximately $234 million.

3.8.42 Maintenance of the University's physical facilities is the responsibility of the University's buildings and grounds division. External contractors are utilised for maintenance purposes whenever expertise, materials or equipment are not available in-house.

3.8.43 The Australian Vice-Chancellors Committee (AVCC), in July 1989, endorsed a recommendation that a norm of 1 to 1.5 per cent of current replacement value of buildings be used to set aside funds for maintenance and rehabilitative purposes.

3.8.44 Based on this recommendation, the University should have set aside an amount of between $2.4 million and $3.6 million for maintenance of buildings on its metropolitan campuses. The actual amount budgeted and spent in 1991 was $2 million.

3.8.45 During 1991 audit undertook a review of the management of the maintenance of the University's physical facilities on its metropolitan campuses.

Overall conclusions

3.8.46 Audit found that the University does not have a comprehensive preventative maintenance program for its academic and government-owned buildings and as a consequence a detailed condition survey setting out all its maintenance requirements has not been undertaken.

3.8.47 The cost of upgrading all University and government owned buildings to an efficient operating condition is unknown, however the University has as at 30 June 1991, identified certain essential projects estimated to cost $2 million.

3.8.48 Maintenance costs of the University will increase significantly in future years as a result of past and current building maintenance being performed on a breakdown basis rather than a more cost-effective preventative approach.

MANAGEMENT OF THE MAINTENANCE FUNCTION

Maintenance policy and funding

3.8.49 The University has adopted as its maintenance policy the AVCC guidelines and recommendations. As indicated earlier, based on the recommendations, the amount to be provided annually for maintenance of the facilities on the metropolitan campuses should have been between $2.4 million and $3.6 million.

3.8.50 Audit was advised by the University that over a number of years only limited funding has been available for property maintenance. Severe pressure was placed on its maintenance budget with the acquisition of the Abbotsford and Carlton campuses in 1988, as a result of a merger with the Lincoln Institute of Health Sciences, without any additional funding being provided by the Government for renovation and future maintenance of the buildings on those campuses.

3.8.51 Table 3.8B shows that the amount spent on maintenance has remained fairly constant despite building space growing marginally over the period.

TABLE 3.8B
ACTUAL MAINTENANCE EXPENDITURE
($)

Item	*1989*	*1990*	*1991*
Unspent 1990 allocation brought forward	..	..	**75 000**
Priority maintenance funding (normally for maintenance projects > $8 000)	219 000	133 000	**276 000**
Recurrent funding (all other maintenance expenditure)	1 739 925	1 715 897	**1 645 600**
Total	**1 958 925**	**1 848 897**	**1 996 600**

3.8.52 The University claimed that the lack of funding has prevented it from implementing a comprehensive maintenance program whereby it has a planned systematic approach to management of its physical assets. As a result, the University is attempting to maintain the facilities on a breakdown basis, i.e. day-to-day maintenance activities are restricted to reactions to emergency requirements, rather than being planned.

3.8.53 To ensure the efficient use of available funds the University needs to formalise a comprehensive maintenance program which identifies preventative, corrective and emergency maintenance.

RESPONSE provided by Acting Vice-Chancellor, La Trobe University

The University has a systematic planned approach to its maintenance of essential plant and services which, as audit indicates, has maintained "The buildings on the Bundoora campus in relatively good condition", as referred in paragraph 3.8.60. With the continuing uncertainty in planning terms of the Abbotsford and Carlton campuses, it is doubtful whether the University could justify in economic terms a significant upgrading of these facilities from its own funds until a long-term plan has been agreed with, and funded by, the respective governments. Your suggestion to formalise a comprehensive maintenance policy will be addressed by the relevant University committees.

Because of the uncertainty engendered by changing Federal and State Government attitudes over the years to the planning of the Abbotsford and Carlton campuses, the significant cost of preparing further detailed condition surveys of these areas has been postponed.

The University has acknowledged the need for additional maintenance provision and has begun to address this in funding terms. The lack of a life cycle replacement fund from year 1 of a building's existence is clearly a backlog situation which is not going to be immediately solved by the current implementation of the AVCC guidelines. Your suggestion of a detailed maintenance report will be addressed.

Management information systems

3.8.54 A detailed condition survey to identify the extent of maintenance and funding required to maintain the physical assets at all its campuses in an efficient operating condition has not been undertaken by the University.

3.8.55 The results of the survey would provide the University with a means of assessing its overall maintenance requirements both in the short and long-term and the preparation of relevant budget submissions. This will assist the University in determining priorities for allocating resources and measuring their effective and efficient utilisation. The University has recognised this deficiency and has undertaken steps to address the situation by acquiring a new maintenance software package. The new system is in the early stages of implementation and is currently utilised for the recording and control of maintenance works orders.

3.8.56 The University needs to further develop its management information systems to assist in the implementation of a comprehensive preventative maintenance program and to provide management with adequate information to assist in making informed decisions.

RESPONSE provided by Acting Vice-Chancellor, La Trobe University

As highlighted in your report, the University has in place a new management information system in its embryonic form. With the experience gained by the use of this maintenance software package over a number of years, a system particularly suited to multi-campus post-secondary education maintenance and services will be evolved. This is an Australian-wide objective and its development is being monitored by the AVCC Conference on Facilities Management. As with all management information systems, historical data is an essential ingredient for comparative studies, and this will take some time, from recent implementation to become useful and meaningful.

WHAT HAS BEEN THE EFFECT OF NOT HAVING A COMPREHENSIVE MAINTENANCE PROGRAM?

3.8.57 Although the University has not undertaken a detailed condition survey, it has identified that at least $2 million needs to be outlayed on essential maintenance over and above the annual amount currently provided. In view of the age and condition of most of the property managed by the University, audit considers that this amount would represent only a small portion of the total outlays required.

3.8.58 Failure to adequately maintain the University's properties will result in the properties becoming irreparable or uneconomic to repair and limited available maintenance funds being expended on emergency and urgent repairs only. This approach will prove to be more costly in the long-term than a planned systematic maintenance program.

RESPONSE provided by Acting Vice-Chancellor, La Trobe University

The University, through its Buildings and Grounds Committee, has adopted the AVCC recommendations for such a program and will be progressively implementing the program. However, this program is designed to accumulate funds for major maintenance from year 1 of the building's existence. The acquisition of Abbotsford and Carlton campuses in 1988 involving a number of buildings approximately 100 years old and some in derelict condition, provided an insurmountable backlog of unfunded works, which on a formula basis is impossible to address.

3.8.59 Specific consequences of the lack of maintenance of the University's physical assets are set out in the following paragraphs.

Bundoora campus

3.8.60 The buildings on the Bundoora campus are in relatively good condition. However, failure to undertake basic maintenance works and provide for future maintenance works will see the buildings deteriorate.

3.8.61 Many of the mechanical installations at the Bundoora campus have reached or exceeded their operating life. Due to both a lack of funding and a planned comprehensive preventative maintenance program, the University's mechanical installations are being generally operated on a breakdown basis with the result that critical areas are often incurring substantial down-time waiting for repair or replacement.

RESPONSE provided by Acting Vice-Chancellor, La Trobe University

Since the adoption of the AVCC recommendations in 1989, the University has begun to address a budgetary allocation on an annual basis for major maintenance and replacement. Consequently, items of plant that have reached their operating life expectancy are being progressively replaced on a priority basis.

Air-conditioning - Library

3.8.62 The Library building was built in 3 stages, each with its own plant room and air-conditioning system.

3.8.63 One of the air-conditioning systems has been decomissioned because its repair was no longer financially viable and is now serviced by one of the other systems resulting in that system having to be run at full capacity.

3.8.64 In the event of a further breakdown, the remaining system would not have the capacity to service the entire Library.

RESPONSE provided by Acting Vice-Chancellor, La Trobe University

Because of capital funding constraints, the present Library has been constructed in 3 stages, each with its stand-alone plant room. The strategy is to consolidate the equipment into a single location improving efficiency in space and operating costs. This project has been costed and is high on the University's priority listing, but funds are not yet sufficient to allow planning to proceed.

In the interim, the Stage 3 plant is maximising its useful capacity, and the existing plant has capacity to fully ventilate the Library, thus maintaining operational usage at all times.

Fire alarm indicator panels

3.8.65 Each building within the University is fitted with smoke or thermal detectors and fire alarm indicator panels to aid in identifying the location of an activated smoke or thermal detector.

3.8.66 These panels, together with the network of detectors, have reached a stage where the panels need to be upgraded and the detectors replaced. In many instances, the number of detectors in each room need to be increased to comply with current statutory requirements.

3.8.67 The Thomas Cherry building is an example where the fire alarm indicator panel is outdated and in certain areas the detectors are so defective that they generate false alarm call-outs.

3.8.68 In addition to the potential danger flowing from these defects, the University has to fund a higher level of servicing costs including the costs of the Metropolitan Fire Brigade answering the false alarms.

3.8.69 In the 1992 building restoration program the University has received Commonwealth funding of $1.1 million on a dollar-for-dollar basis to upgrade the Thomas Cherry building.

RESPONSE provided by Acting Vice-Chancellor, La Trobe University

The University's system of fire detection at Bundoora varies from installations in buildings that are from 1 to 25 years old. There are, therefore, isolated instances in the older buildings where the system requires upgrading. The Thomas Cherry building, which is the oldest science building on the Bundoora campus, is an example of this and the extent of overall renovation required for such a building has been recognised as beyond the resources in funding terms of the University. As acknowledged in your Report, a matching grant to assist with upgrading has been provided by the Commonwealth in its 1992 program will address installations such as the thermal detection system.

Abbotsford campus

3.8.70 As part of the University's amalgamation with the former Lincoln Institute of Health Sciences the University acquired a number of buildings at the Abbotsford and Carlton campuses which were in a state of disrepair and in need of renovation. A number of plans to renovate the Abbotsford Campus buildings, some of which date back to the early 1900s, had been prepared by the former Lincoln Institute of Health Sciences, however no funding for its implementation was provided by the Government except for upgrading the Convent and Annexe.

3.8.71 The future occupancy of the Abbotsford campus by the University is in doubt as it is proposed to relocate the teaching activities at the campus to Bundoora and Carlton at a later date. In view of this uncertainty and a lack of funds, the University has been unable to renovate all of the uninhabitable buildings. The consequence of this is an under-utilisation of government property.

RESPONSE provided by Acting Vice-Chancellor, La Trobe University

A number of redevelopment proposals were prepared by the former Lincoln Institute of Health Sciences and the former Melbourne College of Advanced Education for this campus, since acquisition for post-secondary education purposes some 20 years ago by the Ministry of Education. These were thwarted by intervention of statutory bodies and local government requirements, with the result that minimal government funding was provided to allow those buildings capable of economic rehabilitation to be made useable for post-secondary education purposes. The age and condition of this campus puts the rehabilitation and maintenance of it well beyond the guidelines of the AVCC maintenance guidelines in scope and in funding terms, and it requires, as indicated by the planning studies, a significant injection of capital rehabilitation funds to address significant services installations and the upgrading of buildings in occupancy rating terms.

The present condition of the Sacred Heart building and some sections of the Convent Annexe is not due to a lack of recurrent maintenance funds, but because it is uneconomic to rehabilitate those areas, given requirements of various regulatory bodies.

As an occupier only of 4 buildings on this extensive campus, the University accepts responsibility for the operational maintenance of these buildings.

3.8.72 An inspection of the Abbotsford campus buildings by audit revealed the following:

The Sacred Heart building

3.8.73 This building was in a largely derelict state when the University took it over in 1988, and had been in this state for many years.

3.8.74 The University has identified that:

- the roof of the building needs urgent repair and its poor condition has resulted in extensive damage to timber supports and interior walls and to the interior of the second floor, the majority of which is uninhabitable;
- the power to the area has been turned off to avoid a potential safety hazard; and
- there are no fire protection systems installed within the building.

3.8.75 The University, although not the owner, has plans to renovate the building, but funding is unavailable and for safety reasons the building cannot be utilised.

2nd Floor of the Sacred Heart building.

Sewerage system

3.8.76 The underground sewerage system to the Convent building is in a state of near collapse and numerous blockages and leaks occur during the year. During peak periods blockages may occur on a weekly basis, and heavy duty drain cleaning equipment has to be brought in on each occasion to pump the system clear. It is estimated by the University that it costs approximately $10 000 to clear these blockages each year.

3.8.77 There have been occasions when the Convent building has had to be evacuated until repairs were complete because toilet areas within the building were unable to be used.

3.8.78 As the University is expending approximately $10 000 a year to clear blockages, a complete restoration of the systems, estimated to cost approximately $100 000 may prove to represent a much more cost-effective alternative.

Carlton campus

3.8.79 The Carlton campus consists of 8 buildings, 3 of which are owned by the University, one is leased from the State of Victoria and the remainder are leased from private parties.

3.8.80 Due to the inadequate funding for the recurrent maintenance program, maintenance is confined to essential works on all buildings.

3.8.81 The University has not undertaken a detailed condition survey of its buildings on the Carlton campus, however, it has developed a schedule of deferred major maintenance requirements. The University intends to gradually relocate the Carlton campus to Bundoora.

RESPONSE provided by Acting Vice-Chancellor, La Trobe University

The Carlton campus, along with the Abbotsford campus was acquired by the University by its amalgamation with the former Lincoln Institute of Health Sciences in 1988. This Institute did not subscribe to a life cycle replacement fund in its maintenance provisions to allow for major maintenance on its plant and buildings, with the result that the University has inherited a number of buildings, including building "A", which have major defects in their fabric. To address these requires a significant injection of rehabilitation funds which is clearly beyond the scope of the AVCC recommendations in preventative maintenance terms.

3.8.82 An inspection of the area by audit revealed the following problems with the government-owned building which is a 5-storey building accommodating a substantial number of the teaching and administrative departments.

Mechanical heating and ventilation system

3.8.83 Audit was advised that the building's boiler and associated plant is only operating on a intermittent basis due to the internal firing chamber being in a state of collapse. As a result, gas consumption is excessive.

Damaged building facade

3.8.84 The concrete rendered surfaces on 3 elevations of the building are deteriorating and safety is a potential problem due to the risk of falling concrete fragments.

3.8.85 Audit was advised that ad hoc emergency repairs had been undertaken, however, the only solution to rectify the problem was to have all rendered surfaces refurbished. If the problem was not addressed a stage would be reached where the whole elevation of the building would have to be re-clad.

3.8.86 The University needs to address the issue of a comprehensive preventative maintenance program on all its campuses so that the physical facilities owned by the University and the Government are maintained in an economical, efficient and effective manner.

- *RESPONSE provided by Acting Vice-Chancellor, La Trobe University*

In relation to your above suggestion, the University will address this issue through its relevant committees.

- *OVERALL COMMENTS provided by Acting Vice-Chancellor, La Trobe University*

  The University currently funds maintenance at 0.85 per cent of the estimated current replacement value of its buildings, which, when compared with the AVCC recommendation of 1 to 1.5 per cent is approaching a reasonable level for its Bundoora campus. However, its Abbotsford and Carlton campuses which have been acquired in recent times (January 1988) require significant rehabilitation because of their age and extensive prior deterioration. For many years these campuses have needed special capital funding to address these rehabilitation problems which are beyond the scope of preventative maintenance.

  The University has prepared a list of priority maintenance projects on all its campuses for on-going budgetary consideration. The Bundoora campus has had high priority given to on-going maintenance from its inception, and its buildings "are in relatively good condition" as stated in paragraph 3.8.60 of this Report. The Abbotsford and Carlton campuses, which are of recent acquisition, show evidence of a long period of lack of rehabilitation and maintenance. They are beyond the scope of the AVCC recommendations and at present beyond this University's financial capacity.

  Because of the ageing of a substantial number of buildings on the Bundoora campus, the University has recognised the appropriateness of providing funds for replacement of equipment and plant which have reached their operating life expectancy. This replacement is frequently being made with new equipment with improved energy efficiency and consequential on-going financial savings.

LOSSES, THEFTS AND OTHER IRREGULARITIES

3.8.87 Particulars of losses, thefts of equipment and funds, and other irregularities which occurred in 1991, and which were notified to my Office by entities within the Employment, Post-Secondary Education and Training portfolio, are summarised in Table 3.8C.

TABLE 3.8C
LOSSES, THEFTS AND OTHER IRREGULARITIES
($)

Item	*Amount*
Universities -	
Losses and thefts -	
Equipment	227 477
Funds	24 844
Other irregularities -	
Property damage	40 400
Colleges of advanced education -	
Losses and thefts -	
Equipment	256 756
Funds	22 375
Other irregularities -	
Property damage	64 875
TAFE colleges -	
Losses and thefts -	
Equipment	293 513
Funds	16 382
Other irregularities -	
Property damage	56 059
Total reported losses, thefts and other irregularities	**1 002 681**

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Matters resolved or action commenced

Adult Migrant Education Services (AMES)

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolios, April 1991, p. 153	Although the Commonwealth Government's National Plan provides a sound framework to AMES for its operations, audit found that the measurement and monitoring of many targets set in the Plan had been hindered by: • the absence of accurate and up-to-date information on program outcomes; • lack of clear definitions for certain terminology used in the Plan; and • deficiencies in the accountability framework between AMES, the Ministry of Education, and the Commonwealth Department of Immigration, Local Government and Ethnic Affairs.	The Commonwealth Government is undertaking a full review of the National Plan and has re-defined terminology and increased the reporting and accountability of all States. AMES (Vic.), in consultation with the Commonwealth, has developed broad performance indicators to be trialled in 1992.
Ministerial Portfolios, April 1991, pp. 159-60	Scope exists for cost savings or improvements in service delivery through changes in staffing practices, including the more effective use of permanent staff.	The AMES teacher service agreement has been re-negotiated with unions to increase teacher/client contact by 3 hours a week. Procedures for staff replacement, employment of casual and emergency teachers, and revised staff attendance records have all been developed.
Ministerial Portfolios, April 1991, pp. 159-60	A large proportion of program costs were associated with activities other than classroom tuition.	Productivity improvements have been negotiated with unions and detailed job instructions have been developed. An operations manual including documented procedures has been distributed.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Matters resolved or action commenced - *continued*		
Ministerial Portfolios, April 1991, p. 168	Poor control existed over certain expenditure and assets within the custody of AMES.	An inventory audit was undertaken by AMES of its assets with the data entered into a computerised asset recording system. A complete database has been established encompassing community venues.
Council of Adult Education		
Ministerial Portfolios, may 1990, p. 111 *Ministerial Portfolios*, April 1991, p. 168	Deficiencies existed in the overall financial management at the Council.	For further comments, refer to paragraphs 3.8.25 to 3.8.39 of this Report.
La Trobe University		
Ministerial Portfolio, May 1990, pp. 121-6	VPSEC is holding $2 million in trust on behalf of the University since 1985 due to the non-development of the Abbotsford campus.	Position unchanged. Moneys are still held in trust. La Trobe is seeking Commonwealth 1994 capital program funding which together with funds held in trust will enable the completion of the Health Sciences development.
	A 1989 review on aspects of the provision of accommodation for Health Sciences found that the State's interest in a Slater Street property had not been fully protected with the removal of a caveat on the property's title.	Action is still being considered by VPSEC.
Ministerial Portfolio, May 1990, pp.128	The University's procedures did not ensure all overseas travel arrangements were appropriately documented, justified and in accordance with the spirit of government policy.	The appropriateness of the University's procedures for overseas travel arrangements is being clarified by the Department of the Treasury.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Matters resolved or action commenced - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolio, May 1990, pp.121-6	A review undertaken during mid-1989 on certain aspects of the provision of accommodation for Health Sciences at La Trobe University found: • the immediate use of Commonwealth funding totalling $7 million was deferred due to a change in Government policy which required the University to abandon its plans for accommodating Health Sciences at Bundoora; and	Construction of the first stage of a new complex at Bundoora campus has been completed. LaTrobe University is unable to finalise plans for the development of Health Sciences at the Bundoora campus until decisions are made by the Commonwealth Government on the 1994 capital program.
	• contrary to section 16 of the *Education Act* 1958, University land at Abbotsford has been occupied rent-free since 1979.	Action is being taken to transfer ownership of the land at Abbotsford from the Minister for Education to the Crown to enable the land to be legally occupied at a peppercorn rental. The Government has agreed to the transfer of the LaTrobe High School property to the University in lieu of compensation for that portion of Abbotsford campus occupied by the Collingwood Children's farm.
Ministerial Portfolio, May 1990, p. 127	Control weakness were noted during an audit review of the University's major EDP systems.	The University has developed strategies to resolve the control weaknesses identified and these will be reviewed during the audit of the 1991 year.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Post-Secondary Education - common issues		
Second Report 1985-86, p. 99 *Ministerial Portfolios*, May 1990, p. 136	Designation of institutions under the *Annual Reporting Act* 1983 for the 1989 financial year is a significant step towards improved financial accountability. However, a greater commitment is required by the institutions to the proper planning and timely presentation of financial statements.	With a few exceptions presentation to Parliament of 1990 financial statements was not achieved in accordance with the legislative deadline.
Ministerial Portfolios, May 1990, p. 137	Ineffective asset management practices.	The vast majority of Institutions demonstrated adequate asset management practices during 1990 and provided for depreciation. It is anticipated that those that did not will be in a position to do so in 1991.
State Training Board		
Ministerial Portfolios, April 1991, pp. 172-3	In December 1989, the then Minister responsible for Post-Secondary Education presented to a sub-committee of Cabinet a proposal that the Payroll Tax Rebate Scheme be discontinued and that the funds made available be redeployed to the Board's other training schemes. The then Treasurer also presented a similar submission. However, in the 1990-91 Budget, the Government appropriated a further $12 million to the Scheme.	Cabinet considered that removal of the Scheme, in the current economic environment, would run counter to the Government's employment initiatives. A further $11.2 million has been appropriated to the Scheme by the Government in the 1991-92 Budget.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Matters resolved or action commenced - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolios, April 1991, p. 173	At 31 December 1990, approximately $10.5 million of WorkCare levy rebates remained unclaimed by eligible employers. The magnitude of these unclaimed rebates may indicate that employers do not fully support the Scheme.	During 1990-91, the Board notified all eligible employers of their rebate entitlements. However, only about 50 per cent of these employers subsequently applied for their rebates. The Board applied to Cabinet to abolish the rebate before July 1991, but this was not approved.
Ministerial Portfolios, April 1991, pp. 174-5	Audit identified that: • although funding totalling $1.8 million had been provided to Industry Training Boards (ITBs) since their establishment, the majority of ITBs had not provided all quarterly progress and financial reports, and none had provided certified financial statements by the required date; • financial status reports were not reviewed by personnel possessing financial qualifications or backgrounds; and • the format of the financial status reports was not standardised, inhibiting the State Training Board's assessment of each ITBs financial performance.	Action has been taken to ensure all financial statements will be audited by the new required date of 30 September 1992. Action has been taken to ensure that auditors review the financial status reports. Financial status report guidelines were set during 1991.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced - *continued*

TAFE colleges - common issues

Ministerial Portfolios, May 1989, p. 88 *Ministerial Portfolios*, May 1990, p. 135	Serious deficit positions were encountered in several Technical and Further Education colleges. At 31 December 1987, 20 colleges had recurrent funding deficits totalling $10.2 million; this increased to $10.8 million at 31 December 1988.	Due to the designation of post-secondary institutions under the *Annual Reporting Act* 1983 TAFE colleges and Colleges of Advanced Education (CAEs) now report on an accrual basis and not a fund basis. As a consequence, audit is no longer able to comment on recurrent funding deficits. However, audit analysis of financial statements of 42 TAFE and CAE colleges showed that for the year ended 31 December 1990, 32 reported operating deficits totalling $57.4 million, while 10 reported operating surpluses totalling $11.9 million.

University of Melbourne, Melbourne Theatre Company

Ministerial Portfolios, April 1991, pp. 175-87	A number of deficiencies in the Melbourne Theatre Company's management systems and practices were disclosed during a 1990 audit review of the Company's financial management and accountability practices which have contributed to its financial downturn or have inhibited timely action being taken to reverse the deteriorating trend. Weaknesses included:	The MTC Board has reviewed all operations of the Company and developed a revised mission statement, incorporating organisational targets. A 5 year debt recovery plan has been developed and implemented with the aim to extinguish the accumulated deficit of $2 million by planning for annual reporting surpluses of $400 000.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced - *continued*

University of Melbourne, Melbourne Theatre Company - *continued*

	• absence of specific targets and strategies aimed at reducing the level of accumulated deficit; • poor financial planning and forecasting;	The MTC Board has implemented a number of appropriate management tools and achieved a $55 749 surplus for the year ended 31 December 1991, a turnaround of $933 999 on the 1990 result, due to these and other initiatives.
	• need for more effective monitoring of financial performance by both the Board of the Melbourne Theatre Company (MTC Board) and the University;	The expertise of the MTC Board and Finance Sub-committee of the University have been enhanced by the appointment of a financial consultant and chartered accountant. The MTC Board will increase its number of meetings to monthly from bi-monthly and an independent financial accounting system will be implemented in the second half of 1992.
	• lack of flexibility in the structure of the Company to enable expenditure, particularly production costs, to be reduced in line with decreasing market demand and reduced funding; and	Action by the MTC Board has included: • maximising box office receipts by engaging in entrepreneurial and touring activities; • reducing the number of subsidised productions from 18 in 1990 to 13 in 1992; • reviewing theatre rentals with the Victorian Arts Centre Trust; and • reducing staff levels.
	• absence of a formalised advertising and promotional strategy including thorough market analysis.	A new marketing director with the necessary expertise has been appointed. In addition, a marketing strategy and action plan has been prepared.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Royal Melbourne Institute of Technology Limited		
Ministerial Portfolios, May 1989, pp. 80-6	Disturbing financial circumstances of 2 subsidiary companies of RMIT Limited. Both companies incurred significant operating losses and had sizeable levels of indebtedness to the Institute.	The assets and liabilities of Citytech Pty Ltd were transferred to RMIT on 31 December 1990. Citytech will continue to manage rent operations of the properties transferred to RMIT. Operating profit of Technisearch Ltd, the Institute's other subsidiary, fell from \$449 500 in 1989 to \$115 000 in 1990 to \$52 000 in 1991. Indebtedness to the Institute totalled \$1.3 million at 31 December 1991.
Ministerial Portfolios, May 1990, p. 131	The Institute had not implemented a number of procedures which are required under the academic staff agreement. Namely: • staff assessment and professional development; • identifying unsatisfactory performance; and • addressing the issue of permanency of employment.	RMIT has developed staff development policies requiring individual development plans and is progressively introducing them. These steps will be reviewed during the 1991 audit.
Universities - common issues		
Second Report 1986-87, pp. 69-70	Shortcomings exist in the overall management control framework for outside earnings of academic staff within the 3 universities reviewed by audit.	A review of the independent control mechanisms implemented to ensure the recording and monitoring of approvals for outside earnings by staff and provide for a limitation on the time available to undertake outside earnings will be implemented in future audits.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits		
Colin Badger Trust	6 months ended 31 December 1990	No reporting requirements. Audit conducted at request of the Treasurer.	24 April 1991	9 May 1991
.. ..	31 December 1991	.. ..	10 March 1992	31 March 1992
Council of Adult Education	6 months ended 31 December 1990	31 March. *Annual Reporting Act* 1983, s.11.	24 April 1991	30 April 1991 *(a)*
.. ..	31 December 1991	.. ..	30 March 1992	31 March 1992
Sir John Monash Business Centre Pty Ltd	6 months ended 31 December 1990	No reporting requirements. Audit conducted at the request of Treasurer.	22 April 1991	21 May 1991 *(a)*
.. ..	31 December 1991	.. ..	24 March 1992	31 March 1992
State Training Board	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	10 October 1991	23 October 1991
Victorian Post-Secondary Education Commission	30 June 1991	.. ..	16 September 1991	27 September 1991
Victorian Tertiary Admissions Centre	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer.	9 August 1991	12 November 1991
Post-secondary education institutions				
Universities and associated companies				
Circular Force Proprietary Limited	31 December 1990	30 April. *Deakin* University Act 1974, s.34A.	27 March 1991	30 September 1991
Deakin	31 December 1990	30 April. *Annual Reporting Act* 1983, s.9.	19 April 1991	30 September 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Completed audits - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Deakin University Foundation Limited	31 December 1990	30 April. *Deakin University Act* 1974, s.34A.	27 March 1991	30 September 1991
Graduate School of Management	31 December 1990	No date specified. *Melbourne University Act* 1990, s.41.	14 February 1991	30 March 1991 *(b)*
Infertility Medical Centre Pty Ltd	31 December 1989	As soon as practicable after 31 March. *Monash University Act* 1958, s.41.	11 April 1991	24 May 1991
.. ..	31 December 1990	.. ..	15 April 1991	28 August 1991
La Trobe	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	28 March 1991	15 May 1991
La Trobe University Housing Limited	31 December 1990	No date specified. *La Trobe University Act* 1971, s.37.	28 March 1991	15 May 1991
Melbourne	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	*30 March* 1991	*30 March* 1991
Melbourne Business School Limited	31 December 1990	No date specified. *Melbourne University Act* 1900, s.41.	25 February 1990	30 March 1991
Milake Proprietary Limited	31 December 1990	30 April. *Deakin University Act* 1974, s.34A.	28 March 1991 1990	30 September 1991
Monash	31 December 1989	31 May, *Annual Reporting Act* 1983, s.9.	11 April 1991	24 April 1991
.. ..	31 December 1990	.. ..	6 September 1991	9 October 1991
Monash University Foundation	31 December 1989	As soon as practicable after 31 March. *Monash University Act* 1958, s.41.	11 April 1991	24 April 1991
.. ..	31 December 1990	.. ..	6 September 1991	9 October 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits - *continued*		
Montech Pty Ltd	31 December 1989	As soon as practicable after 31 March. *Monash University Act* 1958, s.41.	6 March 1990	31 May 1991
.. ..	31 December 1990	.. ..	25 April 1991	26 August 1991
Unilink Limited	31 December 1990	30 April. *Deakin Reporting Act* 1974, s. 34A.	19 April 1991	30 September 1991
Unimelb Limited	31 December 1990	No date specified. *Melbourne University Act* 1990, s.41.	14 February 1991	30 March 1991
Victoria University of Technology	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	30 April 1991	15 May 1991
Colleges of advanced education				
Ballarat University College	31 December 1990	31 March. Annual *Reporting Act* 1983, s.9.	27 March 1991	28 March 1991
Bendigo	31 December 1990	.. ..	29 May 1991	27 July 1991
Chisholm	31 December 1989	31 May. *Annual Reporting* Act 1983, 2.9.	8 May 1990	19 June 1991 *(b)*
.. ..	6 months ended 30 June 1990	30 September. *Annual Reporting Act* 1983, s.9.	12 August 1991	23 September 1991 *(d)*
Footscray	31 December 1989	31 May. *Annual Reporting Act* 1983, s.9.	27 November 1990	17 April 1991 *(b)*
.. ..	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	17 April 1991	4 September 1991 *(b)*
Gippsland	31 December 1990	.. ..	21 March 1991	24 June 1991
Hawthorn	31 December 1990	.. ..	1 May 1991	31 May 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Completed audits - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Institute of Catholic Education	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	17 May 1991	13 June 1991
Phillip	31 December 1990	.. ..	6 March 1991	24 June 1991
RMIT Ltd	31 December 1989	31 May. *Annual Reporting Act* 1983, s.9.	24 March 1991	20 May 1991
.. ..	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	7 May 1991	26 June 1991
Swinburne Ltd	31 December 1990	.. ..	22 April 1991	29 April 1991
Victoria	31 December 1990	.. ..	17 October 1991	26 November 1991
Victorian College of the Arts	31 December 1990	.. ..	29 January 1991	31 March 1991
Victorian College of Pharmacy Ltd	31 December 1989	31 May. Annual *Reporting Act* 1983, s.9.	5 June 1991	24 June 1991
.. ..	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	5 June 1991	18 January 1992*(b)*
Warrnambool	31 July 1990	31 October. *Annual Reporting Act* 1983, s.11.	24 July 1991	21 August 1991 *(e)*
Colleges of technical and further education				
Batman Automotive College	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	20 May 1991	11 June 1991
Box Hill	31 December 1989	31 May. *Annual Reporting Act* 1983, s.9.	12 April 1991	17 May 1991
.. ..	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	24 April 1991	21 June 1991
Broadmeadows	31 December 1990	.. ..	19 June 1991	28 June 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Completed audits - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Dandenong	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	4 July 1991	4 September 1991
East Gippsland	31 December 1990	.. ..	23 April 1991	20 June 1991
Flagstaff	31 December 1990	.. ..	19 June 1991	1 July 1991
Footscray	31 December 1989	31 May. *Annual Reporting Act* 1983, s.9.	25 February 1991	31 July 1991 *(b)*
.. ..	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	4 June 1991	30 September 1991 *(b)*
.. ..	Four months ended 30 April 1991	31 July. *Annual Reporting Act* 1983, s.9.	14 December 1991	21 January 1992 *(b)(c)*
Frankston	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	2 May 1991	7 June 1991
Gordon	31 December 1990	.. ..	2 May 1991	25 July 1991 *(b)*
Goulburn Valley	31 December 1989	31 March. *Annual Reporting Act* 1983, s.9.	3 July 1991	29 July 1991
Goulburn Valley Driver Training Complex Ltd	31 December 1990	No reporting requirements. Audit conducted at request of the Treasurer.	11 April 1991	27 February 1992
Holmesglen	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	17 April 1991	17 June 1991
Loddon-Campaspe	31 December 1990	.. ..	9 August 1991	6 September 1991 *(b)*
Melbourne College of Decoration	31 December 1990	.. ..	20 November 1991	25 November 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits - *continued*				
Melbourne College of Printing and Graphic Arts	31 December 1989	31 May. *Annual Reporting Act* 1983, s.9.	14 October 1991	8 November 1991
Melbourne College of Textiles	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	14 May 1991	16 July 1991 *(b)*
Moorabbin	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	21 March 1991	3 June 1991
Newport	31 December 1990	.. ..	17 October 1991	22 October 1991
.. ..	Four months ended 30 April 1991	31 July. *Annual Reporting Act* 1983, s.9.	17 September 1991	22 October 1991 *(c)*
Northern Metropolitan	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	20 June 1991	21 June 1991
Outer Eastern	31 December 1990	.. ..	9 October 1991	22 November 1991
Prahran	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	15 October 1991	9 November 1991
Richmond	31 December 1990	.. ..	17 April 1991	13 May 1991
RMIT Ltd	31 December 1989	31 May. *Annual Reporting Act* 1983, s.9.	24 March 1991	20 May 1991
.. ..	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	7 May 1991	26 June 1991
School of Mines and Industries Ballarat Ltd	31 December 1990	.. ..	20 March 1991	25 March 1991
South West	31 December 1990	.. ..	5 June 1991	15 August 1991
Sunraysia	31 December 1989	31 May. *Annual Reporting Act* 1983, s.9.	28 September 1990	7 May 1991 *(b)*

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits - *continued*				
Sunraysia	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	30 August 1991	23 September 1991 *(b)*
Swinburne Ltd	31 December 1990	.. ..	22 April 1991	29 April 1991
Wangaratta	31 December 1990	.. ..	14 March 1991	31 May 1991
William Angliss	31 December 1990	.. ..	13 September 1991	30 September 1991
Wimmera Community	31 December 1990	.. ..	25 March 1991	31 May 1991
Wodonga	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	27 September 1991	7 January 1992
Yallourn	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	17 April 1991	31 May 1991
Institutes of tertiary education				
Victorian College of Agriculture and Horticulture	31 December 1989	31 May. *Annual Reporting Act* 1983, 2.9.	13 September 1991	4 October 1991 *(a)*
.. ..	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	25 September 1991	18 December 1991
Western Institute	31 December 1989	31 May. *Annual Reporting Act* 1983, s.9.	3 September 1990	28 March 1991
.. ..	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	26 March 1991	28 March 1991
Wodonga Institute	31 December 1989	31 May. *Annual Reporting Act* 1983, s.9.	7 January 1991	17 June 1991
.. ..	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	4 December 1991	9 April 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*

Incomplete audits

Post-secondary education institutions

Colleges of technical and further education

Goulburn Valley	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	Field audit work in process of being finalised.	
Melbourne College of Printing and Graphic Arts	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	..	..
Winsearch Ltd	5 months ended 31 December 1990	31 March. *Deakin University Act* 1974, s.34A.	Field audit completed. Final revision currently being finalised.	

(a) Balance date changed from 30 June to 31 December effective from 1 July 1990.
(b) Qualified audit report issued.
(c) Footscray and Newport Colleges were merged into the Western Metropolitan College of TAFE from 31 May 1991.
(d) Merged with Monash University effective from 1 July 1990.
(e) Merged with Deakin University effective from 1 August 1990.

3.9

ETHNIC, MUNICIPAL AND COMMUNITY AFFAIRS

KEY FINDING

- The audits of financial statements of entities within the portfolio proved satisfactory.

The Minister for Ethnic, Municipal and Community Affairs is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ministry of Ethnic, Municipal and Community Affairs

Public bodies

City of Melbourne Superannuation Fund

The audit of the above entities proved satisfactory.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced	
Ministry of Ethnic, Municipal and Community Affairs		
Second Report, 1984-85, p. 91	Irregularities in payroll system at the former Local Government Department.	A former paymistress was imprisoned for misappropriating $61 000, of which $16 400 was repaid. As civil action to recover the remainder failed and, the Department proposes to write-off the outstanding amount.
Second Report, 1986-87, p.112	No consolidated financial reporting to Parliament of municipal councils' operations.	The Ministry's *1990-91 Annual Report* to Parliament included details of both performance indicators and revenue and expenditure of each municipality.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits		
Ministry of Ethnic, Municipal and Community Affairs	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	19 November 1991	19 November 1991
City of Melbourne Superannuation Fund	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	28 November 1991	14 January 1992

3.10

FINANCE

KEY FINDINGS

- Proceeds from asset sales for the first 9 months of 1991-92 amounted to $33 million, representing only 8 per cent of the total budgeted revenue ($400 million) for the year.

  Paras 3.10.10 to 3.10.12

- To achieve the 1991-92 asset sales revenue target, it has been necessary for the Government to extend the scope of the sales program to encompass the sale and lease-back of buildings valued at $155 million which are not surplus to operational needs. Audit estimates that associated financing costs to be paid by the Consolidated Fund will be around $14 million per year.

  Paras 3.10.13 to 3.10.14

- The lack of forward planning in respect of the annual asset sales programs contributed to poor cash flows to the Consolidated Fund and the non-achievement of budgetary targets.

  Paras 3.10.15 to 3.10.17

- Delays in the disposal of 2 properties examined have contributed to a reduction in anticipated proceeds to be raised from the eventual sale of these properties by approximately $22 million, due to the deterioration in property values. These properties have a current combined estimated value of $7 million.

  Paras 3.10.21 to 3.10.27

- The Ministry of Finance needs to establish adequate processes to ensure that all revenue-raising opportunities are identified and pursued for properties awaiting sale.

  Paras 3.10.28 to 3.10.32

- The absence of accurate and reliable information inhibits the Ministry's ability to make informed decisions in relation to the administration and management of the asset sales program, and to maximise returns from surplus properties.

  Paras 3.10.33 to 3.10.35

The Minister for Finance is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

Ministry of Finance
State Electoral Office

Public bodies

Surveyors Board

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

MINISTRY OF FINANCE

IDENTIFICATION AND SALE OF SURPLUS PROPERTY ASSETS

3.10.1 Since 1986-87, the Government has operated an asset sales program which has had the objective of identifying and selling surplus property assets to assist in financing the acquisition of new capital assets. From its inception, the program has generated revenue to the Consolidated Fund in excess of $860 million up to March 1992.

3.10.2 As announced in the Premier's June 1991 Economic Statement and in the 1991-92 Budget, the asset sales program is now an important part of the Government's debt management strategy. **For 1991-92, the Government's Budget Papers provided for the raising of $400 million from the program, with proceeds to be utilised towards the retirement of State debt and the funding of works and services expenditure.**

3.10.3 Prior to May 1991 the strategic management of the program was the responsibility of a Cabinet Committee and 2 inter-departmental Committees, with the administrative responsibility for the program remaining with individual participating agencies.

3.10.4 In May 1991, Cabinet approved the implementation of new management and administrative arrangements in order to improve the effectiveness and output of the program. Under these arrangements, the Minister for Finance was provided with overall responsibility for the program, with the strategic management undertaken through the Asset Management Committee, consisting of representatives from various budget sector agencies. The administration of the program, which includes the identification, assessment, approval and sale of surplus properties, is now undertaken through the Ministry of Finance.

3.10.5 At 31 December 1991, approximately 2 200 properties with an estimated value of $360 million had been identified as surplus by the Ministry and were awaiting sale. Table 3.10A provides a summary of the estimated value of these assets.

TABLE 3.10A
ASSETS AWAITING SALE, AT 31 DECEMBER 1991
($million)

Year approved for sale	*Estimated value*
1986-87	*(a)*50.9
1987-88	*(b)*30.9
1988-89	*(c)*59.5
1989-90	14.5
1990-91	160.5
1991-92	44.0
Total *(d)*	**360.3**

(a) 13 properties, including the Prince Henry's Hospital site and Cathedral Place site.
(b) 120 properties, including one site with an estimated value of $6 million.
(c) 107 properties, including the Queen Victoria Hospital site.
(d) Does not include properties identified for sale in 1991-92 which are required for operational purposes.

3.10.6 Audit carried out a review of the administration and management of the asset sales program during 1991.

Overall conclusions

3.10.7 A number of initiatives were introduced by the Government in 1991-92 to improve the administration and management of the asset sales program, including the establishment of new management arrangements and an incentive-based scheme to encourage agencies to identify and sell surplus properties.

3.10.8 Total proceeds from the sale of properties under the program to 31 March 1992 amounted to only 8 per cent of the 1991-92 Budget. To achieve the budget estimate, the Government has had to extend the scope of the program to include the sale and lease-back of major properties that were not surplus to operational requirements.

3.10.9 While the depressed state of the property market has contributed to poor sales revenue outcomes in recent years, including 1991-92, audit concluded that poor management of the program has also impacted on the program's performance.

Status of 1991-92 program

3.10.10 In the Government's *1991-92 Budget Papers*, it was estimated that proceeds of $400 million would be received by the Consolidated Fund during the year from the sale of real estate assets which were surplus or under-utilised. **The total proceeds received from the program during the first 9 months of 1991-92 amounted to only $33 million, representing 8 per cent of the total budget for the year.**

3.10.11 Since its inception, the assets sales program has focused on the disposal of surplus and under-utilised properties, and the *1991-92 Budget Papers* indicated a similar aim for the current year. However, the review disclosed that **to achieve the 1991-92 revenue target, it has been necessary for the Government to extend the scope of the program to encompass the sale of properties that are not surplus to operational requirements.**

3.10.12 Table 3.10B summarises the current composition of the 1991-92 asset sales program.

TABLE 3.10B
COMPOSITION OF 1991-92 ASSET SALES PROGRAM
($million)

Component	*Amount*
Surplus properties	175
Properties currently required for operational purposes	155
Transport and port properties currently subject to lease arrangements	65
Other properties	14
Total *(a)*	**409**

(a) Some properties included in the 1991-92 program have yet to be formally approved for sale by the Government.

3.10.13 The proposed sale and lease-back of properties within the Melbourne central business district, suburbs and regional areas accounts for around 38 per cent of the asset sales program. **These properties are currently utilised by various government agencies and are required for future operational purposes.**

Police building at 380 William Street, proposed for sale and lease-back during 1991-92.

3.10.14 While the successful sale of properties which are required for operational purposes will generate benefits in the form of substantial cash inflows to the Consolidated Fund in the current year, it will also result in increased Consolidated Fund outlays in the form of financing costs over future years for leasing back the properties. Audit estimates that financing costs payable by the Consolidated Fund would be around $14 million annually.

RESPONSE provided by Director-General, Ministry of Finance

Traditionally, a significant proportion of asset sales results have occurred in the last quarter of the financial year. This reflects primarily the fact that the real estate market is most active from March to November. However, to some extent it also reflects the programming arrangements which follow the Budget cycle.

The sale and lease-back of operational buildings is consistent with efficient asset management, and is widely used in the private sector. The current program also reflects strategic considerations related to the age, condition and location of the buildings concerned.

In respect of the financial outcomes of the program, although audit has calculated the additional cost of accommodation in future years, it has not taken into account the benefits derived from the receipt of cash into the Consolidated Fund in 1991-92.

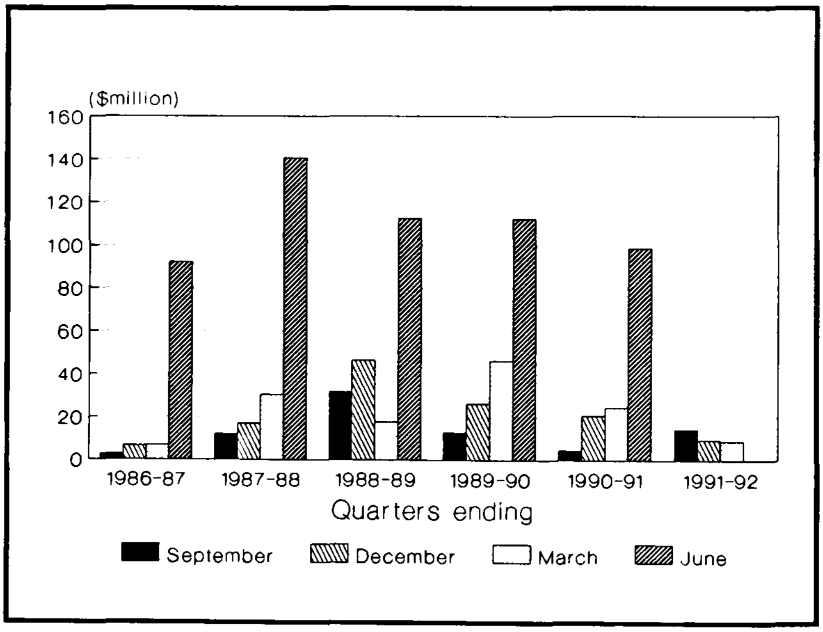
Strategic management of program

3.10.15 The efficient and effective management of any program is dependent on the existence of a comprehensive and cohesive policy framework, forward planning, the establishment of progressive specific targets, and the regular monitoring and assessment of actual performance against such targets. The absence of any of these elements can significantly impact on the success of achieving program objectives.

3.10.16 The audit review of the strategic management of the asset sales program revealed the following deficiencies which, in audit opinion, have impacted on the program's success:

- A comprehensive policy and procedural framework had not been developed to provide clear guidance to officers of the Ministry and participating budget sector agencies, on principles and procedures to be followed for the identification, assessment and sale of surplus assets. Policies and procedures were instead communicated on an *ad hoc* basis through memoranda and directives;
- Forward planning for the annual sales programs had not been established, contributing to poor cash flows from asset sales and the non-achievement of annual budget targets. **Since the program's commencement, up to 85 per cent of annual sales revenue has been received in the last quarter of each financial year. Furthermore, actual revenues generated by the program over the past 2 years have been some $194 million below budget.** Table 3.10C indicates the timing of cash flows from asset sales since the inception of the program;

TABLE 3.10C. TIMING OF ASSET SALE PROCEEDS



- The composition of the 1991-92 sales program was not finalised until October 1991, some 4 months into the financial year, resulting in delays in establishing operational strategies and progressive cash flow targets to achieve the program revenue targets; and
- The absence of regular reporting to the Asset Management Committee of specific information on the status of all properties targeted for sale had limited the effective management of the program. In addition, information was not made available to the Committee on whether surplus properties not scheduled for sale in the current year were being effectively utilised while awaiting sale.

3.10.17 Until such time as a comprehensive policy and procedural framework, which includes effective forward planning and monitoring of the asset sales program, is in place, the Ministry's ability to achieve the Government's program objectives will be affected.

RESPONSE provided by Director-General, Ministry of Finance

It should be noted that the Ministry and specifically the Asset Management Division (AMD) has taken over the responsibility for the asset management program from early 1991. Although the asset sales program was not formalised before October 1991, the AMD had in fact prepared a number of strategies to deliver the required program, and was pursuing approved strategies.

Improved forward planning arrangements have now been established within the AMD. However, the effective control of the process of identifying and releasing surplus property primarily rests with other departments. It should be noted that the Ministry has used both the Asset Management Committee (AMC) and other senior management forums to improve the focus on the identification of surplus assets.

More detailed reporting indicators are currently being developed to enable broader monitoring of the program by the AMC. In addition, in-depth reviews of all aspects of the key programs, including planning and marketing issues have been carried out on the major agency programs during 1991-92.

Identification of surplus assets

3.10.18 The identification of all surplus property assets is fundamental to the success of the asset sales program. Under the program, the identification of such assets is principally the responsibility of participating budget-sector agencies. However, the Ministry has also been empowered by the Government to take an active role in working with these agencies to ensure that all surplus assets are identified for sale.

3.10.19 The following initiatives were introduced by the Government during 1991-92 to assist in the identification and eventual sale of surplus assets:

- an incentive scheme which provides for agencies to receive a proportion of sales proceeds, to fund new capital works in the subsequent year; and
- relocation of the Public Transport Corporation operational sales group to the Ministry of Finance.

3.10.20 While the above initiatives will assist in the identification of additional surplus assets, it was found that the Ministry had not been successful in assuming an active role in the identification process, due to the reluctance of participating agencies to provide the Ministry's staff with access to property records.

RESPONSE by Director-General, Ministry of Finance

In practice, the effective control of the process of identifying surplus assets for budget sector agencies rests with the Department of Conservation and Environment (in respect of Crown land) and the other agencies. Substantial work has been carried out through the Asset Management Committee and other forums to improve the effectiveness of this process. This has been successful in respect of most agencies.

Marketing strategies for properties that have previously failed to sell

3.10.21 The successful sale of properties is dependent upon the existence of appropriate marketing and sales strategies.

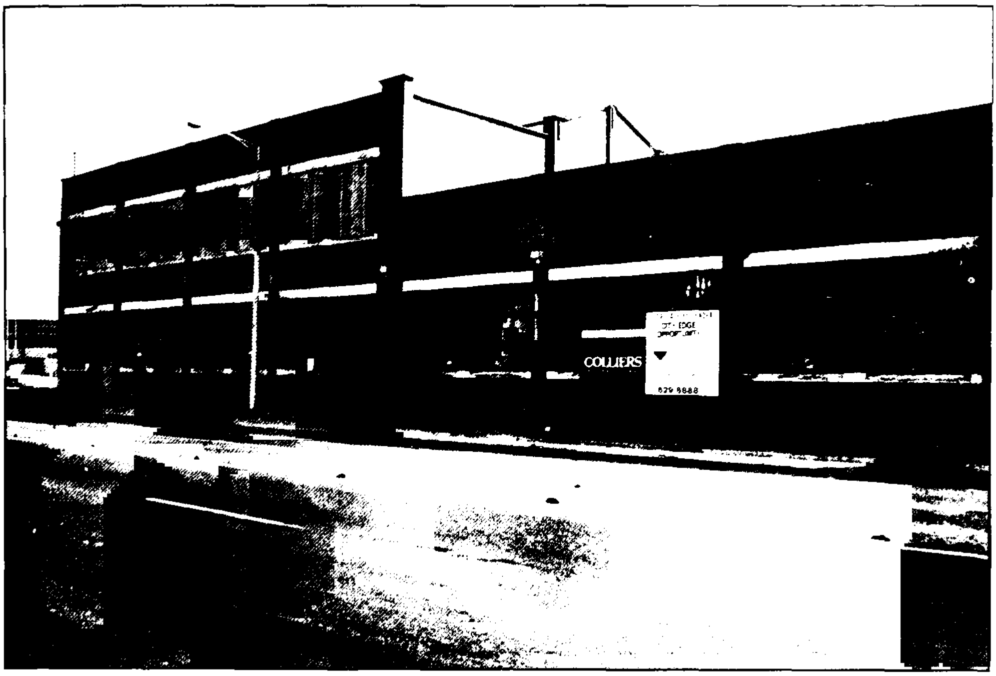
3.10.22 However, a review of Ministry files relating to properties which had previously failed to sell revealed that:

- analyses of key factors contributing to the failure to sell properties had not been undertaken by the Ministry; and
- a process had not been initiated to determine the appropriate marketing and sales strategies to be adopted in respect of these properties to ensure their successful sale in the future.

3.10.23 The audit review also found that a number of high value properties, which had previously failed to sell, were withdrawn from the market for in excess of 2 years without future marketing and sales strategies being developed. The following cases illustrate the impact of withholding properties from sale in a period where property values have declined.

11-31 Montague Street, South Melbourne

3.10.24 This property was identified as surplus to operational requirements in February 1988 and first offered for sale by auction in May 1989 with a reserve price of $8.5 million. However, the property did not sell. Later that year, the property was re-marketed for sale by tender with a reserve price of $8.1 million, but again failed to sell. The property was subsequently withdrawn from the market in February 1990 and its sale has not been actively pursued since that date.

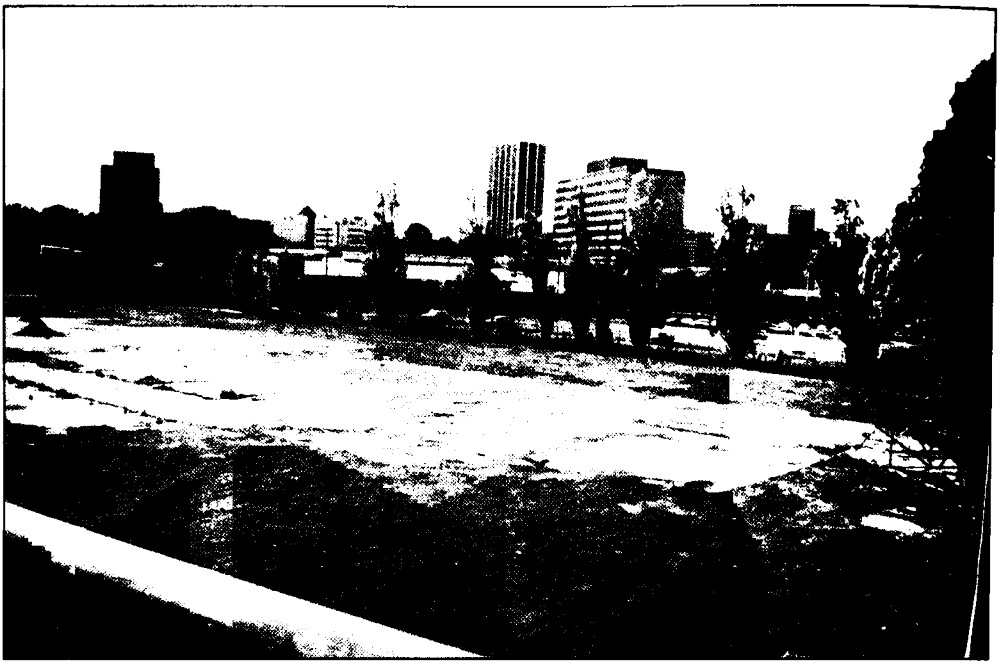


11-31 Montague Street, South Melbourne.

3.10.25 The Ministry currently estimates the value of this property to be $2 million, representing a $6.5 million decline in its value since it was first marketed for sale in 1989. The property is currently leased to a private company at an annual rental of $90 000.

161-189 Kingsway, South Melbourne

3.10.26 This property was originally leased to the Roads Corporation and used as a storage site when the Westgate Bridge was being constructed. In September 1987, the property was identified as surplus to operational requirements and action was commenced to sell the property. The property, which **was valued at $20.4 million in June 1988, was passed-in at auction even though a bid of $20.3 million was received.** A second attempt to sell the property was made in April 1989, through a tender process, with the reserve price set at $17.8 million. The property again failed to sell and has not been re-marketed since that date. **The Ministry estimates the current value of the property to be $5 million, more than $15 million below its value in 1988.** In January 1991, the property was leased to a car parking firm for $3 000 a year.



161-189 Kingsway, South Melbourne.

3.10.27 To enhance the likelihood of the successful sale of properties which have previously failed to sell, a formal review process needs to be established, which focuses on the identification of key factors for the properties failing to sell, the analysis of future market trends and the development of future marketing strategies.

RESPONSE provided by Director-General, Ministry of Finance

The properties referred to by audit which had failed to sell and which have suffered a substantial drop in valuation are predominantly development properties. The fall in property values reflects the general market trends for the type of property. The Ministry engaged a private consultant in 1991 to review the options for marketing these properties. The consultant generally recommended that these properties be withheld in view of the depressed state of the market. Notwithstanding this, the Ministry has continued to monitor the market and a senior property officer has been involved in arranging to market a number of these properties during 1992.

It is considered by the Ministry that actions taken to date do constitute a formal review phase in respect of this type of property.

A review process is also followed in respect of lesser properties and this process has resulted in policy changes to facilitate future sales. In addition, the Land Act was enacted 30 years ago, and certain aspects require review to provide a comprehensive legislative base for the asset sales program.

In respect of the other issues raised by audit, the valuation of larger properties is undertaken by the Valuer-General and monitored by the Land Monitor in accordance with government policy. These processes and the safeguards and monitoring arrangements currently in place reflect the need for accountability.

Management of properties awaiting sale

3.10.28 While the Ministry is principally responsible for the sale of surplus properties, it is also responsible for ensuring that revenues are maximised from these properties until such time as they are sold.

3.10.29 The audit review found that, **while in certain cases the Ministry had identified revenue-generating opportunities for properties awaiting sale, there were instances where revenue returns were not maximised, as illustrated below.**

117 Sturt Street, South Melbourne

3.10.30 This property is leased to a private company until 1997, at a current annual rental of $33 000. Even though the tenant has not paid the rent due since 1988, **no effective action has been taken by the Ministry to recover the outstanding amount of $111 000.**

299 Queen Street, Melbourne

3.10.31 In March 1990, an offer was received from a private company to establish a car park on this property with annual rental of $100 000. However, this offer was not pursued by the Ministry even though the property had been withdrawn from sale at that time.

299 Queen Street, Melbourne.

3.10.32 The Ministry needs to establish adequate procedures to ensure that all revenue-raising opportunities are identified and pursued for properties awaiting sale, so that Consolidated Fund revenue is maximised.

RESPONSE provided by Director-General, Ministry of Finance

The Ministry of Finance and the Asset Management Division does not have the power to lease properties under the Land Act. These powers reside with the Minister for Conservation and Environment. While the Ministry of Finance does monitor the utilisation of surplus property the divided responsibility for this aspect is being reviewed.

In respect of the specific properties mentioned, 299 Queen Street is currently utilised as a government car park and the offer was not proceeded with on the ground that it could impede sale of the property. The Sturt Street building is a theatre complex and the rental arrangements have been the subject of a submission to the Minister for the Arts which is under consideration.

Management information systems

3.10.33 The Ministry maintains a computerised register of all properties identified as surplus to operational requirements. This register is intended to provide information which assists the Ministry in monitoring these properties.

3.10.34 The audit review highlighted significant discrepancies between the information recorded in the register and the records maintained by individual agencies. Specifically, it was observed that at December 1991:

- The Department of Conservation and Environment recorded around 1 260 properties as surplus to operational requirements, however, the central register disclosed only 1 180 surplus properties. Furthermore, due to differences in the information recorded on the 2 systems, audit was unable to match the information relating to 670 properties; and
- The Public Transport Corporation records indicated that 2 920 surplus properties were held by the Corporation, however, the central asset register recorded only 430 properties, a discrepancy of 2 490 properties.

3.10.35 The lack of accurate and reliable information recorded in the property register must adversely impact on the Ministry's ability to make informed decisions in relation to the administration and management of the asset sales program and to maximise returns from surplus properties.

RESPONSE provided by Director-General, Ministry of Finance

The Ministry of Finance has recently developed and implemented a new information system which is still in the process of being updated. The Public Transport Corporation property operations were only transferred to the Ministry of Finance in late 1991 and their property records are currently being reconciled and loaded on the Ministry of Finance database. It is recognised that the Department of Conservation and Environment's records and those held by the Ministry of Finance reflect the information requirements of the individual departments.

The audit recommendations will be examined and the potential to improve the arrangements for common property identification will be assessed.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced

Ministry of Finance

Report	*Subject*	*Status at date of preparation of this Report*
Third Report, 1983-84, pp. 38-9 *Second Report*, 1985-86, p. 192	Audit recommended that action be taken to review the operations of the Registrar to ensure compliance with the provisions of the *Unclaimed Moneys Act* 1962. Audit also recommended that a review of the provisions of the Act be undertaken.	The former Treasurer has given an in-principle approval to certain legislative amendments to the Act. The Commonwealth Corporations Law, which came into effect on 1 January 1991, may impact on the operations of the Unclaimed Moneys Act. The Ministry has sought clarification on this matter from the Commonwealth Government.
Ministerial Portfolios, May 1989, pp. 204-13	The absence of a preventative maintenance program, together with a lack of adequate funding, has contributed significantly to the general *"run-down"* condition of government-owned buildings situated in the Treasury Reserve.	An effective preventative maintenance program had not been developed in 1990-91 to address maintenance needs. For 1991-92, $400 000 has been allocated to be spent on critical maintenance items at the Treasury Reserve and the Ministry is developing a strategy to provide for the upkeep of all buildings within the central business district.
Ministerial Portfolios, May 1990, pp. 244-52 *Ministerial Portfolios*, April 1991, pp. 218-19	Concern expressed at the protracted nature of development since 1983 of the Government's integrated computer-based land information system known as "Landata".	A consultancy review of the operations of Landata, which was completed in March 1991, supported the devolution of responsibility for Landata products to various government agencies, with the Ministry retaining direct responsibility for the Public Inquiry Service. The Ministry has developed a 3 year business plan which aims to establish the operations of the Service on a commercial basis.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Ministry of Finance	30 June 1991	31 October. *Annual Reporting Act* 1983,s.8.	6 November 1991	8 November 1991
State Electoral Office	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	30 August 1991	30 September 1991
Surveyors Board	30 June 1991	No date specified. Audit conducted under the authority of the *Surveyors Act* 1978, s.28.	16 October 1991	17 October 1991

3.11

FOOD AND AGRICULTURE

KEY FINDINGS

- Need for more effective monitoring by the Department of Food and Agriculture of Daratech's performance in commercial agricultural research.
  Paras 3.11.12 to 3.11.23

- The financial return of Daratech over 5 years has been an aggregate profit of $139 000, which is minimal when compared with the Government's investment of $5 million.
  Paras 3.11.24 to 3.11.25

- The Department has not recovered costs totalling $2.3 million for certain of its commercialised services under Daratech's management.
  Paras 3.11.26 to 3.11.33

- Daratech incurred losses of $391 800 from its involvement with 2 former subsidiaries.
  Paras 3.11.40 to 3.11.56

- Daratech has a financial exposure of over $580 000 in respect of advances provided to 2 associated companies, with the financial viability in each case by no means certain.
  Paras 3.11.57 to 3.11.68

The Minister for Food and Agriculture is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Food and Agriculture

Public bodies

Daratech Pty Ltd
Egg Industry Licensing Committee
Melbourne Wholesale Fruit and Vegetable Market Trust
Murray Valley Citrus Marketing Board
Tobacco Leaf Marketing Board
Victorian Dairy Industry Authority
Victorian Dried Fruits Board
Victorian Egg Marketing Board
Western Metropolitan Market Trust

Comments on matters arising from the audit of certain of the above entities discussed below.

DARATECH PTY LTD

3.11.1 Daratech Pty Ltd, a company limited by guarantee, is wholly-owned by the Victorian Government. At the time of the company's establishment in 1986, the Government provided Daratech with $5 million, comprising:

- an equity contribution of $4 million, upon which a dividend was to be negotiated by the Minister for Food and Agriculture and the Treasurer on an annual basis; and
- a non-repayable advance of $1 million for initial establishment and operating costs.

3.11.2 The Government's 1986 *Technology Statement* described Daratech's principal purpose as providing leadership and direction to the commercialisation of agricultural research and development, with particular attention to the development of market-orientated projects of the Department of Food and Agriculture in plant, animal and food technology. It was also envisaged that Daratech would have an important role as the Government's vehicle for injecting venture capital into agricultural technology through joint ventures with the private sector.

3.11.3 In effect, Daratech was established to act as the commercial arm of the Department of Food and Agriculture.

Overall conclusions

3.11.4 Although the Government made a major investment of $5 million in Daratech in 1986 and specific financial targets were set, little attention has been given to assessing the level of achievement by Daratech of these targets.

3.11.5 In fact, the lack of appropriate information in the Department of Food and Agriculture precluded any meaningful assessment of the magnitude of expenditure on commercial research and development in the agricultural field. The Department and Daratech have both recently moved to lift their performance in relation to strategic monitoring of agricultural research and development.

3.11.6 Certain commercialised services of the Department, under Daratech's management, have been dependent on government subsidies for their survival. These subsidies have amounted to $2.3 million since 1986 and have not been disclosed by the Department to the Parliament.

3.11.7 Daratech's financial return over the last 5 years has been an aggregate profit of $139 000, which is minimal when compared with the Government's investment of $5 million.

3.11.8 From a longer-term viewpoint, the number of patents registered with respect to intellectual property has increased considerably under Daratech's management. While the value of these patents is currently around only $700 000, Daratech confidently predicts annual royalty income of $3 million by 1995-96.

3.11.9 The most disturbing element of Daratech's performance to date has been its experiences with commercial ventures involving subsidiaries and associated companies. Daratech has incurred losses of $391 800 in write-offs of its equity investments in, and advances to, its former subsidiaries. In addition, advances totalling $526 300 have been made to 2 associated companies (and a further $60 000 is committed) for particular ventures, with no investment returns to date and with the financial viability in each case highly uncertain.

3.11.10 Given the current status of its commercial ventures with associated companies, the formulation by Daratech of strategies aimed at minimising the risk of any further losses will require priority consideration.

3.11.11 In summary, the Department and Daratech need to develop a more structured and effective framework for Daratech's future direction and for progressive monitoring of its performance.

WHAT FINANCIAL TARGETS DID THE GOVERNMENT SET FOR DARATECH?

3.11.12 Before the establishment of Daratech, the Government had an objective of funding $30 million on commercial research and development by the Department of Food and Agriculture over a 5 year period from 1986. The Government expected that this expenditure would be shared with the private sector, that is, $15 million was anticipated to be funded from private sector sources.

3.11.13 The principal financial target assigned by the Government to Daratech, upon its creation, was to add substantially to this projected level of expenditure on agricultural research and development. In addition, it was envisaged that Daratech would achieve an increase in the level of private sector funding from 50 to 75 per cent by June 1991.

3.11.14 It follows that, if Daratech was not able to add to the level of aggregate research and development expenditure of a commercial nature beyond $30 million over the 5 year period to 1991, it would have a minimum financial target of increasing the value of private sector research funding by $7.5 million to a total of $22.5 million. Achievement of this target would enable a halving of government outlays from $15 million to $7.5 million.

3.11.15 The audit review disclosed that neither Daratech nor its principal, the Department of Food and Agriculture, have progressively monitored whether the Government's financial targets have been achieved over the first 5 years of the company's operations. Audit found that information systems were not in place in either organisation to identify the level of agricultural research of a commercial nature entered into over the period, and the progress achieved in bringing about a variation in funding contributions from the private sector.

3.11.16 In broad terms, projects undertaken by Daratech fall into one of 3 categories:

- *Commercialised services of Department of Food and Agriculture.*

  Under this category, Daratech is responsible for:

  - placing the services of the Department on a truly commercial basis and marketing those services (e.g. fee-for-service work performed by the Department at the State Chemistry Laboratory); and
  - direct management in recent years of 2 business activities of the Department (namely the media and publishing services, known as Agmedia, and turf consultancy, under the name of Turfgrass Technology, **both of which had been previously operated by the Department at substantial losses**).

- *Contract research and development*

  Contracts entered into by Daratech under which the Department provides research services but **the third party owns the intellectual property** (e.g. the removal of hair and wool for sheep and other animals).

- *Collaborative research and development*

  In most cases, this category involves Daratech jointly funding a project with the Department for a period of one to 2 years when, depending upon satisfactory results, the project is offered partly or wholly to a company with marketing or distribution facilities. **The intellectual property is owned by the Government with management of patents the responsibility of Daratech.** The major projects currently underway in this area are the controlled release of herbicides, the development of immunocastration vaccine for animals, a liver fluke vaccine and a vaccine to control worms in farm animals.

3.11.17 The Government's 1986 financial targets for Daratech related to the company's participation in the contract and collaborative research and development categories, rather than the commercialised services of the Department.

3.11.18 While Daratech generated revenue in respect of commercial activities of $12.4 million in the period up to 30 June 1991, the absence of appropriate project information systems in both the Department and the company precluded identification of the level of revenue which related to the Government's financial targets.

3.11.19 Without this specific information, the Government has not been in a position to identify the magnitude of expenditure on commercial research and development in the agricultural field, the contribution made by Daratech to the overall level of such expenditure and the extent to which Daratech's activities have led to increased research funding from the private sector.

3.11.20 It was not until March 1991 that both the Department and Daratech moved to address the deficiencies in the strategic monitoring by the State of agricultural research.

3.11.21 The Department initiated a process aimed at revising its total management framework for the recording and reporting of agricultural research. It has advised audit that the initiatives underway will include an evaluation of the continuing relevance of the financial targets established for Daratech in 1986.

3.11.22 With regard to Daratech, the company has recently prepared a draft document entitled *"Daratech in the 1990's"* which recommends long-term strategies and targets for the company. This document is yet to be finalised by Daratech and formally submitted to the Minister.

3.11.23 It is important that more effective mechanisms are in place for the Department's strategic management of commercial research and development and for the monitoring of Daratech's performance against approved targets.

- *RESPONSE provided by Managing Director, Daratech*

  Daratech has provided, in a response to the Minister on 6 June 1991, an assessment of performance of the company over the previous 5 years. In relation to monitoring of performance, the company believes its Annual Report (tabled annually in Parliament) and internal review systems meet these requirements.

  Daratech insists it has adequate project information systems but agrees there is insufficient information pre-1986 on which to judge the Government's targets.

  It is not possible to quantify how much of the $12.4 million revenue was attributable to Daratech's marketing of the Department's research programs to the private sector as there is no data available on the private involvement pre-Daratech in 1986. Daratech is of the belief that prior to Daratech, there was almost nil revenue to the Department from the private sector.

- *RESPONSE provided by Director-General, Department of Food and Agriculture*

  This is not a new finding. On 26 March 1991 the then new Minister for Agriculture wrote to the Chairman of Daratech seeking, among other things, the Chairman's assessment of Daratech's performance to date against the goals laid down for it 4 years ago.

  The Department has been pursuing improved strategic management arrangements for Daratech following the Minister's letter to Daratech in which he also requested a 3 year Strategic Plan and a copy of Daratech's Annual Plan showing objectives, performance indicators and strategies for achieving the identified objectives. In addition, the Minister stated:

  > *"in order to maintain proper strategic control over Daratech I would like these plans provided to me on a rolling annual basis before the beginning of each year".*

  Audit findings confirm the Minister's observations and support the strategic management approach already initiated by the Minister.

FINANCIAL PERFORMANCE OF DARATECH

Reported financial results

3.11.24 In the 5 year period 1986-87 to 1990-91, Daratech recorded an aggregate net profit of $139 000. Table 3.11A summarises the company's operating performance over that period.

TABLE 3.11A. FINANCIAL RESULTS OF DARATECH
($'000)

Item	*1986-87*	*1987-88*	*1988-89*	*1989-90*	*1990-91*	*Total*
Revenue -						
Project revenue	3	392	2 459	4 339	5 187	**12 380**
Interest	465	573	609	663	447	(a)**2 757**
Proceeds from sale of fixed assets	..	..	..	171	136	**307**
Total revenue	468	965	3 068	5 173	5 770	**15 444**
Expenditure -						
Project expenditure	289	409	1 691	3 264	4 144	**9 797**
Administration	185	736	1 159	1 510	1 526	**5 116**
Amounts written-off in respect of subsidiaries	..	..	..	270	122	**392**
Total expenditure	474	1 145	2 850	5 044	5 792	**15 305**
Net profit/(loss)	**(6)**	**(180)**	**218**	**129**	**(22)**	**139**

(a) Represents interest earned on funds provided by government in advance of operational needs.

3.11.25 As illustrated above, Daratech has, to date, generated a profit in only 2 years, 1988-89 and 1989-90. **The return on the Government's investment of $5 million in Daratech for those years was 4.4 per cent and 2.6 per cent, respectively.**

RESPONSE provided by Managing Director, Daratech

Daratech has generated a profit in 'only' 2 of its first 5 years of operation as profits have been forgone in order to expand the company's business as shown by firstly the company's growth rates of 106 per cent, 2 179 per cent, 686 per cent, 12 per cent, and 42 per cent over the first 5 years and secondly, the company's assets have increased from $5.1 million to $7.4 million during this same period.

Impact of under-recovery of total costs by the Department

3.11.26 For most projects undertaken by Daratech, the Department invoices the company on a periodic basis for the cost of services rendered by it to the company. In fact, the major proportion of the aggregate project costs of $9.8 million, identified above, related to payments by Daratech to the Department.

3.11.27 An audit examination of amounts levied by the Department on Daratech over the 5 year period to 30 June 1991 revealed that **costs totalling $2.3 million have not been recovered from Daratech by the Department in respect of commercialised services.** These under-recoveries comprise:

- occupational health and safety, toxicology and analytical services provided at the State Chemistry Laboratory ($900 000);
- laboratory testing for the Victorian Dairy Industry Authority of dairy and milk products at the Food Research Institute ($750 000); and

- cost subsidies to Daratech in respect of the company's assumption of the operational responsibility for Agmedia and Turfgrass Technology ($600 000).

3.11.28 Audit encountered considerable difficulty in quantifying the above under-recoveries as departmental records did not contain all costs, both direct and indirect, associated with particular projects. In the majority of instances, the invoices prepared by the Department did not include certain indirect costs such as superannuation and rentals incurred by the Department.

3.11.29 The need for full cost recovery by the Department in respect of its dealings with Daratech was highlighted in the findings of a review in 1990 into agricultural research in Victoria which was commissioned by the then Minister. In addition, the Estimates Sub-Committee of the Economic and Budget Review Committee reported to the Parliament in November 1990 that the Department's information systems were not capable of accurately costing individual research projects. The Committee recommended appropriate remedial action be taken by the Department.

3.11.30 If the costs of $2.3 million had been levied on Daratech and were not passed on to clients, the aggregate operating result of Daratech for the 5 years to 30 June 1991 would have been a loss of at least $2.1 million, compared with the reported profit of $139 000.

3.11.31 Information examined by audit during the review indicated that Daratech would not have been able to pass the additional costs on to clients without a high risk of losing those clients to other competitors. By way of illustration, the Victorian Dairy Industry Authority has, because of cost factors, used its own recently-established laboratory facilities from July 1991 for the testing of dairy and milk products, and it is highly unlikely that the Authority would have been willing to pay increased charges in the period up to 30 June 1991. A further example is that Daratech has indicated to the Department its intention to withdraw from direct involvement in occupational health and safety services as a consequence of a departmental decision to pursue full costs for that activity.

3.11.32 Audit views the 2 key issues in this situation to be:

- the Government's subsidisation of the commercial services of the Department, undertaken under Daratech's marketing framework, have not, in the past, been disclosed to the Parliament; and
- without subsidisation, many of the services would not survive the competitive pressures from private sector suppliers of similar services.

3.11.33 The Department needs to re-examine the justification for the provision of all government subsidies in the area of commercialised agricultural activities. All continuing subsidies should be disclosed annually to the Parliament.

- *RESPONSE provided by Managing Director, Daratech*

  Daratech strongly disputes the "under-recovery of $2.25 million" in costs as the company is burdened with additional costs not normally associated with commercial companies such as :

  - *payment of up to an additional 21.5 per cent of employee's salary for public service superannuation;*
  - *additional costs to comply with public sector policy in relation to government re-deployment provisions, machinery of government administration and demands;*
  - *additional costs inherited in public sector structure and salaries being adapted to a commercial operating unit; and*
  - *costs incurred by the company to change the philosophy of Department scientists from being public servants to a commercial operation.*

  However, Daratech does accept there are some areas where full cost recovery is not charged in the first instance, but rather requires some 2-3 years in order to convert the operation procedures, costs and income from being a departmental public service operation to a fully commercial unit. During this transition period costs exceed income, and these additional costs are agreed to be borne by the Department (in the form of an under-recovery) and the company (in the form of a loss for that operation).

  Daratech disputes "these under-recovering costs". However, if the $2.25 million had been levied on the company, it would have reacted by contributing less to the Department's R&D so as to ensure a profit margin remained.

- *RESPONSE provided by Director-General, Department of Food and Agriculture*

  This is not a new finding. On 20 May 1991 the then new Minister for Agriculture wrote to the Managing Director of Daratech in the context of a review of the current arrangements of joint research and development between the 2 organisations.

  At that time, the Minister asked Daratech to address a number of concerns. He stated:

  > *"that the full costs of joint R&D between the Department and Daratech are not clearly visible. As far as I am aware there is no account in your recently released Annual Report of the Departmental input into joint R&D. As you stated in your letter this could be as high as $3 million per annum, but is I understand currently running at approximately $1.6 million per annum.*
  >
  > *"There is a strong case for the total cost of the joint R&D program to be identified, so that financial returns from that research are compared with the actual costs rather than just the nett costs to Daratech. This could be achieved by an appropriate statement in the Annual Report."*

  Audit figures confirm the Minister's observations of a year ago, although the size of the cost under-recovery is smaller than the Minister expected.

Management of intellectual property

3.11.34 Up to 1986, there was no overall management control of intellectual property at the Department. From that year, Daratech assumed responsibility for the intellectual property emanating from the Department's research institutes. The assumed responsibility included the registration of patents, negotiation of royalty agreements and tasks associated with trade marks, industrial design and copyright protection.

3.11.35 Because of the nature of Daratech's involvement in the *collaborative research and development* field, any assessment of the company's performance needs to consider, in addition to the reported results, projections of long-term *value added* factors. Such factors would include Daratech's contribution to the build-up of the intellectual property asset base of the Department over a period.

3.11.36 At 30 June 1991, some 25 patents had been either granted or were in course of registration, compared with 2 patents in 1986. Daratech has valued this intellectual property at $703 000 based on the present value of expected future royalty income flows.

3.11.37 In the 5 year period to 30 June 1991, royalty income received by Daratech totalled only $220 000. However, the company estimates that the level of royalty income to be generated from intellectual property will significantly increase over the coming years, with **the company currently anticipating receipts of $3 million in 1995-96.**

3.11.38 The extent to which anticipated royalty income from intellectual property is ultimately generated by Daratech in the coming years will clearly be a central factor in assessing the effectiveness of its overall performance.

3.11.39 The audit review found that while specific procedures were in place at Daratech for the management of intellectual property, scope existed for improving the strategic overview by the Board of Directors of significant contractual arrangements entered into by the General Manager under delegated authority. In addition, there was an absence of periodic reporting to the Board of comparisons of royalty income with approved targets. **The Board of Directors needs to strengthen its strategic monitoring of the management by the company of intellectual property.**

EQUITY IN SUBSIDIARIES AND ASSOCIATED COMPANIES

3.11.40 From 1987-88, Daratech entered into 5 commercial ventures by way of direct equity participation in other companies. These arrangements involved 2 subsidiaries and 3 associated companies. The financial statements of the subsidiaries and associated companies of Daratech are not subject to audit by the Auditor-General.

3.11.41 In 1989, the Department of the Premier and Cabinet completed a major review of government-established companies, trusts and joint ventures. Following consideration of the findings of this review, the Minister for Food and Agriculture advised Daratech in February 1990, that **the Government had determined to retain Daratech but that it should move to withdraw from all subsidiaries and associated companies.**

3.11.42 By 31 December 1991, Daratech had divested itself of its 2 subsidiaries and one associated company. Table 3.11B summarises the status of Daratech shareholdings in subsidiaries and associated companies at that date.

TABLE 3.11B. STATUS OF EQUITY PARTICIPATION AT 31 DECEMBER 1991

Company	*Year of investment*	*Total investment made*	*Extent of share-holding*	*Date of disposal*	*Value of investment at 31/12/91*
		($)	(%)		($)
Richland Laboratories (Vic) Pty Ltd*(a)*	1989-90	30 000	100	Oct 1990	..
Cropwatch Pty Ltd	1987-88	87 877	100	Apr 1991	..
Flourish Pty Ltd	1988-89	33	33.3	Sept 1990	..
Biofresh Pty Ltd	1987-88	1	49	..	1
Australian Mint Oils Pty Ltd	1987-88	1	33.3	..	1
Total		**117 912**			**2**

(a) An initial 51 per cent investment in the company in 1987-88 was supplemented by acquisition of the remaining 49 per cent in June 1990.

3.11.43 The equity investments by Daratech in the 2 former subsidiaries have proved to be costly. **Daratech has incurred losses of $391 800 comprising the writing-off of its direct investment in the companies totalling $117 900 and advances of $273 900 to the companies, which were subsequently waived.**

3.11.44 In addition to these realised losses, **Daratech had, at 31 December 1991, made advances amounting to $526 300 to its associated companies** (Flourish, $225 000 and Biofresh, $301 300) and is committed to **further advances of $60 000** to Biofresh by 30 June 1992.

3.11.45 Although the advancement of funds to the 2 associated companies commenced several years ago, Daratech has not received any return on these funds to date, and the circumstances in both cases suggest the likelihood of a return in the future is by no means certain.

3.11.46 Details of the write-offs in relation to subsidiaries and of current advances to associated companies are provided in the following paragraphs.

RESPONSE provided Managing Director, Daratech

Daratech advises that it prematurely got out of these commercial ventures on the direction from the Department of the Premier and Cabinet.

Write-offs relating to disposal of subsidiaries

Richland Laboratories (Vic) Pty Ltd

3.11.47 This subsidiary was incorporated in late 1987 as a joint venture between Daratech (51 per cent) and a private company (49 per cent), and was based and operated at Tatura. The principal activity of Richland was the provision of scientific, advisory and technological services to the dairy farming industry.

3.11.48 Daratech's original investment was $51 which was increased to $30 000 in June 1990. A condition of the purchase by Daratech of the minority interest from the private company shareholder was that the latter would waive earlier advances of $99 200 to Richland.

3.11.49 At 30 June 1990, Daratech also determined to write-off its earlier advances of $91 500 provided to the subsidiary.

3.11.50 Very shortly after its decision to write-off its advances to Richland, Daratech, in July 1990, ceased the operating activities of the subsidiary and assumed its assets and liabilities other than plant and equipment. In October 1990, Daratech disposed of the subsidiary as a shelf company and, by that time, further losses of $39 400 had been incurred. Daratech was required to advance a further amount of $46 000 to Richland and immediately waive repayment. This action brought its total write-off of advances with respect to Richland to $137 500.

3.11.51 In summary, Richland incurred total losses of $236 700 before waiving of loans in just over 2 years. Audit was advised by Daratech that the principal factors contributing to Richland's financial difficulties were significant staff changes and equipment problems in its laboratory.

3.11.52 As a result of the unsatisfactory financial performance of Richland, Daratech lost a total of $167 500 comprising its direct investment of $30 000 and waived advances of $137 500.

RESPONSE provided by Managing Director, Daratech

Daratech advises that the operations of Richland are now carried out under license by a private company for which Daratech receives an annual income.

Cropwatch Pty Ltd

3.11.53 Cropwatch was purchased by Daratech as a wholly-owned subsidiary in late 1987 for the provision of insect monitoring and irrigation scheduling advice to horticulturists. The purchase price for 100 $1 shares was $87 900 and included a substantial goodwill component, in terms of a client information database, valued at $76 200. This database consisted of technical information, lists of clients, data collected from clients, and properties and software.

3.11.54 Similar to Richland's experience, Cropwatch **incurred operating losses of $136 400, representing the value of Daratech's waived advances, until the time when it ceased trading on 30 March 1990**. Audit was advised by Daratech that the main reasons for the company's unsuccessful performance were departure of key staff, poor delivery of service and an inability to withstand the emergence of competitive pressures.

3.11.55 In accordance with the ministerial direction given in February 1990, Daratech took over the operating activities previously provided by Cropwatch in April 1990. Following a period of 12 months inactivity, Daratech lodged an application for deregistration of Cropwatch in April 1991 with the Australian Securities Commission and, at date of preparation of this report, it was still awaiting formal advice of deregistration from the Commission.

3.11.56 As a consequence of Cropwatch's poor financial performance, Daratech has lost a total of $224 300, comprising its direct investment of $87 900 and waived advances of $136 400.

RESPONSE provided by Managing Director, Daratech

Daratech advises that the crop monitoring and decreased chemical spraying advice given by Cropwatch is still available to the public through the Department.

Advances to associated companies

Flourish Pty Ltd

3.11.57 In 1989, Daratech purchased a one-third equity share in Flourish Pty Ltd, a company involved with the manufacturing and marketing of preserved foliage plants. The remaining equity in the company was shared between a private investment company and an individual investor.

3.11.58 The funding arrangements provided for initial contributions of $200 000 by Daratech and the investment company. While Daratech advanced funds to this limit, the investment company withdrew from the venture after the injection of only $150 000. The shortfall of $50 000 was met by a further contribution of $25 000 from Daratech **(bringing its total contribution to $225 000)** and by an equivalent amount from the individual investor.

3.11.59 Following the February 1990 ministerial direction for Daratech to withdraw from all associated companies, Daratech entered into an agreement in September 1990 with Flourish under which Daratech waived the repayment of its advances of $225 000 and Flourish assigned the intellectual property and future royalties to Daratech. Under the arrangements, Flourish can sub-licence the rights to manufacture and sell the product, and has the option (to August 1995) to re-purchase the intellectual property.

3.11.60 In December 1990, Daratech obtained an external valuation from a private accounting firm which calculated the present value of future royalties to be $225 000. However, by December 1991, **monthly sales revenue of Flourish was averaging less than $30 000 compared with a level of $55 000 required to support the external valuation of $225 000.**

3.11.61 Audit therefore found it necessary to express a qualified opinion on the 1990-91 financial statements of Daratech because of doubts as to the recoverable value of this intellectual property which was recorded in the financial statements at $225 000.

Biofresh (Australia) Pty Ltd

3.11.62 Biofresh was incorporated in 1988 with 49 per cent of equity owned by Daratech and 51 per cent by a private company. The company's principal goals were to produce peppermint oil and to develop virus-free garlic. To date, its main activity has related to the production of peppermint oil.

3.11.63 About the same time, Daratech acquired a minority interest (one-third) in another company, Australian Mint Oils Pty Ltd, whose main role is to provide marketing and quality control functions in respect of production by Biofresh of peppermint oil.

3.11.64 By 31 December 1991, Daratech had **advanced a total of $301 300** to Biofresh and is **committed to contributing a further $60 000** during the second half of 1991-92.

3.11.65 In the period to 30 June 1991, Biofresh incurred **operating losses of $396 400**. Audit was advised by Daratech that the principal reasons for Biofresh's poor financial results had been insufficient acreage available for harvesting of peppermint oil and poor management practices.

3.11.66 During 1990-91, Biofresh submitted options to Daratech and the other partner to improve the financial viability of the peppermint oil venture. Biofresh's preferred option was to substantially expand the harvesting area from 150 to 600 hectares, which would require further funding either by way of direct partner contributions or by borrowings guaranteed by the partners. In its submission, **Biofresh stressed that, even with the expanded harvesting area, repayment of the advances to the partners could not commence until 1995-96.**

3.11.67 In August 1991, the Minister publicly announced that the planned expansion of harvest area for peppermint oil to 600 hectares would increase the existing production level of 2.4 tonnes to 40 tonnes in 1995-96, which would have a sales value of over $2 million based on current prices.

3.11.68 Notwithstanding the August 1991 endorsement of the project by the Minister, at the date of preparation of this Report, Daratech and its partners were still considering the project's future direction. In the meantime, Daratech retains a significant financial exposure to Biofresh, with no return received to date on its advances of $301 300.

- *RESPONSE provided by Managing Director, Daratech*

  Daratech advises that its strategy plan, presently under consideration, incorporates priority to minimising the risk of further losses in commercial ventures and associated companies.

- *RESPONSE provided by Director-General, Department of Food and Agriculture*

  The Department accepts the audit findings and observations in respect of Daratech's equity in subsidiaries and associated companies and will provide advice to the Minister on whether or not the divestment policy should be maintained after Daratech submits the 3 year strategic plan and annual business plan sought by the Minister.

WESTERN METROPOLITAN MARKET TRUST

WIND-UP OF THE WESTERN METROPOLITAN MARKET TRUST

3.11.69 From 1938, the Western Metropolitan Market Trust operated a pig and calf market in Brooklyn. The operations of the market were administered by 5 participating councils, namely Footscray, Williamstown, Essendon and the Shires of Werribee and Braybrook (now Sunshine).

3.11.70 In March 1990, the Public Bodies Review Committee (PBRC) tabled in the Parliament its report on a review of the operations of the Trust. The report concluded that the Trust had never successfully achieved the goals for which it was originally established and that, while it was operating at no financial cost to the public or ratepayers of the participating councils, most of its income was from rental and interest rather than from market operations. In addition, the Committee considered the Trust's trading position as a livestock marketing organisation was poor and its utilisation of assets was inefficient.

3.11.71 The PBRC report recommended to the Parliament that:

- **the Trust cease to exist;**
- **the future of the market be decided by the contributing councils or their successors; and**
- **the assets of the Trust be valued and vested in each council in proportion to their individual risk exposures.**

3.11.72 Under the terms of the *Parliamentary Committees Act* 1968, all assets of the Trust automatically vested with the Crown in March 1991, 12 months from the date of tabling in the Parliament of the PBRC report.

3.11.73 In February 1991, the Government agreed to distribute to the 5 participating councils 50 per cent of the net proceeds from its realisation of all Trust assets.

3.11.74 However, prior to commencement of the Government's asset realisation process, the 5 councils resolved in March 1991 to immediately distribute the liquid cash assets in proportion to their original contributions to the Trust. In line with this resolution, **a total amount of $628 800 was distributed to the 5 councils.**

3.11.75 In May 1991, the then Treasurer obtained a legal opinion on the action taken by the 5 councils which concluded that they did not have legislative authority to distribute the Trust's cash reserves.

3.11.76 In its August 1991 *Budget Paper No. 2, Budget Strategy and Review 1991-92*, the Government placed on public record that the distribution of the Trust's cash reserves had been an illegal act. The Government also stated that should a repetition of similar unauthorised expenditure occur, it would consider legal action to recover funds from those who authorised the expenditure.

3.11.77 At the date of preparation of this Report, the physical assets of the Trust taken over by the Government had been earmarked for sale under the asset sales program. **The Government's latest estimate is that the assets should realise between $600 000 and $700 000.**

LOSSES AND THEFTS

3.11.78 Losses and thefts within the Food and Agriculture portfolio for the year ended 31 December 1991, as notified to audit, totalled $14 700 and related solely to the Department of Food and Agriculture. The Department has advised audit that all thefts have been referred to the police for investigation.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORT

Report	*Subject*	*Status at date of preparation of this Report*
Matters resolved		
Department of Food and Agriculture		
Ministerial Portfolios, May 1990, pp. 22-5	Deficiencies in the management of scientific equipment.	A centrally-controlled asset register has been established and revised instructions issued for equipment management and disposal.
Ministerial Portfolios, May 1991, p. 20	Need for improved computer controls in financial management system.	The Department has upgraded its data communication access controls and computer storage facilities.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Department of Food and Agriculture *(a)*	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	14 October 1991	17 October 1991
Daratech Pty Ltd	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer.	2 September 1991	9 December 1991 *(c)*
Egg Industry Licensing Committee	30 June 1991	30 September. *Egg Industry Act* 1983, s.52	10 September 1991	11 September 1991
Melbourne Wholesale Fruit and Vegetable Market Trust	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	21 August 1991	25 September 1991
Murray Valley Citrus Marketing Board *(b)*	30 June 1991	31 October. *Murray Valley Citrus Marketing Act* 1989, s.48.	30 October 1991	31 October 1991
Tobacco Leaf Marketing Board	31 March 1991	30 June. *Annual Reporting Act* 1983, s.9. Extension of 3 weeks granted.	9 July 1991	18 July 1991
Victorian Dairy Industry Authority	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	25 September 1991	30 September 1991
Victorian Dried Fruits Board	31 December 1990	31 March. *Annual Reporting Act* 1983 s.9	24 March 1991	31 March 1991
Victorian Egg Marketing Board	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	21 August 1991	20 September 1991
Western Metropolitan Market Trust *(d)*	Period 1 July 1990 to 28 March 1991	31 December. *Annual Reporting Act* 1983, s.9.	13 December 1991	23 December 1991

(a) Name changed from Department of Agriculture in January 1992.
(b) Audit conducted jointly with the New South Wales Auditor-General.
(c) Qualified audit report issued.
(d) Final audit. The Trust ceased to exist on 28 March 1991 under the provisions of the *Parliamentary Committees Act* 1968.

3.12

GAMING

KEY FINDING

- The involvement of both the Totalizator Agency Board and Tattersalls in the operation and control of gaming machines will be subject to periodic scrutiny of the Parliament

Paras 3.12.1 to 3.12.6

The Minister for Gaming is responsible for the following entities which are subject to audit by the Auditor-General:

Public bodies

Victorian Gaming Commission
Gaming operators -

- Totalizator Agency Board
- Trustees of the Will and Estate of the late George Adams

In accordance with an administrative arrangement published in the *Government Gazette* in January 1992, the Minister for Gaming is also responsible for part 7 of the *Casino Control Act* 1991. This responsibility encompasses the appointment and functions of the Director of Casino Surveillance, and the appointment and powers of casino inspectors. The administrative arrangement assigned responsibility for the remaining provisions of the *Casino Control Act* 1991 to the Minister for Major Projects.

Comments on current developments at the Victorian Gaming Commission are discussed below.

VICTORIAN GAMING COMMISSION

CURRENT DEVELOPMENTS IN GAMING

3.12.1 The Commission was formally established under the *Gaming Machine Control Act* 1991, the provisions of which were proclaimed and came into operation over the months of November 1991 to January 1992. The Commission replaces an interim commission which operated during 1991 until the enactment of enabling legislation.

3.12.2 The statutory objectives of the Commission may be summarised as follows:

- ensuring that gaming is honestly conducted and management of gaming is free from criminal influence;
- regulating operations, venues, manufacturers, suppliers and repairers of gaming machines and their key employees;
- regulating the operations of the casino in accordance with part 7 of the *Casino Control Act* 1991;
- providing a source of advice on gaming machines for the Minister for Gaming and ensuring that government gaming policy is implemented;
- funding social research into, and advising the Minister on, the social impact of gaming; and
- contributing to economic development in Victoria through administration of the Act.

3.12.3 The Office of Gaming was established by Order-In-Council in April 1991 as the administrative vehicle for the Commission to discharge its statutory responsibilities.

3.12.4 The legislation established the Totalizator Agency Board (TAB) and the Trustees of the Will and Estate of the late George Adams (Tattersalls) as gaming operators for the State of Victoria. The Commission expects that 10 000 gaming machines (5 000 allocated to each gaming operator) will be installed at approved venues over the coming months. At the date of preparation of this Report, the Commission was in the final stages of evaluating submissions received from the 2 gaming operators with a view to issuing licences in the near future.

3.12.5 The Commission is currently considering in excess of 50 applications for the issue of venue operators' licences and 5 applicants have sought to be registered as recognised manufacturers and suppliers.

3.12.6 From a public accountability perspective, the legislation requires the Commission to include within its *Annual Report* to the Parliament, copies or extracts of the financial statements of the 2 gaming operators and the Auditor-General's Report on such statements. **Importantly, this requirement means that the involvement of both the TAB and Tattersalls in the operation and control of gaming machines will be subject to periodic scrutiny of the Parliament.**

3.13

HEALTH

KEY FINDINGS

- WorkCare premiums in the Victorian public hospital system cost in excess of $70 million in 1990-91. However, the full cost associated with workplace injuries to hospital employees would be significantly higher.

  Paras 3.13.1 to 3.13.4

- Over the past 5 years, WorkCare levies in State psychiatric hospitals increased by 345 per cent largely due to the significant number of workplace injuries.

  Paras 3.13.7 to 3.13.10

- While injury profiles of WorkCare claimants employed in psychiatric and public hospitals are similar, State psychiatric hospitals had, on a per capita basis, between 2 and 3 times more claims then public hospitals.

  Para. 3.13.11

- State psychiatric hospitals are currently ranked among the worst performing industries in terms of WorkCare claims in Victoria.

  Para. 3.13.12

- By comparison with their interstate counterparts, Victorian Government psychiatric hospitals have a significantly higher incidence of WorkCare claims and pay higher WorkCare premiums.

  Paras 3.13.13 to 3.13.14

- There was no evidence that certain WorkCare recipients employed in State psychiatric hospitals had been provided with any rehabilitation for periods of up to 4 years.

  Paras 3.13.37 to 3.13.41

- Three officers who were deemed fit to return to work by the State Superannuation Board as far back as 1985 had still not been re-engaged by the Department.

  Paras 3.13.49 to 3.13.54

KEY FINDINGS *- continued*

- While health service agreements commit public hospitals to achieving specified health service delivery targets for an agreed annual cash grant, in reality, the provision of grants totalling in excess of $2 billion are still based predominantly on staffing levels.

  Paras 3.13.71 to 3.13.82

- The reported number of in-patients treated by public hospitals and associated treatment costs are inaccurate and susceptible to manipulation.

  Paras 3.13.83 to 3.13.92

- Significant delays were encountered by a number of public hospitals in finalising annual health service agreements.

  Paras 3.13.93 to 3.13.99

- The Department determined that staff meals in psychiatric hospitals were subsidised by up to 80 per cent of meal production costs and were costing $1.6 million a year. However, the level of the subsidy identified by the Department was substantially understated.

  Para. 3.13.105 and
  Paras 3.13.111 to 3.13.113

- Strategies identified by the Department to phase-out staff meal subsidies had not been implemented.

  Paras 3.13.106 to 3.13.110

- At one psychiatric hospital, 4 equivalent full-time staff were engaged at weekends to produce on average only 23 employee meals per day.

  Para. 3.13.115

- The practice of maintaining separate bank accounts for various activities within hospitals should be reviewed with the aim of minimising bank charges, such as interest on overdrawn bank balances.

  Paras 3.13.125 to 3.13.130

- Several public hospitals experienced severe liquidity problems during 1990-91, resulting in undue delays in paying suppliers.

  Paras 3.13.133 to 3.13.134

The Minister for Health is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Health Department Victoria

Public bodies

Ambulance Officers' Training Centre
Ambulance Services (7)
Dietitians Board of Victoria
Mental Health Review Board
Optometrists Registration Board
Prince Henry's Institute of Medical Research
Public hospitals and nursing homes (142)
Psychosurgery Review Board
Victorian Health Promotion Foundation
Victorian Nursing Council

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

MANAGEMENT OF WORKCARE IN THE STATE HOSPITAL SYSTEM

3.13.1 The State's hospital system consists of both public hospitals and psychiatric hospitals. Public hospitals are administered by independent boards of management with the Health Department Victoria exercising a statutory overview role whereas, the Department, through the Office of Psychiatric Services, has direct responsibility for the operation of State psychiatric hospitals. At 30 June 1991, there were in excess of 5 600 staff employed in the 20 State psychiatric hospitals with 130 public hospitals (excluding hospitals whose predominant activity is nursing home care) employing the equivalent of approximately 44 000 effective full-time staff.

3.13.2 **It is estimated that during 1991-92, the Department will pay WorkCare levy premiums totalling $15 million for staff employed in State psychiatric hospitals and public hospitals will pay levy premiums in the order of $58 million.**

3.13.3 In 1991, audit reviewed the management of WorkCare in the State's hospital system.

Overall conclusions

3.13.4 Audit found that WorkCare premiums cost taxpayers in excess of $70 million per year. However, the full cost of workplace injuries, which has not been quantified by the Department, would be several times this figure.

3.13.5 State psychiatric hospitals experienced a significantly higher incidence of claims compared with public hospitals and interstate psychiatric hospitals.

3.13.6 The audit review highlighted that the Department had taken insufficient action to identify and address the adverse WorkCare performance of psychiatric hospitals, the cost of which has significantly escalated in recent years.

Costs of WorkCare

3.13.7 WorkCare levy costs represent a significant component of employee-related costs in the State's hospital system. Due to the absence of consolidated departmental statistics on total WorkCare levies, audit compiled the data contained in Table 3.13A from information available within various sections of the Department.

TABLE 3.13A
STATE HOSPITALS' WORKCARE LEVY COSTS
($million)

Item	*1986-87*	*1987-88*	*1988-89*	*1989-90*	*1990-91*	*(Anticipated) 1991-92*
Psychiatric -						
Standard levy	4.3	6.5	6.7	10.8	13.3	13.1
Net penalty	..	..	0.4	1.1	0.1	1.9
Public -						
Standard levy	22.3	32.5	35.9	43.3	57.0	58.0
Net penalty(bonus)	..	..	1.6	3.1	1.2	(0.2)
Total	**26.6**	**39.0**	**44.6**	**58.3**	**71.6**	**72.8**

Note: Public hospital's net penalty (bonus) component is based on annual surveys by Victorian Hospitals' Association. Backdated amendments occurring subsequent to each survey have not been included.

3.13.8 Over the past 5 years, WorkCare levies in psychiatric hospitals increased by 345 per cent compared with 260 per cent for public hospitals.

3.13.9 Despite the escalating costs of WorkCare in the State's hospital system, the Department and the majority of public hospitals do not maintain adequate management information systems to enable the full cost of workplace injuries to be determined and to monitor movements in the level of WorkCare costs. Costs of workplace injuries include the replacement of injured staff, rehabilitation programs and reduced productivity.

3.13.10 As such, there is an urgent need for both the Department and public hospitals to establish appropriate reporting processes to record all costs associated with workplace injuries to employees to enable management to assess the impact of WorkCare on operations and to take appropriate remedial action.

RESPONSE provided by Chief General Manager, Health Department Victoria

The Department recognises that fully effective computer-based WorkCare management information systems are not operational in many hospitals and precise costing of the impact of workforce injuries cannot be determined. The comparison between the total levy paid by the psychiatric hospitals and public hospitals has been influenced by the variation of their respective risk groupings by the Accident Compensation Commission (ACC). The Department accepts that the public hospital system has achieved a higher level of performance than the psychiatric hospitals. However, current information from the ACC would indicate that, unless there are further changes in the ACC calculation method, the psychiatric hospitals, as a result of improved WorkCare management in the past year, will achieve close to cost neutrality in the bonus/penalty outcome for 1992-93.

WorkCare performance of the State hospital system

3.13.11 The review of WorkCare statistics in both public and psychiatric hospitals since the Scheme's inception in 1985 revealed that:

- State psychiatric hospitals had, on a per capita basis, between 2 and 3 times more claims than public hospitals;
- The incidence of WorkCare claims in State psychiatric hospitals increased by 24 per cent in 1990-91 despite a reduction in employee numbers;
- State psychiatric hospital employees were, on average, between 2 and 3 times more likely to submit WorkCare claims than their private sector counterparts; and
- The injury profiles of WorkCare claimants employed in public and psychiatric hospitals are similar. Table 3.13B provides a comparison of the nature of injuries incurred.

TABLE 3.13B
INJURY PROFILE OF STATE HOSPITAL SYSTEM EMPLOYEES
(per cent)

Nature of affliction	*Public hospital employees*	*State psychiatric hospital employees*
Sprain/strain	69.8	64.2
Contusion/crushing	7.0	9.5
Open wound	3.9	4.3
Fracture	3.2	2.1
Mental disorder	2.1	5.8
Other	14.0	14.1

3.13.12 When compared with other industry groupings, State psychiatric hospitals WorkCare performance is regarded as poor. As disclosed in Table 3.13C, the Occupational Health and Safety Commission in 1991-92 rated psychiatric hospitals as the fourteenth worst WorkCare performing industry out of 271 industries.

TABLE 3.13C
RANKING OF INDUSTRIES WITH POOR WORKCARE PERFORMANCE, IN 1991-92

Rank	*Industry*
1	Meat
2	Railway rolling stock and locomotives
3	Motor vehicles
4	Sanitary and garbage disposal services
5	Rail transport
6	Motor vehicle bodies, trailers, caravans
7	Log sawmilling
8	Welfare and charitable homes (non-private)
9	Bacon, ham and small goods
10	Sheet metal products
11	Nursing homes
12	Fabricated structural steel
13	Iron casting
14	**PSYCHIATRIC HOSPITALS**
15	Parks and zoological gardens
16	Short distance road freight transport
17	Heating and air-conditioning
18	Short distance bus transport, including tram (non-private)
19	Road and bridge construction
20	Prisons and reformatories
..	..
..	..
..	..
86	**PUBLIC HOSPITALS**

Source: Occupational Health and Safety Commission.

3.13.13 An audit analysis of the 1991-92 WorkCare (or equivalent workers' compensation schemes) net levy rates throughout Australia revealed that Victorian Government psychiatric hospitals paid significantly higher premium rates than their interstate counterparts. Table 3.13D provides an interstate comparison of workers' compensation levy rates paid by State psychiatric hospitals as a percentage of payroll.

TABLE 3.13D
WORKERS' COMPENSATION NET LEVY RATES AS A PERCENTAGE OF PAYROLL
(1991-92)

	State psychiatric hospitals	*State average for all industries*	**Ratio of State psychiatric hospitals to State average**
Victoria	**8.10**	**3.08**	**2.63:1**
Tasmania	3.10	2.00	**1.55:1**
New South Wales	2.60	1.80	**1.44:1**
Western Australia	4.14	3.41	**1.21:1**
South Australia	3.70	3.80	**0.97:1**
Queensland	1.18	1.40	**0.84:1**

3.13.14 While interstate government psychiatric hospital levy rates approximate their respective State average rates, Victorian Government psychiatric hospitals pay in excess of 2.6 times the State average. This is indicative of the high level of work-related injuries in Victorian Government psychiatric hospitals.

3.13.15 The results of the audit review clearly demonstrate that the WorkCare performance of State psychiatric hospitals has deteriorated. While it is acknowledged that there are some differences in the roles of State psychiatric and public hospital employees, the comparison of workplace injury profiles reveals that the nature of the injuries themselves are remarkably similar.

RESPONSE provided by Chief General Manager, Health Department Victoria

The general theme of the report is to compare the performance of the psychiatric hospitals, which include acute patient treatment, long-stay patient care and psychogeriatric patient services, but excluding community support services, with the acute public hospitals, both in Victoria and in other States. The base level of risk in psychiatric hospitals is more akin to that of nursing homes, rather than public hospital or even private psychiatric hospital employment.

The Department's management of WorkCare is as follows:

- *Overall policy development and the issue of guidelines is the responsibility of the Occupational Health and Safety - WorkCare Advisory Committee, a tripartite committee of the Department, the Victorian Hospitals' Association and the Victorian Trades Hall Council, serviced by the Department's OHS/WorkCare Unit.*
- *The operational management of the system is the direct responsibility of individual managers operating to WorkCare requirements and guidelines issued above.*

The report recognises the improvement in the performance of public hospitals. This is due in no small part to the co-operative approach taken by all parties to improving WorkCare administration. An example is the implementation of the Health Industry Principles and Guidelines for Occupational Rehabilitation, which were launched by the Premier in May 1991.

With respect to psychiatric hospitals, the Department recognises that improvements in WorkCare performance have been slow. However, it is now apparent that a trend of improved performance is emerging.

The Department has in recent years set various activities in train. A major initiative was the release of a comprehensive OHS policy for Department employment in March 1991, and many other major initiatives have been undertaken, including the recent release, after consultation with all the major parties, of a comprehensive and integrated OPS WorkCare Strategy. These initiatives have already improved WorkCare performance and other actions to be taken under the OPS WorkCare Strategy should further this trend.

The comparison of WorkCare performance between differently classified industries is at best a dubious exercise. The ACC has determined they are different industries precisely because they are different. Furthermore, the fact of their historical placement in separate levy categories reflects a different risk profile, arising from different intrinsic risk factors. In fact, the placement of 2 entirely dissimilar Industries, such public hospitals and (for example) pig farming in the same levy category indicates the actual risk profile of these disparate industries is more similar than that of the nominally similar public and psychiatric hospitals.

Consequently, the comparison of State psychiatric hospitals with public or even private psychiatric hospital statistics does not generally indicate reasons for variations in their WorkCare performance. For example:

- *psychiatric hospitals would be expected to have a higher proportional number of claims compared with public hospitals (being a higher risk industry);*
- *the recent increase in the number of claims is not reflective of an increase in underlying accident or injury rates, but a reflection of a recent change in the balance of time lost and no time lost claims. There has been a 13 per cent decrease in time lost claims between 1990 and 1991 (see table below).*

ANALYSIS OF 1990 AND 1991 WORKCARE CLAIMS OF OPS MAJOR FACILITIES

Item	*1990*	*1991*
Total claims reported	*703*	*730 (3.8% increase)*
Claims with no compensable days lost	*158*	*256 (62% increase)*
Claims involved compensable days lost	*545*	*474 (13% decrease)*

- *injury profiles between different industry groups (such as psychiatric and public hospitals) may or may not be similar, but certainly are not indicative of relative risk profiles or management performance in reducing risk.*

The comparative information in the table about Workers' Compensation Net Levy Rates in State psychiatric employment goes some way to overcoming those methodological problems, and gives HDV some cause for concern, as did the increase of WorkCare industry levy from 2.66 to 7.0 per cent over a period of years. However, even in this comparison some factors may not be common, or may impact to variable extents, e.g.:

- *the proportion of psychogeriatric patients in OPS hospitals may be greater than in other States - moving the risk factor closer to the extended care industry levy (current Victorian levy rate of 6.36 per cent);*
- *different staffing and resourcing allocations per patient; different physical and environmental factors; and*
- *different client service philosophies and legislative requirements as to the application of physical and pharmacological restraint.*

Reasons for the poor WorkCare performance in State psychiatric hospitals

3.13.16 Due to the substantial increase in WorkCare levies for psychiatric hospitals, audit conducted a review to identify the reasons for their poor performance.

Lack of a central and co-ordinated approach

3.13.17 Government policy requires occupational health and safety and WorkCare services to be integrated and co-ordinated within individual departments.

3.13.18 The Department's involvement with WorkCare management differed markedly between psychiatric and public hospitals. Under the *Accident Compensation Act* 1985, the Department is the direct employer of the State's psychiatric hospital employees and, as such, is responsible for the administration of WorkCare in these hospitals. This includes responsibility for occupational health and safety and accident prevention, claims management, the payment of levies and the rehabilitation of injured workers.

3.13.19 In contrast, each public hospital is directly responsible for its own WorkCare performance, including the payment of WorkCare levies. This creates a strong incentive for individual public hospitals to contain WorkCare costs through the minimisation of workplace injuries.

3.13.20 A Public Service Board (PSB) review of selected psychiatric hospitals, finalised in June 1988, disclosed serious problems with the Department's overall management approach to WorkCare administration, including:

- an absence of effective organisational policies and procedures to support a corporate approach to the management of WorkCare;
- a lack of departmental monitoring and evaluation of the WorkCare performance of individual agencies; and
- an absence of information on claims experience and related costs for informed management decision-making, strategy development and performance measurement.

3.13.21 The report concluded that:

> *"Unless firm action is taken by the Department . . . no sustained effective improvement in WorkCare performance will be achieved and departmental staff and management will continue to experience the current unacceptable high level of accidents and associated costs".*

3.13.22 An analysis of departmental initiatives in response to the PSB report indicated that while the Department gave the impression of adopting a more strategic approach to its WorkCare responsibilities, **there was no substantive change in management direction as the Department had, until recently, maintained a hands off approach to WorkCare issues.**

3.13.23 Dissatisfaction with the level of departmental support provided for the purposes of managing WorkCare within individual psychiatric hospitals was highlighted in an audit survey which disclosed that:

- the majority of these hospitals considered that the overall departmental support for their occupational health and safety and WorkCare function was either inadequate or non-existent;
- departmental training in accident prevention, claims management and rehabilitation was inadequate; and
- hospitals considered that they had received inadequate statistical information essential for effective claims management.

RESPONSE provided by Chief General Manager, Health Department Victoria

The PSB review of WorkCare in selected psychiatric hospitals was commissioned by HDV in 1986, as it was recognised that an integrated and strategic response was required to address this initiative of government. After receiving the final PSB report in 1988, its recommendations were reviewed in a major internal HDV analysis in early 1989.

The Department took a strategic decision that if WorkCare was to work it would be better managed at the local level. Consequently, central resourcing was directed to the development of policy advice, guidance and training, while line management was deemed to be accountable for WorkCare management. Many psychiatric hospitals adequately addressed these WorkCare management responsibilities, and did provide specific OHS and WorkCare resourcing and training, and utilised the statistical information which was available to them. A greater number of psychiatric service WorkCare establishments have received a WorkCare bonus than a WorkCare penalty in recent years. However, the Department accepts that some facility managers were unable to implement and manage all the requirements of this complex and inter-related area, and given other major changes in psychiatric services in recent times adequate attention was not given to WorkCare improvement.

In recognition of this fact, HDV has recently created the OPS Workhealth project, is resourcing 2 project officers to tackle manual handling concerns, is supporting an aggression management project to curb occupational incidents, is developing closer co-ordination between OPS central management, the OHS/WorkCare Unit, associated WorkCare Agencies (ACC, SIO, VARC) and the unions, and is proceeding with a comprehensive OPS WorkCare strategy to integrate all aspects of improved local WorkCare performance under this centrally-monitored strategic approach.

Absence of accountability at individual hospitals

3.13.24 The management structure of public hospitals, which involves a chief executive officer reporting directly to a Board of Management, differed markedly from psychiatric hospitals where, until recently, such hospitals were managed by a tripartite structure comprising the Directors of Clinical Services, Nursing and Finance and Administration. **None of these Directors were assigned full responsibility for WorkCare administration with the end result that this key area inevitably suffered from a lack of local management attention.**

3.13.25 The lack of local accountability was further illustrated in that, while the Department paid all WorkCare levies, individual psychiatric hospitals were not advised by the Department of the levies attributed to their operations. As such, **vital management information was not available to effectively monitor WorkCare costs and performance.** Although the Department has recently taken steps to provide this information, it does not impose financial penalties on individual psychiatric hospitals with a poor WorkCare record. As a result, there has been **no financial incentive for these hospitals to improve their WorkCare performance.**

3.13.26 The fact that 6 of the 10 largest psychiatric hospitals did not include a reference to WorkCare performance improvement targets in their 1991-92 health service agreements is further evidence of the Department's failure to address this critical issue.

3.13.27 As such, the management arrangements for WorkCare in psychiatric hospitals contrasts sharply with the departmental philosophy, introduced in the mid-1980s, of making local management more accountable.

RESPONSE provided by Chief General Manager, Health Department Victoria

The Department accepts that local accountability for WorkCare is the best way to ensure improved performance, and is progressively moving towards this. The following is the series of steps which have and are being taken to enable this to occur:

- *To enable local management to be held fully accountable for their WorkCare outcomes required that the WorkCare "establishments" (determined by the ACC, and used for bonus/penalty calculation) directly reflect the area/areas of responsibility of cost centre managers. This was the primary reason for the 1989 Review of ACC Establishments, which was not concluded until the middle of 1990;*
- *Based on this, the nett levy payable for each WorkCare establishment was indicated in the cost centre reports for each program area towards the end of 1990, as a measure of each cost centre manager's performance; and*
- *Because the budget allocates funds to departmental programs rather than cost centres, it is ultimately the responsibility of the program rather than the cost centre manager to meet program service delivery requirements as well as budgets, so the debiting of WorkCare penalties against any one cost centre manager must be subordinate to the delivery of the total services delivery program. However, action has been taken to allocate a share of bonuses to agencies which have generated them, as a reward and an indicator of good faith.*

The heading "Absence of Accountability" does not reflect the emerging picture. CEOs have taken an increasing responsibility for WorkCare outcomes and cost centre managers are being given the financial information on their respective, and relative, performance. Senior management is being required to account for WorkCare performance, and the OPS WorkCare Strategy requires discrete local action plans with targets and measures to be concluded. Therefore, the emphasis in para. 3.13.27 does not reflect the current departmental reality of meaningful devolution of WorkCare accountability to line managers.

Inadequate WorkCare management information systems

3.13.28 One of the key findings included in the 1988 PSB report was the need for the Department to introduce a WorkCare management information system in psychiatric hospitals and at the Department's Head Office to enhance the management of WorkCare claims and rehabilitation and provide a reliable database to develop accident prevention strategies and evaluate management performance.

3.13.29 In late 1989, the Department initiated a pilot program utilising a PSB developed WorkCare management information system at 3 psychiatric hospitals. Implementation of the program was targeted for completion at these hospitals by 30 June 1990, with the implementation in all psychiatric hospitals planned for completion by 30 June 1991.

3.13.30 The audit review disclosed that no psychiatric hospital had fully implemented the new system due to:

- inadequate planning by the Department which resulted in user requirements not being satisfied, and
- the PSB system being incompatible with existing computer systems.

3.13.31 Despite the deficiencies identified by the PSB review in 1988, almost 4 years later critical WorkCare management information systems had still not been fully implemented in psychiatric hospitals. As a result, both individual psychiatric hospitals and departmental management did not have ready access to the information required to enable informed decision-making on accident prevention, claims and injury management and the effectiveness of WorkCare cost control strategies.

RESPONSE provided by Chief General Manager, Health Department Victoria

The Department accepts the PSB/Government Sponsored V-Smart System has not delivered on its promised potential. However, as psychiatric hospitals move towards mainstreaming with general health services it may be inappropriate to now proceed to an OPS WorkCare Management System, where receiving individual public hospitals may have different requirements, or computer systems which would not be compatible with an OPS system.

While recognising this major shortcoming, the Department does not accept the implication in para. 3.13.31 that hospitals and management do not have ready access to necessary WorkCare information. Detailed access to and analysis of the ACC database by the OHS/WorkCare Unit from 1989 has provided much valuable information to all levels of central, program and line management on WorkCare costs. This has been a driving force behind determining high risk areas and areas of inefficient management, and allowing more focused control strategies to be developed. Although this would be substantially supported and enhanced by local computer-based WorkCare systems, it is a valuable tool in its own right, and has enabled HDV to focus its resources in high risk/high cost areas.

Poor occupational health and safety

3.13.32 Under the *Occupational Health and Safety Act* 1985, the Department, as an employer, has a legal responsibility to provide and maintain a working environment that is safe and does not put at risk the health of its employees. The Act also requires an employer to:

- provide adequate facilities for the welfare of employees;
- employ qualified occupational health and safety personnel to provide advice in relation to health and safety matters; and
- monitor the condition of each workplace under the control and management of the employer.

3.13.33 To ensure these responsibilities are met, the Government requires that effective and regular health and safety inspections be undertaken by employers. However, the Department did not fully comply with these requirements as a number of psychiatric hospitals had not been subject to either an independent or internal occupational health and safety review for a number of years.

3.13.34 Due to psychiatric hospitals being identified as a high risk workplace for accidents, the Department of Labour, in April 1991, initiated an assessment of occupational health and safety management processes at 8 psychiatric hospitals.

3.13.35 The major conclusions emanating from the review were that:

- only one hospital had good health and safety practices with the remaining hospitals rated as fair;
- the assignment of, and subsequent responsibility for, occupational health and safety matters were not formally identified;
- expenditure on health and safety matters was not separately disclosed;
- in general, staff were poorly informed of the procedures available to resolve health and safety issues; and
- inadequate data collection systems existed which resulted in limited use of accident statistics by hospitals to identify high risk areas.

3.13.36 Despite the adverse findings of the review, audit established that only minimal action had been taken to rectify the unsatisfactory matters raised. The Department has failed to ensure that their WorkCare management practices have endorsed the concept that employees are a valuable business asset which needs to be supported by a strong management commitment to the provision of a healthy and safe work environment.

RESPONSE provided by Chief General Manager, Health Department Victoria

The thrust of the report is that the Department has breached government requirements, and that psychiatric hospitals in general have a poor OHS record. Although it is accepted that some criticisms may be justified, the Department does not accept that 'only minimal action has been taken to rectify the unsatisfactory matters raised in the DOL review'.

All 5 major conclusions brought forward in para. 3.13.35 reflect only OHS issues, and no reference is made to the other aspects of the reports devoted to claims management or rehabilitation/return to work issues. Some areas which received only a 'fair' rating in the DOL review, including OHS issues, are not poor WorkCare performers in terms of other measures.

The Department takes seriously its responsibility to provide a safe and healthy work environment for its employees. However, the OHS Act requires that OHS issues are addressed 'as far as is practicable', which allows employers to prioritise the order of improving known OHS risks, taking into account such factors as cost. The current restructuring of services and the relocation of services to new or upgraded facilities is addressing the shortcomings in many work environments.

Ineffective rehabilitation and return to work programs

3.13.37 Rehabilitation of injured workers is a key social and economic objective of the Government's WorkCare strategy. Low return to work rates were experienced in the early years of WorkCare. One of the major improvements introduced as part of the June 1989 WorkCare reforms package was an emphasis on the earlier access to rehabilitation for injured workers. Consistent with these reforms, in February 1991, the PSB issued a policy to all administrative units requiring the:

- establishment of rehabilitation and return to work policies and procedures; and
- early referral of injured workers for rehabilitation.

3.13.38 Of 13 psychiatric hospitals surveyed by audit, only one had a dedicated injury management co-ordinator, 6 had not established such positions and the remainder had only recently established part-time co-ordinator positions. As psychiatric hospitals were largely unable to provide effective internal rehabilitation, they were dependent on referring injured workers, particularly longer-term WorkCare claimants, for external rehabilitation.

3.13.39 Utilising Accident Compensation Commission (ACC) claims data relating to psychiatric hospitals, held by the Department, audit reviewed claimants on WorkCare benefits in excess of 3 months duration between 1 September 1985 to 30 June 1991 which disclosed that:

- **hospitals were not referring between 30 to 50 per cent of their longer-term WorkCare claimants for external rehabilitation;**
- **a number of hospitals did not refer injured workers for external rehabilitation until between 12 and 18 months after they were injured; and**
- **in several instances, there was no evidence that WorkCare recipients had been provided with any rehabilitation for periods of up to 4 years from the date of injury.**

3.13.40 Although psychiatric hospitals acknowledged that the early intervention and referral of injured workers for rehabilitation was essential to reduce WorkCare costs, delays in the referral process were attributed to:

- inadequate resources being provided by the Department to enable dedicated injury management co-ordinator positions to be established;
- a lack of departmental guidance on issues such as when the rehabilitation process should be initiated and the manner in which internal rehabilitation should be provided;
- reservations as to the effectiveness of external rehabilitation providers; and
- the absence of an integrated WorkCare management information system which hindered the early identification of potential long-term claimants who would benefit from early referral for rehabilitation.

3.13.41 The lack of resources and monitoring processes accompanied by inadequate policy guidance from the Department has limited the effectiveness of rehabilitation programs within psychiatric hospitals resulting in WorkCare costs being unnecessarily incurred.

RESPONSE provided by Chief General Manager, Health Department Victoria

The Department accepts that improved rehabilitation and return to work outcomes are crucial to improving WorkCare performance, and that some instances of inappropriate rehabilitation procedures are apparent. The Department is reviewing its long-term WorkCare claimants, both as part of the current Department of Finance/ACC strategy, and as part of the OPS WorkCare strategy. The Department Rehabilitation Policy, issued in 1989, requires early intervention and general use of external rehabilitation providers.

The OPS WorkCare Strategy is now giving priority to hospitals on OHS matters and the role and value of Rehabilitation and Return to Work Strategies. This is now being addressed by a range of actions. The 1989 Rehabilitation Policy is most comprehensive and has multiple appendices of procedural attachments, and has been the subject of substantial review in recent times through the tripartite OHS Welfare Co-ordinating Committee.

Recent initiatives

3.13.42 In October 1991, the Government announced that a change in approach to WorkCare administration in psychiatric hospitals would be adopted and that a new strategy was being prepared in acknowledgement of a requirement for strong central co-ordination and policy development.

3.13.43 Other than the recent creation of chief executive officer positions in psychiatric hospitals, the inclusion of WorkCare performance targets in employment contracts and additional WorkCare information being made available to the Department for monitoring purposes, **audit established that no specific strategies have as yet been formalised by the Department to reduce the burden on taxpayers of WorkCare costs incurred by psychiatric hospitals.**

RESPONSE provided by Chief General Manager, Health Department Victoria

This audit finding is rejected. The emerging trend in relation to WorkCare performance, e.g. no net penalty for 1992-93 and the decline in the number of claims involving lost days, illustrate that action taken by the Department is proving to be effective.

The Department has undertaken a whole range of initiatives since the beginning of 1991, including the issuing of the HDV OHS Policy and Implementation Plan in March 1991, a complete cycle of OHS/WorkCare training for psychiatric service managers during 1991, the creation of the OPS special 'Workhealth' project in September 1991, and the recent release of the OPS WorkCare Strategy has had, and will continue to have, positive impacts on WorkCare performance.

WorkCare levy payments

3.13.44 Under the *Accident Compensation Act* 1985, the Department is liable to pay a monthly levy to the ACC to cover departmental employees, including staff employed in psychiatric hospitals, injured in the workplace.

3.13.45 The Act sets out a number of levy categories for each employer establishment. Levy rates applicable to the Department currently range from 0.64 per cent to 10.99 per cent of leviable remuneration depending on the designated industry and each establishment's WorkCare performance.

3.13.46 The Department is required to certify its leviable remuneration annually and forward a return to the ACC. Leviable remuneration includes gross salaries and wages, bonuses, commissions, allowances and fringe benefits but excludes other forms of remuneration such as termination payments, certain payments to contractors, compensation paid under the Act and certain non-salary items.

3.13.47 A review of levy payments made by the Department from September 1985 to June 1991 disclosed overpayments in excess of $1.2 million resulting from:

- overstatement of certified leviable remuneration for each financial year **(levy overpayment $456 000)**; and
- incorrect registration of departmental establishments **(levy overpayment $776 000).**

3.13.48 The Department needs to re-assess its administrative functions involving the payment of WorkCare levies in conjunction with seeking recoupment from the ACC of prior years' overpayments.

RESPONSE provided by Chief General Manager, Health Department Victoria

The reference to a $1.2 million overpayment by the Department in WorkCare levies since 1985 is an overstatement. The Department complied with the directions issued by the then Department of Management and Budget in the calculation of the certified leviable remuneration for 1985 and 1986. While copies of these directions were made available to the audit, the bulk of the claimed overpayment of $456 000 relates to those 2 years.

The Department In 1988 conducted an extensive review, with the co-operation of the Accident Compensation Commission, of the departmental establishments and, after considerable negotiation, re-aligned the registration of the establishments in accordance with WorkCare guidelines. The number of registered establishments increased from 30 in 1986 to 77 in 1991, resulting in a decrease in the total levy payable. The Department continues to monitor the functions of each establishment and, when appropriate, reclassification is sought from the ACC.

Of the amount of $776 000 in overpayments claimed by audit, some $297 000 is in respect of payments made up to 30 September 1989, prior to the realignment of classifications. Over $200 000 was in respect to the 1985-86 and 1986-87 years, when the refinement of WorkCare establishments and the determination of WorkCare rates were taking place, and therefore it is doubtful if the audit claim could be substantiated. The payments for the 1987-88, 1988-89 and 1989-90 years reflect a net overpayment of $82 000, and this will be raised with the Accident Compensation Commission.

The balance of the claimed overpayment, totalling $479 000, is in regard to the period 1 October 1989 to March 1992. The levy charged by the ACC is not in accordance with the rate applicable to the established categories for those establishments, and an adjustment will be sought to the total levy payable this year.

Fit employees not re-employed by the Department

3.13.49 The State Superannuation Board periodically reviews the medical condition of former public servants, including Health Department Victoria officers, who have retired on the grounds of ill health and are in receipt of superannuation benefits.

3.13.50 Where a retired superannuant is deemed fit to resume duty the Department is required under the *State Superannuation Act* 1988 to re-engage the former employee. If the Department does not re-engage such person within 3 months of being deemed fit to resume duty, it is liable to reimburse the Board for the pension paid after that period.

3.13.51 At 31 December 1991, the Department owed the Board in excess of $500 000 as a consequence of not re-engaging former employees who were deemed fit by the Board to return to work.

3.13.52 An audit review disclosed that a significant proportion of this amount was in respect of **3 former employees who were deemed fit by the Board to return to work in 1985 but had still not been re-engaged by the Department. In addition, 4 other former employees who were deemed fit by the Board to return to work between 2 and 4 years ago, still had not been re-engaged.**

3.13.53 In this context, the Department of the Treasury advised in April 1992 of a government decision to introduce a project to support the return to work of long-term WorkCare claimants. The aim of the proposal is to achieve an immediate, significant reduction in the number of long-term public sector WorkCare claimants.

3.13.54 It is extremely disappointing that these former officers have not been re-engaged by the Department which is contrary to the key social and economic objectives of the Government's WorkCare strategy.

RESPONSE provided by Chief General Manager, Health Department Victoria

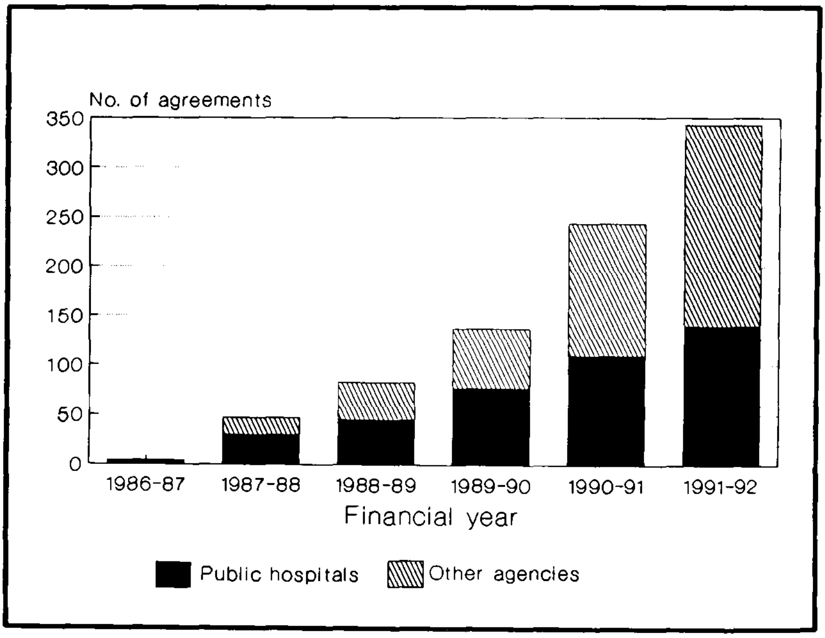
The Department supports the social and economic objectives of the Government's WorkCare strategy, but does not accept that the returning of officers from superannuation is in general a WorkCare issue. Further, it is misleading to state that former employees who were deemed fit by the Superannuation Board have not been offered positions by the Department. A number of officers identified by the State Superannuation Board were offered positions; however, some successfully appealed to the Board against the positions offered by the Department and the matters have yet to be resolved. Some officers who were returned to positions have since gone off on WorkCare.

HEALTH SERVICE AGREEMENTS IN PUBLIC HOSPITALS

3.13.55 The health service agreements program was introduced in 1986-87 in 4 public hospitals on a pilot basis and was expanded in subsequent years to include **all** public hospitals, major community health centres, psychiatric hospitals, certain non-government health agencies and other government-funded health service agencies. Each agreement, which is negotiated annually between the individual health service provider and Health Department Victoria, incorporates the provider's long-term strategy, its goals and targets for the current period, and the financial resources to be provided by the Government in that year.

3.13.56 The 1991-92 program covers 342 health providers, including 142 public hospitals which have combined budgeted recurrent outlays in excess of $2 billion. Chart 3.13E highlights the expansion of health service agreements since their inception.

CHART 3.13E. GROWTH IN HEALTH SERVICE AGREEMENTS



Source: Health Department Victoria.

3.13.57 An audit review was undertaken of the health service agreements program as it applied to public hospitals.

Overall conclusions

3.13.58 While health service agreements commit hospitals to achieving specified service delivery targets for an agreed annual cash grant from the Department, in reality, the provision of grants totalling in excess of $2 billion are still based predominantly on staffing levels.

3.13.59 The delays in finalising annual agreements has meant that some major hospitals have only 6 or 7 months to adjust activity levels to achieve output targets specified in the agreements.

3.13.60 Key decision-making in the Victorian public health sector is increasingly based upon data relating to the number of in-patients treated by hospitals and the cost of treatment which has led to a greater need for in-patient data to be accurate and reliable. However, due to inconsistent patient classification policies, inadequate management information systems and arbitrary and inconsistent cost allocation practices, the reported number of in-patients treated by hospitals and associated treatment costs are inaccurate and susceptible to manipulation.

Positive outcomes of the program

3.13.61 Health service agreements are recognised by the health sector as being a useful management tool which provides scope for the integration of health services both within and between agencies. Although program participants have varying perceptions of the program's overall effectiveness, the following positive benefits associated with the agreements process were identified:

- hospitals believe they are better able to provide input into the service priority and delivery decisions;
- the Department can better demonstrate what is planned to be achieved in the health sector using available public funds;
- the devolution of authority and responsibility from the Department to hospitals is enhanced under the program; and
- accountability mechanisms for the resources provided by the State are enhanced.

3.13.62 These observations were supported by internal reviews of the program conducted by the Department and were also consistent with the views of senior public hospital administrators.

RESPONSE provided by Chief General Manager, Health Department Victoria

The audit conclusion in para. 3.13.58 that annual cash grants are still based predominantly on staffing levels is totally rejected.

The audit conclusion in para. 3.13.59 is simplistic and superficial and does not illustrate an understanding of the budget setting process undertaken by regional directors with hospitals.

The audit conclusion in para. 3.13.60 misrepresents the refinement that is taking place in the application of national and international hospital output measures.

The Health Service Agreements (HSA) Program is a cornerstone of the legislative and operational relationship between the Health Department and health care agencies. The program provides the basis for an output and performance oriented approach to the planning, financing and delivery of health services. This approach clarifies the responsibilities and improves the accountability of the Health Department and service providers for the use of public funds.

Since the inception of HSAs in 1985, there have been 3 independent reviews of the program in public hospitals. Each review has provided unqualified endorsement of the program and, as appropriate, identified areas for improvement. The most recent report, the "Assessment of Health Service Agreements Program", July 1991 stated, inter alia:

> *"Support for the concept of Health Service Agreements remains strong. Agreements are recognised as representing an excellent management and accountability tool for the health sector."*

Previous reports have tended to take a "holistic" approach in reviewing the HSA program as well as examining specific issues relating to its operation. The audit report has considered only a limited range of specific issues. Therefore, its conclusions lack the benefit of an examination of the program in its broader context.

HSAs have ushered in a period of fundamental change in the way that health services are managed. Agreements have provided the vehicle to move the health system from a culture of "input" and "deficit" funding towards proper accountability to the community for the efficient and effective delivery of high quality health services. These fundamental contextual and underlying issues were not addressed in the report.

The suggestion that recurrent funding of hospitals is based on staffing levels rather than outputs or performance, totally misrepresents the current practice of negotiating hospital budgets. Significant innovations in respect of performance analysis, comparative cost information, DRG and case mix issues, "waiting time" analysis, health service planning and implementation of CAM/SAM funding for State geriatric centres is evidence of a major effort on the part of the Department and agencies to progress toward more service oriented and outcome criteria for determining the resources available to health agencies. Regions have extensively applied all available output and performance related information in negotiating budgets and hospitals are free to determine their own staffing levels within the negotiated global budget. Indeed, workforce restructuring initiated by hospitals over the last 2 years has enabled service levels to be increased despite budget reductions. As audit is aware, hospitals and the Department are quickly moving toward the adoption of DRG-based case-mix funding for hospital inpatient services in the future.

HSAs are a dynamic management tool that requires periodic review to ensure that it remains relevant to the needs of the health system and guarantees public accountability. The general conclusions of the audit review appear to be largely based on anecdotal statements which were not tested. It is the Health Department's view that the audit report would have arrived at very different and more constructive conclusions if a more rigourous analysis or a more thorough understanding of the health system had been evident.

The Health Department strongly supports the concept of HSAs and has developed a program capable of delivering fundamental reform of health services in this State. Unfortunately, this report represents a lost opportunity to further develop this approach.

Internal reviews of the program

3.13.63 Successive internal reviews of the health service agreements program have been undertaken since 1986. The latest review, the results of which were released in July 1991, indicated that the program was well received by public hospitals, although the following problems were identified:

- the application of the program's objectives and principles varied considerably between hospitals;
- there was a perception that signing an agreement was an end in itself with the Department providing minimal ongoing overall policy direction;
- the focus of specific objectives and targets was on *"inputs and processes"* rather than *"outputs and results"*;
- the Department was intransigent in its budgetary negotiations; and
- excessive reporting of progressive operational performance to the Department detracted from the principle of reduced departmental intervention in hospital operations.

3.13.64 The audit review disclosed that **a number of the above issues had also been identified in previous internal reviews of the program and had not been satisfactorily addressed by the Department.**

Differing views as to program's objectives

3.13.65 With the health service agreements program being a major government initiative directed towards improving the management of the public health system, it is important that the objectives of the program be clearly defined and widely circulated to ensure the program's expectations are understood by all health sector participants.

3.13.66 The *Health Services Act* 1988, which requires such agreements be completed, does not specify the aims or purposes of the agreements but the objectives of the program have been publicly stated in departmental documents.

3.13.67 However, discussions with senior departmental and hospital officers revealed differing views as to the primary objectives of the health service agreements program.

RESPONSE provided by Chief General Manager, Health Department Victoria

The objective of HSAs has been clear and well articulated since the inception of the program. HSAs have been the most widely discussed and debated reform in the history of health care in Victoria. The program's objective has been central to this discussion. The international and interstate interest shown in the program over the last 4 years, and the subsequent adoption of HSAs by a number of these health authorities, is testimony to the program's credibility. Indeed, the 1991 review of HSAs recommended that:

> *". . . the existing objective and principles should continue to form the basis of the Health Service Agreements program into the l990s."*

The program objective has been explicitly incorporated into all of the written material published on the program including information kits, resource booklets, training material, previous reviews etc., all of which have been available to the public and widely circulated to hospitals and departmental staff.

Any differing perceptions by hospitals as to the objective of the program does not stem from "an absence of clearly stated program objectives".

Do agreements reflect current government health policies?

3.13.68 The draft Victorian Health Plan, issued in 1987 by the then Minister for Health, recognised that the implementation of health service agreements was an important element in ensuring that the role, function and short and long-term strategies of health service providers were consistent with government and departmental policies and priorities.

3.13.69 In keeping with this stated purpose, the Department issued a *health service agreement policy checklist* to assist departmental officers in developing long-term strategies and specific goals with health service providers as part of the 1990-91 agreements program.

3.13.70 Departmental officers advised audit that the document was an important tool in the development of health service agreements with hospitals. **However, in audit opinion, the document's usefulness was restricted as the checklist for 1990-91 was not received within health regions until several weeks after negotiations on agreements commenced.** In addition, **most hospitals were not issued with copies of the checklist** nor did the Department ensure that the Government's key health policy priorities were fully incorporated into hospitals' 1990-91 health service agreements.

Output and performance oriented approach

3.13.71 Prior to the introduction of health service agreements, the Department managed the health system through reliance on stringent monitoring and control of resources, such as cash budgets and staffing levels, rather than directing attention towards the level and quality of services provided.

3.13.72 With the advent of the health service agreements program, an annual agreement is entered into which specifies, among other things:

- the goals and targets for the actual services to be provided in the current year; and
- the funding to be provided by the Department.

3.13.73 An audit review of health service agreements for a number of public hospitals for the 1989-90 and 1990-91 agreement years indicated that, *prima facia,* **the agreements had an output focus** as they included:

- the numbers of in-patients to be treated;
- the quantum of out-patient attendances; and
- hospital specific goals and objectives in relation to other services.

3.13.74 Of the above goals and targets, primary emphasis is placed on hospitals achieving targets relating to the number of in-patients treated in accordance with the Government's key priorities. However, a number of senior hospital executives expressed concern that increased hospital resources were being directed towards achieving this single performance measure often to the detriment of other hospital services.

3.13.75 Audit is also of the view that excessive emphasis on the treatment of in-patients may lead to an inadequate level of resources being allocated to other hospital activities such as out-patients, rehabilitation, and the provision of essential medical equipment which are also important to the overall standard of community health care.

RESPONSE provided by Chief General Manager, Health Department Victoria

Audit concludes that excessive emphasis on the treatment of inpatients may lead to inadequate funding of other hospital activities. The Department believes that the treatment of inpatients is not being over-emphasised to the detriment of the standard of health care and it has consistently emphasised that the delivery of inpatient services will remain the highest priority in negotiating hospital service levels.

Consistent with Victoria's commitments under the Medicare Agreement, however, and in line with the overall objective of efficient and effective service provision, the Health Department is also committed to the provision of an adequate and appropriate network of non-in-patient services, including emergency services. What is appropriate in any given hospital will depend on the range of in-patient services provided by the hospital, the teaching role of the hospital and the range of suitable alternative services in the hospital's catchment area which is a matter for negotiation between the Health Department and the hospital.

Imposition of financial penalties

3.13.76 In view of the intended output orientation of health service agreements it would be expected that there would be a direct correlation between the achievement of output targets and the level of funding made available to hospitals. Although the departmental view is that the health service agreements program is not premised on the imposition of financial penalties for non-achievement of agreed targets, departmental regional directors were empowered by the Department to impose such penalties.

3.13.77 In 1989-90 and 1990-91, departmental regional directors imposed financial penalties on 5 of the 17 hospitals which did not achieve their in-patient targets. Advice from senior departmental officers indicated that a variety of factors were considered in determining whether or not to financially penalise a hospital for not achieving agreed targets, including:

- Its ability to absorb a penalty if it was operating with a cash deficit;
- Budgets had already been reduced in real terms;
- The achievement of other agreed targets and goals could compensate for the non-achievement of the in-patients treated target; and
- A hospital does not benefit financially when its in-patients target is not met as the majority of hospital costs are fixed. Therefore, if a hospital is able to demonstrate that the non-achievement of the target is due to factors outside its control (e.g. lack of surgeons) it becomes inappropriate to impose a penalty.

3.13.78 The Department did not provide formal guidance or policy direction to regional directors in respect of the criteria to be used when determining whether penalties and their size were appropriate. **As a consequence, there was no consistency between regions in the imposition of penalties.**

3.13.79 In addition, evidence was not available to indicate that independent reviews were undertaken in all cases by the Department as part of the penalty process to identify the causes of the non-achievement of hospital targets and goals. Therefore, all inefficiencies in hospital operations were unlikely to be identified and would be perpetuated in the future.

3.13.80 In audit opinion, departmental policy guidance is essential if the health service agreements process is to be performance orientated and penalties imposed for poor management performance.

RESPONSE provided by Chief General Manager, Health Department Victoria

Audit proposes that centrally-determined, prescriptive guidelines be provided for the purpose of consistent imposition of punitive (financial) sanctions on hospitals that do not meet agreed goals. While the Department can understand that consistency in the application of sanctions has some merit, it leads to unacceptable and unfair outcomes.

As the audit report itself indicates, hospitals are complex organisations. The imposition of prescriptive financial penalties would be counter-productive and inappropriate in most cases. The failure to meet targets may result from exogenous factors outside the hospitals' control. Changes in case mix (i.e. the complexity of patients treated), the emergency workload, availability of surgeons/specialist nurses, the significant swing from private to public patient within public hospitals etc. are only a few of a myriad of factors that must be considered in assessing whether to impose punitive measures against a hospital. Therefore, the underlying reasons need to be carefully examined before financial penalties are considered. It is not only desirable but necessary to have a flexible approach to sanctions imposed by the Department for the "failure" to achieve goals. Conversely, it is essential that the HSA Program provides incentives to encourage improved management and delivery of health services.

Has the output focus worked in practice?

3.13.81 The introduction of health service agreements was seen as a means of determining the services to be provided in exchange for a prescribed level of funding. However, the provision of government recurrent grants to hospitals is based on the hospitals' historically-based number of effective full-time staff with incremental adjustment for:

- non-discretionary award variations;
- productivity savings required by the Department; and
- new government health initiatives.

3.13.82 Under the health service agreements program the only funding adjustment relates to the failure to achieve the targets set for in-patients. However, as stated previously, this adjustment is rarely made. **While health service agreements commit a hospital to achieving specified goals and throughput targets for an agreed annual cash grant from the Department, in reality, the provision of government funding is still predominantly based on resource inputs.**

RESPONSE provided by Chief General Manager, Health Department Victoria

This audit conclusion is totally rejected.

In-patients treated

3.13.83 A frequently quoted statistic by hospitals is the number of in-patients treated during a given year. This statistic is regarded as a primary output performance measure and is highlighted in each hospital's annual report and in monthly and annual statistical returns submitted by hospitals to the Department. In addition, the Government regularly refers to improvements in statistics on in-patients treated in press releases and in other public documents.

3.13.84 In view of the importance of statistics on in-patients treated, particularly where there are funding implications, it is essential that these statistics be based on a definition of an in-patient which is consistently adopted and applied throughout all hospitals and is supported by uniform patient categorisation policies.

3.13.85 A review of the patient categorisation policies at a number of public hospitals revealed inconsistencies throughout the State in that patients undergoing a particular medical procedure may be admitted as in-patients at one hospital but would be classified as out-patients at another hospital.

3.13.86 These inconsistencies fell into 3 broad categories:

- At a number of hospitals, patients were automatically classified as in-patients by the hospitals' computerised patient recording system if they were not released within 4 hours of initially receiving medical attention. However, at other hospitals, a person may remain in hospital overnight for observation and still not be classified as an in-patient;

- Some hospitals admitted patients as in-patients for treatments, such as renal dialysis and chemotherapy, while other hospitals regarded these treatments as out-patient activities. **Several senior hospital executives advised audit that a number of procedures previously classified by hospitals as out-patient services were now recognised as in-patient procedures in an attempt by hospitals to boost their in-patients treated numbers;** and
- Certain hospitals discharge and re-admit patients who are on short-term leave from the hospital, while other hospitals do not record these patients as having been discharged. One hospital recorded boarders as in-patients, e.g. a fit mother accompanying a sick infant in hospital.

3.13.87 The lack of uniformity in patient classification has wider implications as the Government, since 1988-89, has heralded as a major health achievement, the record level of in-patients treated in Victorian public hospitals and has stated as a key policy initiative the continued growth in in-patients treated numbers.

3.13.88 As a consequence of the variety of patient classification policies adopted by hospitals, the usefulness of inter-hospital comparisons of in-patients treated numbers for both management decision-making, funding purposes and public information is limited and raises doubts as to the accuracy of any claims of improvements to in-patients throughput.

RESPONSE provided by Chief General Manager, Health Department Victoria

This audit conclusion misunderstands the refinement that is taking place in the application of national and international hospital output measures.

Audit's conclusion that inconsistent use of in-patient definitions undermines the credibility of the most widely used indicator of performance of hospitals is based on limited research and analysis. There is little relevant evidence to support this finding together with a lack of recognition of the inherent difficulties associated with developing appropriate performance measures for the range and volume of services as complex as those provided in a hospital.

The classification of in-patients is a matter of clinical judgement for which it is not possible to specify precise details covering all eventualities. Therefore, it would have been more prudent for audit to seek opinions from senior hospital managers of their "Admission Policy" rather than the definition of In-patients Treated. This would have demonstrated that there is a consistent approach in admitting patients.

The "Inpatient Treated" definition that has been provided by the Department attempts to clarify the classification of some of the most common occurring "borderline" cases (such as renal dialysis, chemotherapy and day procedure patients) to get greater consistency in the reporting of patients treated. The existing definition of an inpatient treated is also consistent with the National Minimum Data Set. Hospitals are aware of the definition which appears in the "PRS/2 Hospital User Guide" and in HSAs.

While it is correct that the Department uses In-patients Treated as an important output measure, the HSA process requires extensive reporting of other statistical performance measures to complement In-patients Treated. Increasing emphasis has been placed upon the collection of Non-in-patient Occasions of Service in accordance with national definitions.

The comment that "several senior hospital executives advised audit that a number of procedures previously classified by hospitals as out-patient services were now recognised as in-patient procedures in an attempt to boost their inpatients treated numbers" is an unjustified and unsubstantiated criticism. Where a procedure is recorded as an in-patient treated for consistency purposes then there is an upward adjustment of the in-patient target for the hospital with a corresponding decrease in out-patient target.

In-patient ratios

3.13.89 In-patient cost measures and efficiency ratios are used for a variety of purposes throughout the Victorian public hospital sector. In-patient average cost data is included in the majority of hospitals' health service agreements and annual reports. In addition, each year the Department calculates ratios for hospitals based on cost data provided by hospitals so as to enable inter-hospital cost and efficiency comparisons.

3.13.90 The growing importance of in-patient cost ratios increases the need for data to be accurate and reliable. However, a review of cost data provided to the Department by hospitals disclosed the following deficiencies:

- expenses, funded from capital and specific purpose funds, which contribute to the cost of maintaining in-patient services were excluded when determining in-patient cost ratios; and
- hospitals apportion overhead expenses and certain direct expenses between in-patient and out-patient services in an inconsistent and arbitrary manner.

3.13.91 Hospitals did not have in place information systems to enable the capture and appropriate allocation between activities of all costs incurred although some hospitals are currently in the process of developing sophisticated management information systems, e.g. clinical costing systems.

3.13.92 As hospitals are maintaining inadequate management information systems and are using inappropriate cost allocation practices, reported in-patient, out-patient and other activities costs are prone to inaccuracies and are susceptible to manipulation. As a consequence, the Government is using unreliable data as the basis for key decision-making in the Victorian public health sector.

Negotiation of agreements

3.13.93 When health service agreements were introduced, the then Minister for Health indicated that a framework would be established in which hospitals and the Government could work together in a co-operative environment to negotiate the level of service delivery and resource usage and avoid excessive departmental interference in the daily operation of hospitals.

3.13.94 The Department's working party report in July 1991 stated that there was widespread concern among hospital managers that the 1990-91 health service agreements negotiation process was unsatisfactory as the Department adopted an inflexible stand in budgetary negotiations. This finding was similar to the results of a recent Victorian Hospitals' Association survey of hospital senior executives which indicated that the agreements program did not enable real negotiations to take place, a view which was also confirmed by audit.

3.13.95 Senior hospital executives advised audit that, from the 1989-90 agreement year onwards, the negotiation process had degenerated to the point where the Department directed hospitals to increase in-patients treated targets while decreasing recurrent budgets in constant dollar terms. **Hospital executives were concerned that they were expected to achieve productivity improvements each year when factors which impact upon hospital productivity, e.g. work practices, industrial awards and systems for medical remuneration, could only be addressed by a co-ordinated approach between the Department, hospitals and industrial organisations.**

3.13.96 Audit acknowledges that the Department is required to negotiate health service agreements within government budgetary guidelines which, for the past 2 years, have imposed stringent expenditure controls and demanded productivity improvements.

3.13.97 If the primary objective of the health service agreements program was the establishment of a framework in which hospitals and the Government could negotiate service delivery and resource usage in a co-operative manner then, based on the experience of the 1990-91 agreements negotiation process, this objective has not been met.

3.13.98 Given the importance of the health service agreements process, it was disappointing that 14 of the State's 20 largest public hospitals finalised their 1990-91 agreements after 30 September 1990, with 5 agreements not being finalised until December 1990. This represents a significant deterioration compared with the previous agreement year when only 5 major hospitals had not finalised their agreements by 30 September.

3.13.99 As a result of the delay in finalising health service agreements, and the subsequent establishment of operational strategies to achieve targets identified in the agreements, some major hospitals have only 6 or 7 months to adjust activity levels to achieve the necessary outcomes. These delays are not conducive to good hospital management or the efficient use of scarce public resources.

RESPONSE provided by Chief General Manager, Health Department Victoria

This audit conclusion is the result of a misunderstanding by audit of the budget setting process undertaken by regional directors with hospital managements. This process commences prior to the State Budget and hospitals are advised to set activity levels sustainable by the likely budget outcome.

Anecdotal evidence that the Health Department came to the negotiating table with a fixed position rather than in genuine negotiation misrepresents the process. The negotiating position developed by the various regional offices of the Department would be no different from hospitals determining their position prior to negotiation. There are clear parameters set by government that the Department must work within. Flexibility can only be provided within these parameters. To do otherwise is to ignore or breach government policy on such matters. The HSA Assessment Report in 1991 concluded that "It is recognised that the negotiation of an agreement . . . must take place within the parameters (budgetary and otherwise) set by Government. Therefore, it can never be an open-ended negotiation process."

The scope for negotiation is not as broad as some senior hospital executives would prefer. However, there is genuine negotiation that occurs over key aspects of agreements, including resources. There is considerable merit in having a final deadline for signing agreements. Every effort is made to meet these deadlines. However, they cannot always be achieved when the process, by its very nature, requires agreement in a period of budgetary constraint.

It is agreed that the annual re-negotiation of Agreements imposes greater limits on the efficient management of hospitals compared with, say, a triennial budget arrangement. The system could also be improved by an earlier State budget. However, to imply that hospitals only have 6 or 7 months to achieve the necessary adjustments ignores the fact that hospital managers are aware of the likely budget scenario before agreement negotiations commence and they can (and generally do) adjust their activity accordingly. Secondly, any adjustment from the expected outcome will be minimal and should require very little corrective action. The delay in signing is generally a dispute at the margins. Therefore, hospitals are aware of their general budget position long before documents are formally signed.

STAFF CAFETERIAS IN PSYCHIATRIC HOSPITALS

3.13.100 The Department provides psychiatric services to the public of Victoria through a State-wide network of hospitals and centres. Staff directly employed by the Department in psychiatric hospitals and centres exceeded 5 600 at 30 June 1991.

3.13.101 Although the Department is not obliged under current industrial awards to provide staff cafeterias, the provision of these facilities has been agreed to over time as a result of negotiations with relevant unions. At 30 June 1991, **separate staff cafeterias operated at 14 of the State's 20 psychiatric hospitals.**

3.13.102 The price of meals provided to staff has also been determined by negotiation with relevant unions. Since 1972, meal prices have been set to cover mainly the cost of ingredients and have been increased periodically in line with inflation. These pricing arrangements result in psychiatric hospitals subsidising the difference between sales revenue and meal production costs. **As psychiatric hospitals are financed from Parliamentary appropriations, public moneys effectively subsidise staff cafeteria services.** Similar subsidies existed in public hospitals as detailed in my *Special Report No. 12, Alfred Hospital, May 1990.*

Overall conclusions

3.13.103 Audit found that the level of subsidisation for the provision of staff meals in psychiatric hospitals determined by the Department in 1990 to be $1.6 million a year had been substantially understated. In addition, the strategies formulated by the Department to phase-out the subsidy by the end of 1992 had not been implemented.

3.13.104 The review also disclosed that the adoption of cafeteria staffing levels similar to those existing in metropolitan public hospitals would achieve substantial savings in labour costs.

Formulation of strategies to eliminate subsidies for staff meals

3.13.105 Following a departmental decision in 1990 to achieve cost neutrality in the provision of staff meals, an examination of the net cost of providing staff meals in psychiatric hospitals was undertaken by the Office of Psychiatric Services (a unit of the Department) in September 1990. **The review determined that the provision of staff meals was subsidised by up to 80 per cent of meal production cost and was costing taxpayers approximately $1.6 million.**

3.13.106 As a consequence of the review, and the Government's stated intention to phase-out meal subsidies in public hospitals, **the Department formulated a strategy to eliminate the subsidisation of staff meals in psychiatric hospitals by 31 December 1992.** The strategy included:

- The generation of additional revenue ($512 000) from increased meal prices during 1990 to 1992. However, it was recognised that any increase in meal prices would have to be negotiated with relevant unions;
- The establishment of workplace committees in individual psychiatric hospitals to identify and implement cost savings; and
- The production of periodic reports to monitor subsidisation levels.

3.13.107 The strategy envisaged that revenues would increase by $200 000 in 1991-92 due to increases in meal prices. The reduction in staff cafeteria operating costs was expected to result in a fall in the level of subsidisation to 25 per cent in 1991-92 and its entire elimination by 31 December 1992.

3.13.108 During 1991-92, the audit review identified that the Department's strategy had not been implemented.

3.13.109 While negotiations had occurred with unions, the end result was that meal price increases beyond the inflation rate had been deferred indefinitely. In contrast, over a similar period, major metropolitan public hospitals had reduced staff meal subsidies by 18 per cent.

3.13.110 The failure of both psychiatric hospitals and the Department to implement the subsidisation reduction strategy in the proposed manner raises doubt as to whether the Department is fully committed to phasing-out staff meal subsidies in psychiatric hospitals.

What is the actual level of subsidisation?

3.13.111 As stated previously, the Department, in September 1990, determined that the cost to Victorian taxpayers of subsidising staff meals was approximately $1.6 million a year.

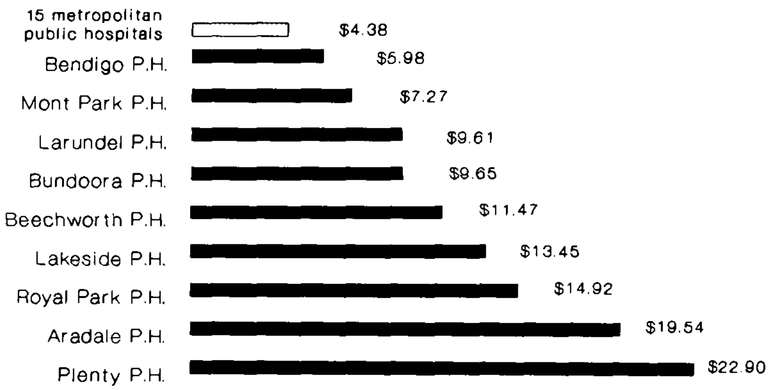
3.13.112 However, the audit review disclosed inconsistencies in the accounting records relating to staff meals maintained by individual psychiatric hospitals. In addition, costs related to cafeteria operations which were incurred but not paid in the year such as trade creditors, accrued employee entitlements (e.g. superannuation and long service leave) and depreciation of associated assets were not taken into account by the Department when determining the extent of the subsidisation. Due to these deficiencies, audit is of the opinion that **the amount of meal subsidies identified by the Department is substantially understated.**

3.13.113 The inability of the Department to record cafeteria costs on a consistent basis, using accepted accrual accounting principles, severely restricts its capacity to identify and address subsidisation levels and inefficiencies in staff cafeteria operations.

Potential for cost savings in psychiatric hospitals' staff cafeterias

3.13.114 As part of the audit review, a comparison was made of the production cost of staff meals in psychiatric hospitals with the average cost in 15 metropolitan public hospitals. Chart 3.13F highlights the results of the review.

CHART 3.13F. AVERAGE STAFF MEAL COSTS, 1990-91



KEY: P.H. - Psychiatric Hospital

Source: Psychiatric Hospital Statistics and Hospital Annual Returns 1990-91

3.13.115 As can be seen from the above chart, **the average cost of metropolitan public hospital staff meals in 1990-91 was $4.38 whereas the average meal cost in psychiatric hospitals reviewed was 3 times higher.** While a detailed analysis of reasons for the substantial variations in meal costs was not undertaken by audit, it was apparent that high staffing levels in psychiatric hospital staff cafeterias were a major contributing factor. For example, in one psychiatric hospital 4 equivalent full-time staff were engaged at weekends to produce on average only 23 employee meals per day. **If productivity levels in major psychiatric hospital staff cafeterias were consistent with those in the 15 metropolitan public hospitals then savings in excess of $650 000 a year could be achieved.**

3.13.116 Audit has been advised by the Department that a review is currently being undertaken of non-direct staffing positions in psychiatric hospitals which may result in the reduction of staffing levels within staff cafeterias.

RESPONSE provided by Chief General Manager, Health Department Victoria

The Department in 1989, after conducting a preliminary review of the cost of providing staff meals in public hospitals, introduced initiatives to reduce the overall level of subsidy, either by way of reductions in the cost of providing these services or by way of additional revenue by increasing the price of meals provided. Extensive negotiations were conducted with relevant unions and the phasing-in of the subsidy reduction strategy was endorsed by the Industrial Relations Task Force of government.

The Department also reviewed the cost of providing for the cafeteria services across the psychiatric hospitals and established a target for the reduction in the subsidy cost by increasing meals charges to raise a further $200 000 in the 1990-91 financial year. The provision of services was also to be reviewed, with a view to reducing the cost of providing for these services.

The Department, in conjunction with the Public Service Board and the Department of Labour, has conducted extensive negotiations with the relevant unions as part of the review of the non-direct care services in psychiatric hospitals. This review has identified the need to reduce staffing levels and to change rostering practices. However, industrial negotiations have to date been inconclusive.

The Department has identified through the introduction of the M.I.S. (management Information system) in 1990, the cost of providing meals by appropriate allocation of costs to hospital cost centres. Higher than average costs have been brought to the attention of hospital managers. These issues are addressed in the negotiating process, in the signing of Health Service Agreements and also on a State-wide level in the non-direct care review.

The Department has initiated many changes in the provision of both patient and non-patient meals services, including the adoption of common menus for patients and staff and the closure of separate kitchens for staff at Lakeside. The proposed amalgamation of the Larundel, Plenty and Mont Park Hospitals into a single entity, with one staff cafeteria, will further reduce the level of subsidy. The need for a separate kitchen at the Royal Park Hospital cafeteria is also being reviewed, and the kitchen will be closed if alternative arrangements are available.

The need to provide for staff cafeterias in psychiatric hospitals is supported by both staff and management. Current rostering arrangements necessitate staff to work extended shifts, with provisions under the Public Service Board Determinations for meal breaks during these shifts. In many circumstances it is not considered appropriate for staff to have meals off campus, due to timing and security arrangements. It is necessary in many cases to provide for meals, either hot or cold, through staff cafeterias, and in some circumstances the full cost of providing for these services is still substantially in excess of the price charged to the staff.

As in the public hospital system, the Department is aiming at operating cafeterias at a break-even point on the direct cost of providing the services, and the current rationalisation process, including mainstreaming of services within the general hospital system, will substantially achieve the withdrawal of the current direct subsidy.

CASH MANAGEMENT IN PUBLIC HOSPITALS

3.13.117 The Health Department Victoria has requested, as part of its annual budget negotiations, that hospitals maximise their revenue collection performance by ensuring that correct rates are charged for all services, any impediments to the timely collection of fees be corrected, bad debts be reduced and cash management monitoring practices be improved.

3.13.118 During 1991, audit reviewed the cash management practices in 37 major Victorian public hospitals. The scope of the review included an examination of the policies and practices in place to govern the investment of any short-term cash surpluses and the procedures established for the collection, banking and disbursement of hospital funds.

Overall conclusions

3.13.119 Audit found that the majority of hospitals reviewed had adequate cash management strategies in place for the collection, receipting and banking of funds. However, the practice of maintaining separate bank accounts for various activities within hospitals should be reviewed with the aim of minimising bank charges, such as interest on overdrawn bank balances.

3.13.120 The quantum of outstanding payments to suppliers which increased by 15 per cent over the last 12 months is a matter which also requires attention.

Collection practices

3.13.121 Sound management procedures for the prompt collection of outstanding debts requires that invoices be issued in a timely manner after services have been provided and outstanding debts be regularly reviewed and appropriate action be taken to collect those debts not paid within the approved credit period.

3.13.122 Most hospitals maintain computerised debtors systems for controlling revenue due from patient services. Approximately 75 per cent of the hospitals reviewed issued invoices within a week of the service being provided and follow-up statements on outstanding fees were issued monthly. Reports on the status and age of outstanding debtors were generally prepared monthly and were reviewed by Hospital Boards of Management or their Finance Committees.

3.13.123 At 30 June 1991, outstanding patient fees for the major hospitals examined totalled $34 million. Generally, most outstanding fees were recovered over time from health insurance funds or from government agencies such as the Transport Accident Commission.

3.13.124 Documented policies and procedures in respect of the non-payment of overdue accounts were not in place in 7 hospitals. **Despite hospitals not having substantial doubtful debts, it is appropriate that written procedures on debt collection practices be maintained in all hospitals to facilitate the prompt collection of fees thereby minimising collection and administrative costs associated with the pursuit of overdue accounts.**

Receipts and bankings

3.13.125 An effective cash management system includes the prompt banking of all moneys received and the regular monitoring of bank balances to ensure that adequate funds are available to meet the hospital's immediate obligations and any surplus moneys be prudently invested. Every endeavour should be made to avoid holding substantial funds on hand.

3.13.126 All hospitals had procedures in place for the daily collection and banking of moneys.

3.13.127 The review highlighted that moneys held overnight were adequately secured on hospital premises. At 30 June 1991, 30 hospitals had funds on hand which ranged from $8 000 to $635 000.

3.13.128 All hospitals had authorised bank overdraft limits ranging from $50 000 to $7.5 million.

3.13.129 In all hospitals, payment transactions occur daily but revenue inflows from government grants, patient fees and other sources do not match the frequency of such disbursements resulting in the general operating bank accounts being overdrawn and incurring substantial interest charges. At 30 June 1991, overdraft interest rates varied between 14.25 per cent and 15.75 per cent.

3.13.130 It was evident that most hospitals relied on continuing overdraft facilities in order to maintain an adequate liquidity level to service their operational activities pending the receipt of government grants. In many instances, hospitals with substantial cash holdings in specific purpose bank accounts were not offsetting those balances against the overdrawn general operating bank account thereby incurring higher interest charges than necessary.

Investments

3.13.131 The investments held by hospitals generally represented surplus moneys required for various specific purposes. At 30 June 1991, investments held by the 37 major hospitals reviewed totalled $191.5 million, as shown in the following table.

TABLE 3.13G
INVESTMENTS HELD AT 30 JUNE 1991

Item	*$million*
Term deposits	86.7
Bank and commercial bills	68.0
Deposits at call	17.0
Inscribed stock and Govt securities	11.7
Mortgages	4.3
Pyramid Bonds	2.1
Other	1.7
Total	**191.5**

3.13.132 Of the hospitals reviewed, only half maintained written investment policies approved by Hospital Boards of Management. For the remaining hospitals, each investment was approved by the Hospital Board prior to lodgement.

Disbursement practices

3.13.133 Most hospitals have a centralised accounts payable function for the processing of payments to suppliers. While it is the objective of most hospitals to pay suppliers on the due date, several hospitals indicated that **supplier payments were unduly delayed during 1990-91 because of liquidity problems**. The main factors contributing to the delays were the late receipt of government grants and insufficient funds within their general operating bank accounts.

3.13.134 At 30 June 1991, supplier accounts due for payment totalled $53 million for the hospitals reviewed, compared with $46 million in the previous year.

RESPONSE provided by Chief General Manager, Health Department Victoria

Public hospitals under the standard conditions of funding for registered funded agencies issued by the Department are required to maintain 3 funds: the operating, special purposes, and capital funds. These are required to maintain accountability for the different sources of funds received by hospitals, either from State Appropriations, hospital patient revenue and contributions by the public for both general and specific purposes.

While many hospitals operate one bank account, to maximise investment and operational efficiencies, other hospitals maintain separate bank accounts, to keep segregated the funding sources. Hospitals are encouraged by the Department to maximise liquidity control and to minimise debt servicing costs. In some instances hospitals will utilise overdraft facilities to meet day-to-day fluctuations in receipts and payments, and at the same time maximise the return on medium to long-term investments.

The Department is currently reviewing the accounting procedural manual for hospitals. This will include a review of the existing positions in relation to fund accounting. The review will also address the need for all hospitals to have in place procedures for debt collection practices.

The Department's strategy in relation to hospital revenue collections is that revenue shortfalls against approved budgets are only adjusted in exceptional circumstances during the year, and inadequate collection performances are not covered by adjusted cash flows from the Consolidated Fund. There is, therefore, an incentive for hospitals to maintain a rigourous approach to fee collections, as recognised by audit. The cash flow of grants to hospitals reflects adjustments during the year for award cost increases and other approved changes, and, generally, hospitals can maintain operating cash surpluses and minimise interest charges. A small number of hospitals with long-term accumulated deficits have been required to incur interest charges which are required to be carried by the incurring hospital. To minimise this cost, the Department has made temporary cash advances to a number of hospitals, especially in rural Victoria.

The increase in the level of supplier accounts due for payment is a matter which is often discussed, along with debtor performance, in the monitoring process between hospitals and the regional directors. Hospitals incur in excess of $500 million in supplier accounts per annum, including light, power and fuel, equipment purchases, fee for service payments, medical supplies and general administrative costs. After adjusting for the level of consumer price increases and hospital activity increases, the change identified by the audit may be a reflection of improved accounts payable procedures, taking into account credit facilities available from suppliers, and may not be reflection in the cash position of the individual hospital involved.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced

Health Department Victoria

Ministerial Portfolios, May 1989, p.107	Need for improved management practices in the development and operation of the Department's 91 community health centres.	A report by the Department's Community Health Task Force has been prepared and referred to the Health System Review Committee (established by the Government) which was due to report at the end of 1991.
Ministerial Portfolios, May 1989, p.117	Lack of strategic planning for the introduction and use of information technology throughout the Department.	A Strategic Information Systems Planning (SISP) framework has been adopted and information systems plans are being progressively implemented in departmental areas. Additional guidance has been provided by departmental circulars.
Ministerial Portfolios, May 1989, p.121	Improved monitoring practices required in relation to grants made to non-government organisations.	The Department's Office of Psychiatric Services is working progressively towards implementing the State Government Guidelines for funding non-government organisations. It was aimed to have non-government psychiatric service agencies subject to monitoring by February 1992.
Ministerial Portfolios, May 1990, p.154	Substantial savings could be achieved through a revision of inefficient work practices in relation to cleaning services in psychiatric hospitals.	Staffing levels and work practices to produce more efficient use of resources are being achieved in the context of industrial agreements relating to structural efficiency.
Ministerial Portfolios, April 1991, p. 239	Potential for fraud within the accounts payable and general ledger system due to inadequate system and user procedures.	Implementation of an accounts payable policy and review unit ensures compliance with procedures to maintain system integrity.
Ministerial Portfolios, April 1991, p. 240	Poor internal controls over payments of grants to public hospitals and other institutions. Possibility of fraud or duplicate payments.	Secondary verification of grants payable to public hospitals and other institutions has been implemented.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Ministerial Portfolios, April 1991, p. 238	Mental Health Donations Trust Fund cannot be disbursed due to a lack of trustees.	Action commenced for the State Trustees to be appointed as the Custodian Trustee.
Ministerial Portfolios, April 1991, p. 266	No overall planning strategies and policies have been developed for the future direction of State-wide health services for the aged.	A discussion paper on Health Services for Older Victorians was released for comment in November 1991. The Department is phasing in CAM/SAM resourcing standards into geriatric nursing homes as a residential care initiative.
Ambulance Service Victoria		
Ministerial Portfolios, May 1989, p.126	The *Ambulance Services Act* 1986 does not provide for legislative reporting deadlines and presentation of annual reports to Parliament, including audited financial statements.	One Ambulance Service has not been included in Schedule 2 of the *Annual Reporting Act* 1983 but it has been requested to comply with the legislative requirements.
State hospital system		
Ministerial Portfolios,May 1989,p. 107	Need for improved management practices in the development and operation of community health care.	Gradual implementation of information systems which will provide data required and the development of performance indicators is being undertaken by the Department's Community Health Development Unit. In addition, the health system review committee has submitted a report to the Minister on this subject.
Ministerial Portfolios, May 1989, p. 121	Improved monitoring practices required in relation to grants made to non-government organisations.	The Department of the Premier and Cabinet have issued guidelines on monitoring practices of grants. Minimum data sets have been developed. Four non-government funded agencies will report using the minimum data sets on 30 June 1992.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Ministerial Portfolios, May 1990, p. 156	Need for development of cleaning standards at a central level for State-wide application to effectively deploy resources in maintaining required levels of disinfection, sanitation and general cleanliness, throughout the State's psychiatric hospitals and institutions.	Agreement with relevant unions on the process of introducing major reform in non-direct care areas and implementation is currently in progress at Office of Psychiatric Services facilities. Senior hospital cleaning staff are to provide advice on cleaning, food services requirements and resource standards.
Ministerial Portfolios, May 1990, p. 160	Action is required to reinstate denominational hospitals under the provisions of the *Annual Reporting Act* 1983.	St Vincent's Hospital and Caritas Christi Hospice were brought under the Annual Reporting Act from 1 July 1991.
Ministerial Portfolios, May 1990, p.163	There is a need to urgently upgrade the standard of financial management and management information systems in public hospitals.	The Department is currently in the process of producing an Accounting Procedures Manual.
	Need for improved valuation, recording and reporting of assets by hospitals.	Departmental circular has been issued to apply from 1 July 1991.
Report on the Treasurer's Statement, October 1990, p.95	Reduction in Commonwealth funding available to public hospitals due to failure of hospitals to treat specified levels of Medicare patients.	Matter currently being addressed as part of the current review of Medicare arrangements which is expected to be completed by the end of 1992.
Ministerial Portfolios, April 1991, p. 243	The concept of *the reporting entity* needs clarification.	All subsidiary entities within hospitals including fund raising bodies are to be consolidated within the hospital accounts in line with Australian Accounting Standards.
Ministerial Portfolios, April 1991, p. 242	Hospitals continue to experience difficulty in preparing acceptable financial statements in a timely manner.	Reporting deadline extended for 90 hospitals for the 1990-91 year.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Ministerial Portfolios, April 1991, p. 250	Accountability for private practice arrangements within public hospitals is lacking.	Policy circular has been issued and it is expected that all arrangements will be reported through hospital financial statements in line with Australian Accounting Standards.
Ministerial Portfolios, April 1991, p. 254	Private practice trust funds are outside of the control and scrutiny of hospital boards.	All subsidiary entities including trust funds are to be consolidated within the hospital accounts in line with Australian Accounting Standards.
Ministerial Portfolios, April 1991, p. 257	Some public hospitals have adopted an entrepreneurial approach in encouraging private practice within out-patient services to increase practitioners income, contrary to the spirit of the Medicare Agreement.	Issue of out-patients is being reviewed by the National Health strategy and may be examined by the functional review established as part of the Special Premiers' Conference processes.
Ministerial Portfolios, April 1991, p. 264	Nursing homes remain unoccupied despite completion and fit-out.	The nursing homes have since been fully commissioned.
Ministerial Portfolios, April 1991, p. 283	Hospital incinerator emissions did not meet EPA prescribed standards.	All sub-standard hospital incinerators to close by 30 June 1993. First stage closure of 10 metropolitan hospital incinerators will be implemented by 30 June 1992.
Victorian Health Promotion Foundation		
Ministerial Portfolios, May 1990, p.170	Concern at the failure of the Foundation to expend all moneys in accordance with budget submissions and whether accumulation of large cash reserves is compatible with legislative objectives.	The Foundation is in the process of implementing a financial planning process to reduce cash reserves to a level of 10 per cent of the tobacco levy by 1993-94.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	No action taken	
State hospital system		
Ministerial Portfolios, May 1990, p.166	There is a need for the Department to review its current role in policy development, implementation, review and monitoring of performance within public hospitals and compliance with government policy directives.	Position unchanged. Hospitals are of the opinion that roles, functions and accountability of hospital boards of management are sufficiently detailed in legislation and health service agreements.
Ministerial Portfolios, May 1990, p.169	Need for the Department to specify at the time of providing ordinary grants the portion of the grant that is to be used for capital purposes.	Matter remains unresolved. Grants to hospitals are decided on the basis of approved global recurrent budgets, less approved receipts, and the disbursement of funds available is at the discretion of hospitals.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Health Department Victoria	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	31 October 1991	8 November 1991 *(a)*
Alexandra and District Ambulance Service	30 June 1991	No reporting requirements. *Ambulance Services Act* 1986, s.38 provides for the audit of the accounts.	29 October 1991	3 January 1992
Ambulance Officers' Training Centre	30 June 1991	30 September. *Annual Reporting Act* 1983, s.8. Extension granted to 31 October 1991.	3 October 1991	8 October 1991
Ambulance Service Victoria -				
Metropolitan Region	30 June 1991	30 September. *Annual Reporting Act* 1983, s.8. Extension granted to 31 October 1991.	2 October 1991	30 October 1991 *(a)*
North Eastern Region	30 June 1991	.. ..	20 August 1991	23 October 1991
North Western Region	30 June 1991	.. ..	22 August 1991	29 October 1991
South Eastern Region	30 June 1991	.. ..	18 October 1991	19 November 1991
South Western Region	30 June 1991	.. ..	13 September 1991	25 October 1991
Western Region	30 June 1991	.. ..	21 August 1991	25 October 1991
Dietitians Board of Victoria	30 June 1991	30 September. *Dietitians Act* 1981, s.25.	17 September 1991	20 October 1991
Mental Health Review Board	30 June 1991	30 September. *Mental Health Act* 1986, s.136.	30 September 1991	14 October 1991
Optometrists Registration Board	30 June 1991	30 September. *Optometrists Registration Act* 1958, s.22.	14 November 1991	14 November 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits - *continued*				
Public hospitals and nursing homes	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8. *(b) (c)*	Various dates	Various dates
Psychosurgery Review Board	30 June 1991	30 September. *Mental Health Act* 1986, s.138.	30 September 1991	14 October 1991
Victorian Health Promotion Foundation	30 June 1991	30 September. *Annual Reporting Act* 1983, s.8.	27 September 1991	30 September 1991
Victorian Nursing Council	30 June 1991	31 October. *Nurses Act* 1958, s.40.	3 October 1991	14 October 1991
Incomplete audits				
Central Gippsland Hospital	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8. Extension granted to 31 December 1991.	Financial statements require further amendment by Hospital.	
Prince Henry's Institute of Medical Research	31 December 1991	Before the expiration of the 7th sitting day of Parliament. Prince Henry's *Institute of Medical Research Act* 1988.	Audit currently being finalised.	

(a) Qualified audit report issued.
(b) Extension granted to 30 November 1991 for 61 hospitals.
(c) Extension granted to 31 December 1991 for 20 hospitals.

3.14

LABOUR

KEY FINDINGS

- At December 1991, a backlog of over 650 fraud allegations, which could take up to 18 months to resolve, were at various stages of investigation.

  Paras 3.14.15 to 3.14.16

- Despite the fact that the Accident Compensation Commission's Investigations Branch estimated that if 6 vacant investigators' positions were filled it could achieve savings of around $16 million, the positions had remained vacant for at least 8 months.

  Paras 3.14.17 to 3.14.18

- A loophole identified in the legislation, enabling claimants to double claim for the same injury, has the potential to cost WorkCare many millions of dollars.

  Paras 3.14.19 to 3.14.22

- It was not possible to assess the Branch's investigation methodology and related risk models as they were not documented.

  Paras 3.14.23 to 3.14.28

- While there has been a decrease in the number of reported WorkCare claims and the level of weekly benefit payments, all other associated claims payments have increased substantially.

  Paras 3.14.32 to 3.14.38

- The total legal costs incurred by the Accident Compensation Commission relating to an action by 3 employees against an external party was not available at the date of preparation of this Report.

  Paras 3.14.40 to 3.14.42

- Only 12 per cent of WorkCare claimants underwent rehabilitation.

  Para. 3.14.47

- The Victorian Accident Rehabilitation Council needs to regularly monitor the cost of services provided by internal and external rehabilitation providers to determine what is the appropriate mix which ensures services are delivered to injured workers in the most cost-effective manner.

  Paras 3.14.66 to 3.14.67

- As both the Council and the Commission undertake administrative activities relating to rehabilitation services, audit agrees that the review envisaged by the Parliamentary Committee should be undertaken to determine the potential for cost savings.

  Paras 3.14.75 to 3.14.77

The Minister for Labour is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Labour

Public bodies

Accident Compensation Commission
Construction Industry Long Service Leave Board
Medical Panels
Victorian Accident Rehabilitation Council
WorkCare Appeals Board

Comments on matters arising from the audit of certain of the above entities are discussed below.

ACCIDENT COMPENSATION COMMISSION

REVIEW OF MANAGEMENT PRACTICES OF THE INVESTIGATIONS BRANCH

Overall conclusions

3.14.1 A successful fraud investigation strategy that prevents bogus claimants from receiving benefits under the WorkCare Scheme will contribute to reduced WorkCare levies and ultimately the financial burden on Victorian employers.

3.14.2 While direct operating expenses of the Commission's Investigations Branch for 1990-91 were $2.4 million, it was estimated that savings arising from its activities were approximately $8.8 million.

3.14.3 The audit review of management practices of the Branch identified several factors which indicate that potential exists to increase the benefits emanating from its investigative processes.

What is the purpose of the Investigations Branch?

3.14.4 The Accident Compensation Commission administers the WorkCare Accident Compensation Scheme which, in 1985, replaced the State's former multi-insurer workers' compensation system.

3.14.5 In 1987, the Commission established the Investigations Branch to investigate suspected fraudulent WorkCare claims and to reduce abuse of the system. In 1988-89 the importance of fraud investigation was reinforced through the formulation by the Commission of a specific fraud strategy which assigned the following key objectives to the Branch:

- *"detect and remove fraudulent claims for benefits at the earliest possible stage;*
- *contest those common law and Table of Maims claims which are suspected of having a fraudulent component;*
- *investigate the actions of service providers suspected of involvement or association with unethical or fraudulent practices;*
- *investigate and prosecute employers for breaches of the Act; and*
- *prosecute criminal matters where appropriate."*

3.14.6 **The direct operating expenses of the Branch for 1990-91 totalled $2.4 million.** The amount includes legal costs of criminal prosecutions and associated investigation costs for these claims but does not include payments to external investigators (in excess of $530 000 for the year), legal fees or other costs incurred during the course of the investigations. These latter items are included in claims management costs.

Nature of audit review

3.14.7 During the year, audit carried out a review of the efficiency and effectiveness of management practices of the Branch. In the planning of the audit review, significant delays were encountered by audit due to the Commission's reluctance to communicate with members of the audit team and provide information requested by audit in a timely manner.

3.14.8 Some improvement in this position occurred as the review progressed, however, in the final stages of the project, audit activity was again hampered by unreasonable restrictions on direct access to files and key personnel.

3.14.9 **While it is acknowledged that security and confidentiality of information are of prime importance to the effective operation of the Branch, such issues should not be used to impede the performance of activities undertaken by the Auditor-General on behalf of the Parliament.**

RESPONSE provided by Managing Director, Accident Compensation Commission

It was never the intention of the Commission to impede the performance of the activities of the Auditor-General's staff. Unfortunately, during the early part of the audit key Commission personnel were unavailable for discussion with the audit team due to a then current Supreme Court action. Legal uncertainty in the provision of information relating to this Court action lead to information not being provided as quickly as would normally be the case. These problems were overcome later in the audit.

Achievements of the Branch

3.14.10 In past years the Branch has compiled limited information on annual savings arising from its operations and it was not until 1990-91 that the Branch commenced preparing complete estimates of savings in respect of investigations concluded during the year.

3.14.11 In that year, **the Branch estimated it had achieved savings totalling $8.8 million. However, this amount does not include expected future payments to claimants, if the cases had not been successfully investigated by the Branch, or quantification of the deterrent affect arising from the Branch's operations.** The estimate comprised 2 elements, namely $5.5 million through the removal of claimants from weekly compensation benefits and $3.3 million in savings from contested common law cases. In addition, awards totalling $223 000 in respect of fines, restitution and costs were issued in favour of the Commission during 1990-91, as a consequence of successful criminal law prosecutions initiated by the Branch.

3.14.12 Each year the Branch documents the results of its investigation activities. Table 3.14A summarises relevant data for the past 3 years.

TABLE 3.14A. INVESTIGATION RESULTS
(Number of cases)

Achievements	*1988-89*	*1989-90*	**1990-91**
Claimants taken off benefits	64	187	**255**
Common law matters finalised	2	74	**167**
Fraud prosecutions completed	28	36	**36**

3.14.13 As documentation to support the achievements of the Branch was not readily available, it was not possible for audit to verify the accuracy of the Branch's estimated savings achieved for 1990-91 and the results of its investigative activities.

3.14.14 While the preparation of such important strategic information is a positive initiative, the absence of adequate information systems to support the Branch's claimed savings means that its usefulness for management decision-making is questionable.

RESPONSE provided by Managing Director, Accident Compensation Commission

The Investigations Branch's activities over the last 2-3 years have been very effective. It is estimated that $8.8 million has been saved in 1990-91, however, this figure excludes the deterrent effect on others and the future year costs that have been avoided because claims have been closed. Based on actuarial calculations for future years this represents an additional amount of more than $20 million dollars. Audit has omitted to consider the improvements made in the last 3 years and have made no comparison with the status of investigations before the existing strategy was in place which shows marked improvement. It is true that there are prospects of improvement and management is currently addressing the level of work in progress.

Performance reports are produced each month for the senior management of the Commission which are used to monitor progress of the Branch. The activity levels shown in the table above demonstrate the substantial improvement in performance levels achieved over the period.

Are maximum benefits derived from the Branch's activities?

Impact of backlog of cases

3.14.15 At December 1991, 10 staffing positions within the Branch, comprising 6 investigators, 2 fraud analysts and 2 support staff were vacant. **The 6 investigator positions had been vacant for at least 8 months.**

3.14.16 The Branch has determined that because of the staff shortages a backlog in finalising investigations exists. At December 1991, **over 650 allegations of fraudulent activities were at various stages of investigation.** Although the Branch had not determined how long it would take to remove this backlog, audit estimated that, based upon the Branch's current resources and assessed output per investigator, elimination of the backlog, without investigation of any new cases, could take up to 18 months.

3.14.17 The Branch has advised audit that if the 6 investigator vacancies were filled, it could achieve savings of around $16 million by eliminating payments which would have been made to claimants over the life of their claims. This amount is based upon an actuarial calculation of the average cost of a long-term claim.

3.14.18 Notwithstanding the extent of the existing backlog of cases and the magnitude of the potential savings, the filling of the vacant investigator positions has not proceeded.

RESPONSE provided by Managing Director, Accident Compensation Commission

The non-filling of vacancies in the Investigations Branch has been impacted by reductions in the Accident Compensation Commission's administrative budget but the level within the Investigations Branch has not been as affected as other areas of the Commission. Management are currently looking at alternative ways of reducing the level of work in progress.

Difficulties with legislative framework

3.14.19 During the course of the review it became evident to audit that the Branch is faced with a number of legislative problems which hinder the effectiveness of the investigation and prosecution processes. Audit was advised that loopholes and ambiguities within the legislation have led to unsuccessful legal actions and the postponement or abandonment of legal proceedings.

3.14.20 Particular sources of difficulty to the Branch have been problems with critical definitions and a loophole which enables claimants in certain circumstances to double claim for the same injury. This loophole enables employees to claim both common law damages and lump sum payments for an injury. **The Commission considers that this issue has the potential to cost WorkCare many millions of dollars.**

3.14.21 Furthermore, the legislative difficulties have caused additional costs to the Commission as a consequence of the need for the Branch or external parties having to seek legal rulings on interpretation of the legislation.

3.14.22 The serious consequences of the above legislative shortcomings have been identified by the Commission and raised with the Department of Labour. Legislative amendments are currently being considered.

- *RESPONSE provided by Managing Director, Accident Compensation Commission*

  Potential legislative amendments are currently under discussion between the Commission and the Department of Labour.

- *RESPONSE provided by Director-General, Department of Labour*

  The Accident Compensation Commission, in consultation with the Department of Labour, has been pursing appropriate legal appeal avenues in order to overturn the judicial ruling which pointed to this loophole. With the recent exhaustion of all avenues of appeal, the Government has announced that legislation will be introduced to restore the original intention of Parliament.

Absence of structured investigation methodology

3.14.23 Given the vital investigative role that the Branch fulfils in the State's workers' compensation system, it is essential that the Branch utilises a soundly-based investigative methodology. Such a methodology should assist management in ensuring that scarce resources are directed to areas of greatest risk and each investigation is performed in the most efficient and effective manner.

3.14.24 The major sources of allegations of fraudulent activity received by the Branch are from claims agents and the public. In addition, information derived from internal computer analyses of claims data has identified possible fraudulent activity which warrants investigation.

3.14.25 Audit was advised that allegations deemed to require further investigation are ranked on the basis of perceived risk. **However, it was not possible to make an assessment of the Branch's investigation methodology and related risk models as they were not documented.** In addition, the Branch has only recently commenced recording time spent and costs incurred in conducting investigations.

3.14.26 The Branch's rationale for the absence of documentary evidence to support its methodology was that it places reliance upon the investigators' past experience and knowledge of each subject area and that investigations are too varied and complex for utilisation of standard methodologies. The Branch was also concerned that if investigation methodologies were documented, they may become subject to Freedom of Information requests.

3.14.27 It is debatable whether it was the intention of the legislators that under the Freedom of Information legislation the Commission's investigative procedures should be made available to all and sundry, including those who may be intent on defrauding the system.

3.14.28 While audit recognises that security and confidentiality factors may influence the extent to which investigative procedures are documented, the absence of a structured methodology creates the potential for inefficient and ineffective investigations.

RESPONSE provided by Managing Director, Accident Compensation Commission

There is a structured methodology drawing together knowledge and experience of the Branch. It is not documented in a way that audit were prepared to comment on, even though a structured methodology exists. The conclusions are not accurate although there is, as in any endeavour, opportunity to improve. The Commission is constantly looking at ways to do this.

Lack of liaison with Victorian Accident Rehabilitation Council

3.14.29 The Victorian Accident Rehabilitation Council is the public body established to facilitate the rehabilitation of WorkCare claimants. It follows that from time-to-time achievement of the most effective outcome of certain of the Branch's investigations would involve consideration of information recorded on rehabilitation files under the control of the Council.

3.14.30 Notwithstanding the complementary relationship between the Commission and the Council, audit was advised that the 2 entities have not reached agreement on access to information and, as a consequence, the Branch has not been able to analyse the Council's records for investigative purposes. This situation is contrary to the Government's 1989 WorkCare reform package which stated that action would be taken to *"improve the operation of the ACC and the Council, including closer co-ordination of their activities at all levels"*.

3.14.31 As all WorkCare agencies have an interest in preventing bogus claimants from receiving benefits, effective lines of communication between agencies should be established so that this common objective can be fully achieved.

RESPONSE provided by Managing Director, Accident Compensation Commission

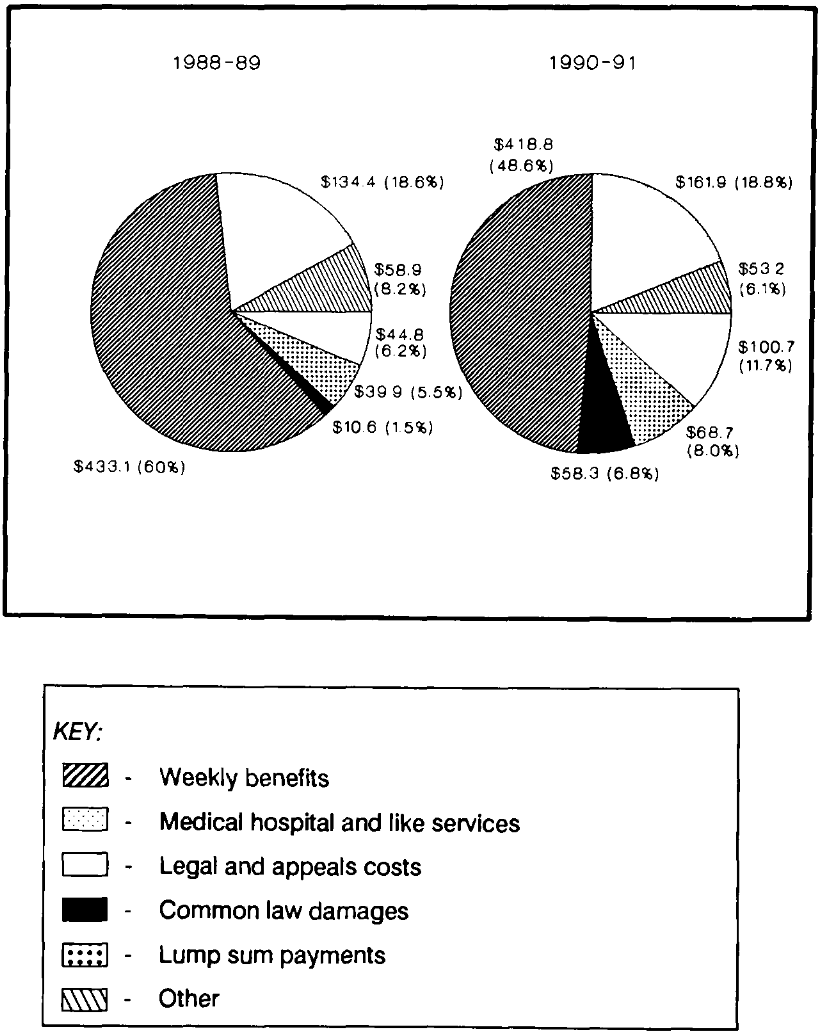
This matter is currently being addressed by both agencies.

WORKCARE CLAIMS PAYMENTS

3.14.32 In order to address concerns over spiralling WorkCare costs, on the advice of the Commission, the Government implemented major reforms to the WorkCare Accident Compensation Scheme late in 1989. As a consequence, certain long-term benefit payments were reduced by 20 per cent of worker's pre-injury earnings and procedures for settling disputed claims were substantially changed. In the period 1988-89 to 1990-91, the number of reported claims by injured workers decreased from 87 500 to 75 500.

3.14.33 Notwithstanding the reforms introduced in 1989 and the reduction in the number of claims, total gross claims payments, before recoveries, increased from $722 million in 1988-89 to $862 million in 1990-91. Chart 3.14B provides a break up of the payments in the 2 periods.

CHART 3.14B. CLAIMS PAYMENTS
($million)



3.14.34 An analysis of claims payments made since the introduction of the reforms indicated that **while there has been a decrease in the number of WorkCare claims and the level of weekly benefit payments, all other associated claims payments have increased. In 1988-89, these latter payments accounted for 40 per cent of total claims payments compared to 52 per cent in 1990-91**. The analysis also revealed that:

- The number of **lump sum payments**, including payments for permanent disability, lump sum redemptions and death caused by accidents in the workplace, increased from 3 900 in 1988-89 to 6 800 in 1990-91. These payments were $39.9 million and $68.7 million, respectively, an **increase of 72 per cent** over the period. While the total number of settlements has escalated, the average cost of each settlement has reduced marginally;
- The level of **damages paid by the Commission for employer negligence under common law rose by 450 per cent** over the period. In 1988-89, 800 common law writs were settled at a cost of $10.6 million compared with 3 900 settlements during 1990-91 costing $58.3 million;
- **Legal and case preparation costs rose substantially,** from $44.8 million in 1988-89 to $100.7 million in 1990-91. The increase was caused primarily by the higher number of common law writs being served on the Commission and greater emphasis placed by the Commission on the removal of bogus claimants from receiving benefits; and
- **Medical costs increased** from $134.4 million in 1988-89 to $161.9 million in 1990-91. This was largely attributable to the greater use of medical services by claimants and the increased number of medical opinions sought by the Commission to assess the condition of claimants and to contest appeals and common law claims initiated by workers. The increase also reflected a change to the reimbursement rates of approximately 16 per cent payable for medical services provided to WorkCare patients from 1 January 1991.

3.14.35 It is acknowledged that some legal costs paid by the Commission were largely beyond it's control, such as costs emanating from decisions handed down by the WorkCare Appeals Board and Accident Compensation Tribunal, and the courts in respect of common law claims. However, certain legal costs emanate from the Commission's decision to actively contest certain claims.

3.14.36 The Commission has progressively implemented several strategies aimed at reducing claims expenses that are within the Commission's control, including medical and legal costs.

3.14.37 Notwithstanding this action, **it is apparent that non-weekly benefit related claims costs have continued to increase dramatically in the 6 months to 31 December 1991.** For example, common law payments for the period were $55.2 million which is equivalent to 95 per cent of the total payment for that item in the previous financial year. Costs relating to legal, medical and lump sum payments also increased in this period.

3.14.38 The adverse trend in non-weekly benefit related claims costs and its impact on WorkCare levies, is impeding the Commission's progress towards the achievement of a fully-funded WorkCare scheme.

RESPONSE provided by Managing Director, Accident Compensation Commission

During the period 1988-89 to 1990-91 non-weekly benefits increased significantly due to increases in the volume of common law matters and Table of Maim claims and the rates of reimbursement paid to service providers, both of which are outside the control of the Commission. Where the Commission has some control over increases in reimbursement rates, these increases have been kept below the Consumer Price Index.

In relation to the large increase in the volume of common law claims the Commission has endeavoured to contain the average settlement. During the period under review, the average common law settlement increased by 12.8 per cent from $13 250 to $14 950 while the statutory benefits were increased by 19 per cent due to indexation as set out in s.100 of the Accident Compensation Act.

Legal fees incurred by the Commission

3.14.39 During the 6 months period ended 31 December 1991, the Commission incurred legal expenses totalling $1.2 million relating to:

- action sanctioned by the Commission's Board against an external party for the alleged defamation of 3 Commission employees ($508 000);
- 7 cases initiated by external parties against the Commission for defamation, wrongful dismissal and racial discrimination ($258 000);
- legal advice, preparation of legal documents, and minor legal proceedings involving various employers and claimants ($415 000); and
- 3 legal proceedings initiated by the Commission against external parties for contempt and defamation ($20 000).

Commission support for employee legal actions

3.14.40 In August 1990, after considering legal advice, the Commission's Board endorsed the cojoined action by 3 employees against an external party and agreed to indemnify them for legal costs incurred. The indemnity was provided on the condition that they would forgo any personal gain in the event of damages being awarded.

3.14.41 On the basis of further legal advice, the Commission subsequently revoked the above arrangement and determined that, in the event the damages were awarded in the employees favour, the employees be required to reimburse the Commission the costs it incurred in pursuing the legal action. In October 1991, a formal indemnity agreement was reached with the employees and later confirmed by the Commission's Board.

3.14.42 The case was finalised in March 1992 following an out of court settlement in favour of the employees, the terms of which remain confidential. While the settlement will be off-set against the legal costs incurred by the Commission on this case (which at 31 December 1991 totalled $508 000), at the date of preparation of this Report the total cost had not been finalised. It is my intention to inform Parliament of the total costs incurred by the Commission when they are available.

RESPONSE provided by Managing Director, Accident Compensation Commission

On 26 March 1992 the Australian Broadcasting Corporation (ABC) accepted that allegations made in a program broadcast on its '7.30 Report' concerning the Accident Compensation Commission (ACC) and its employees on 31 July 1990 were without foundation. The ABC publicly apologised to the 3 ACC employees and their families for the hurt and harm caused by the program.

VICTORIAN ACCIDENT REHABILITATION COUNCIL

PROVISION OF REHABILITATION SERVICES

3.14.43 As stated in paragraph 3.14.29, the Victorian Accident Rehabilitation Council is the public body established to facilitate the rehabilitation of WorkCare claimants.

3.14.44 Since the commencement of WorkCare in 1985, the Council has established a network of internal and external rehabilitation centres which provide rehabilitation services to injured workers. The Council has established 8 WorkCare rehabilitation service centres which operate through 14 outlets. Under its enabling legislation, the Council has also approved the establishment of 26 external rehabilitation providers which are either public or privately owned and operate at 68 locations.

Council-operated centre located at Preston.

3.14.45 In 1990-91, centres owned by the Council provided rehabilitation services to 3 751 (40 per cent) of the WorkCare beneficiaries undergoing rehabilitation at a cost of $10.4 million. External providers serviced the balance of WorkCare beneficiaries undergoing rehabilitation (5 675) at a cost of $24.6 million. All costs associated with the rehabilitation of injured workers are met by the Accident Compensation Commission.

3.14.46 The *Accident Compensation Commission Act* 1985 enables WorkCare claimants to choose whether or not to receive rehabilitation for workplace injuries and from which service provider. The Act also gives employers the right to choose whether or not to establish workplace-based rehabilitation programs.

3.14.47 Between 1985-86 and 1990-91, rehabilitation referrals approved by the Council totalled approximately 58 000 from in excess of 484 000 WorkCare claims. Therefore, only 12 per cent of WorkCare claimants underwent rehabilitation.

3.14.48 In 1991, audit reviewed the provision of rehabilitation services by the Council.

Overall conclusions

3.14.49 The Council has been pro-active in reviewing its performance and implementing strategies aimed at improving the overall quality of its rehabilitation services.

3.14.50 Notwithstanding this action, it is vital that the Council closely monitors the implementation of these strategies to ensure that they achieve their desired outcomes. In addition, particular attention needs to be given to determining what is the appropriate mix, in terms of the composition of internal and external rehabilitation providers, which ensures services are delivered to injured workers in the most cost-effective manner.

Control over the provision of services

3.14.51 Rehabilitation services are provided through a system centrally-controlled by the Council. The system involves both internal and external providers designing a rehabilitation program for each injured worker seeking rehabilitation and submitting the plan, together with an estimate of its cost, to the Council for approval. External providers progressively submit claims to the Council for the cost of services they provide to injured workers.

3.14.52 Until October 1991, the performance of rehabilitation providers was monitored largely through the Council's Performance Monitoring and Audit Unit. The Unit performed random reviews of rehabilitation providers to ensure the services provided and fees charged were in line with the Council's approved plan for each injured worker receiving rehabilitation. During 1990-91, the Unit's reviews identified potential overservicing amounting to $70 000.

3.14.53 To assist in the monitoring of rehabilitation providers' activities, performance indicators were also developed which include established timeframes for WorkCare beneficiaries to recover from specific injuries and return to work and standard rehabilitation costs.

3.14.54 Through these mechanisms the Council was able to ensure the services provided and fees charged were in line with its standards.

RESPONSE provided by Chief Executive Officer, Victorian Accident Rehabilitation Council

Council has always and will always continue to review its performance to ensure services are delivered to injured workers in the most cost-effective manner.

Council's Performance Monitoring and Audit Unit monitors pre-October 1991 cases. This has not ceased and will continue until the cases are closed or transferred to the new Rehabilitation Case Management system.

Consultancy review of rehabilitation services

3.14.55 As a result of management concerns over the rising cost of the Council's activities and time taken to rehabilitate injured workers, the Council, in early 1991, engaged a firm of management consultants to undertake an independent review of the performance of its rehabilitation centres.

3.14.56 The review, which extended to an assessment of the performance of external providers, identified aspects of poor performance and options for the future direction of rehabilitation services.

3.14.57 Emanating from the review, the Council agreed to implement the following key recommendations relating to its rehabilitation centres:

- endeavour to reduce the duration of rehabilitation and seek earlier referral of injured workers;
- achieve full cost recovery for services provided;
- continue to provide unrestricted access to public sector rehabilitation services by injured workers; and
- become more integrated with the health system.

3.14.58 In addition, the review supported the Council's proposal to introduce a case management system due to the perceived positive impact on the provision of services by internal providers.

RESPONSE provided by Chief Executive Officer, Victorian Accident Rehabilitation Council

The review is part of Council's on-going processes to ensure cost-effectiveness of service delivery. This review was undertaken to assess options available to Council's internal providers.

As the review was assessing service delivery options it also identified sound levels of performance by the internal providers when compared with the external providers.

Introduction of case management system

3.14.59 The overall objectives of the case management system, which was implemented by the Council in October 1991, were:

- reduce referral time for rehabilitation;
- minimise the average duration of rehabilitation programs;
- reduce the proportion of potential long-term WorkCare cases; and
- increase return to work rates.

3.14.60 Under this system, the Council has employed qualified staff to act as case managers. The managers approve individual rehabilitation programs and closely monitor the progress and outcomes of the programs. In addition, these case managers identify WorkCare beneficiaries who have not undertaken rehabilitation and who have not returned to work within 6 weeks of injury. If appropriate, these WorkCare beneficiaries are referred for rehabilitation.

3.14.61 Prior to the introduction of the new system, a detailed cost/benefit analysis was not undertaken to identify the potential savings to be generated for the WorkCare system.

3.14.62 Clearly, the Council needs to closely monitor its performance using the new system to assess the achievement or otherwise of its stated objectives.

RESPONSE provided by Chief Executive Officer, Victorian Accident Rehabilitation Council

Case managers approve rehabilitation programs in addition to monitoring the progress and outcomes.

A formal cost/benefit analysis was not undertaken as it was expected that the system would be implemented within the existing administrative budget.

Council is monitoring the system's performance and early indications are that it is generating substantial cost savings, while achieving significantly enhanced rehabilitation outcomes.

Impact of the new system on the control of rehabilitation services

3.14.63 The Council determined that the case management system would be implemented within its existing administrative budget. As the new system is expected to cost $2.7 million in 1991-92, including $1.2 million for the employment of 30 case managers, other Council activities have now been curtailed and constraints imposed on general expenditure.

3.14.64 The Council's Performance Monitoring and Audit Unit is one area of Council activity which has suffered significant budget cut-backs. Certain monitoring functions previously performed by the Unit have been transferred to the case managers and the number of staff within the Unit has halved. In addition, the Unit has reduced access to external accounting resources to assist in its audit of external rehabilitation providers.

3.14.65 While case managers have assumed responsibility for monitoring rehabilitation services provided to individual injured workers since October 1991, the reduction in the resources available to the Unit will reduce the extent of reviews of the costs incurred by both internal and external rehabilitation providers and long-term rehabilitation cases which commenced prior to the new case management system.

RESPONSE provided by Chief Executive Officer, Victorian Accident Rehabilitation Council

Council's Performance Monitoring and Audit Unit was reduced to reflect the expected reduction in pre-October 1991 cases. Case managers are monitoring re-opened cases under the pre-October 1991 system, resulting in substantial cost savings and improved outcomes.

Cost-effectiveness of service delivery

3.14.66 In order to address the cost-effectiveness concerns raised in the independent review referred to previously, the Council determined that its centres should achieve full cost recovery and operate as separate cost centres on a commercial basis. In addition, it was envisaged that further cost control would be achieved through implementation of the new case management system.

3.14.67 Notwithstanding the Council's action, the audit review highlighted that due to the absence of specific costing information, any comparisons of the cost-effectiveness of external and internal providers would be of limited value. **In these circumstances, management is unable to determine whether the corrective action it has initiated is appropriate and indeed whether the existing mix of internal and external providers is the most cost-effective mechanism to deliver rehabilitation services.**

RESPONSE provided by Chief Executive Officer, Victorian Accident Rehabilitation Council

Although cost comparisons are difficult, Council has conducted 2 reviews that conclude that its internal providers are at least as cost-effective as external providers. Council is presently negotiating with the Accident Compensation Commission to allow it to monitor and control all costs incurred by rehabilitation clients. Early indications suggest that the new Case Management System has increased the return to work rate at a lower cost per program.

Workplace-based injury management programs.

3.14.68 An advisory committee was established by the Council in December 1988 to provide a forum for employers seeking assistance or advice on rehabilitation matters. This committee consists of representatives from employer organisations, unions and WorkCare agencies. During 1990-91, grants in excess of $302 000 were provided to employers by the Council to assist them establish industry-based rehabilitation and return to work initiatives.

3.14.69 However, the Council does not maintain details of the number of employers who have implemented workplace-based rehabilitation programs and as a consequence it is not possible to assess the success or otherwise of this program.

Council's regulatory role

3.14.70 The Council's functions include the establishment, administration and control of occupational and social rehabilitation facilities, and the co-ordination of the operations of external rehabilitation providers.

3.14.71 A review performed in 1988 by the WorkCare Committee, a Joint Select Committee established by the Parliament, on all aspects of the Accident Compensation legislation and the WorkCare scheme reported, inter alia, that:

- the Council's simultaneous role as regulator and as a participant in the rehabilitation industry could lead to conflicts of interest; and
- the rehabilitation centres owned by the Council should be given greater autonomy in order to reduce the conflict with its regulatory functions.

3.14.72 The Council subsequently resolved in November 1991 to restructure it's centres as separate business units reporting directly to the Council's Chief Executive Officer.

3.14.73 Notwithstanding this action, the potential conflict of interest remains as the centre managers still report to the same Chief Executive Officer who is also responsible for overseeing the Council's role as a WorkCare rehabilitation regulator. In these circumstances, the Council's capacity to effectively regulate and monitor the performance of approved providers may be diminished.

3.14.74 In addition, Council officers are not prohibited from having personal financial interests with approved external providers. In this regard, **a senior staff member who provides specialist advice to the Council's Chief Executive Officer had an equity interest in one of the centres.** The Council advised audit this officer has recently relinquished this interest.

RESPONSE provided by Chief Executive Officer, Victorian Accident Rehabilitation Council

The Accident Compensation Act only requires directors to declare their pecuniary interests. Council now requires staff not to have equity interests in matters that concern Council.

Is there potential for cost savings through rationalisation?

3.14.75 In August 1988, the Parliamentary WorkCare Committee also reported that increased cost-effectiveness could result from the amalgamation of the compensation and rehabilitation arms of the WorkCare system. The Committee recommended that *"... greater co-ordination and co-operation between the Accident Compensation Commission and the Council should take place and that after a period of 2 years, the continued independence of Council be reviewed in the light of its performance in the interim period".*

3.14.76 In view of this recommendation, audit would have thought that the review would have been undertaken by August 1990. The review, however, is yet to commence.

3.14.77 As both the Council and the Commission undertake administrative activities relating to rehabilitation services, audit agrees that the review envisaged by the Parliamentary Committee should be undertaken to determine the potential for cost savings.

RESPONSE provided by Chief Executive Officer, Victorian Accident Rehabilitation Council

At present, the Chief Executives of the Accident Compensation Commission, Council and Occupational Health and Safety Authority in conjunction with the Chairperson, have formed a working party that is working towards achieving a rationalisation of some of the functions performed by the agencies.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced	
Department of Labour		
Second Report, 1985-86, p.137 *Second Report,* 1986-87, pp.109-10 *Ministerial Portfolios,* May 1989, pp.179-80 *Ministerial Portfolios,* May 1990, pp. 206-7	Inadequate follow-up of unpaid registration fees.	Adequate follow-up procedures have now been set in place by the Department.
Second Report, 1986-87, p.110 *First Report,* 1987-88, p. 36 *Ministerial Portfolios,* May 1989, p.183	The Department should reassess its decision to disband the Internal Review Branch.	The Department has now established an adequate internal audit unit.
Second Report, 1986-87, pp.108-9 *Ministerial Portfolios,* May 1989, p.182 *Ministerial Portfolios,* May 1990, pp. 206-7	Deficiencies exist in overall management procedures for the provision of grants to organisations.	The Department has secured funding in the 1991-92 Budget for the establishment of a Grant Assessment Unit. The Unit's aim is to improve grant administration procedures.
Ministerial Portfolios, May 1990, p. 208	High level of loan repayment arrears relating to the New Enterprise Incentive Scheme.	Follow-up of unpaid loan repayments has improved. However, at 31 December 1991, approximately 53 per cent of loans totalling $900 000 are expected to be written-off.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced - *continued*

Accident Compensation Commission

Second Report, 1986-87, p.153 *Ministerial Portfolios,* May 1990, pp. 328-9 *Ministerial Portfolios*, April 1991, pp. 303-5	Ability of the WorkCare scheme to become fully-funded was unlikely under existing funding arrangements.	There has been continued improvement in the viability of the WorkCare scheme subsequent to the 1989 government reforms.
Ministerial Portfolios, April 1991, pp. 307-8	Deficiencies in the monitoring and follow-up of monthly levy payments resulted in approximately 30 per cent of employers not making their monthly payments by the due date. Penalties were not raised by the Levy Collection Agency in all cases, resulting in revenue forgone of around $4.2 million.	Continual improvements have occurred in the monitoring and issuing of penalty notices for late payments. The use of computers to improve this process is anticipated to commence in April 1992.
Ministerial Portfolios, April 1991, pp. 308-10	Inefficiencies in monitoring and processing of annual adjustment returns resulted in low lodgement rates, delays in collection of levies and backlogs in the processing and payment of levy refunds.	Action has been taken to follow-up returns not lodged and to deal with underpaid or overpaid levies. Facilities to provide for automatic refunds were re-introduced in February 1991.
Ministerial Portfolios, April 1991, p. 310	As a result of delays in issuing 2 500 outstanding annual levy accounts, $500 000 (including interest) had not been billed for 1989-90.	The outstanding levy accounts were issued on 18 April 1991. Procedures have been established to avoid a re-occurrence in subsequent periods.
Ministerial Portfolios, April 1991, p. 311	The failure to follow-up late lodgements of employer registrations is likely to lead to revenue forgone of an estimated $1.2 million a year.	Procedures for the identification and follow-up of late registration were re-introduced in July 1991.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced - *continued*

Ministerial Portfolios, April 1991, p. 312	As a result of substantial delays in processing of employer notifications of business terminations, it is estimated that revenue forgone and refunds not provided to employers could be $700 000 and $600 000, respectively.	During the year the Agency processed 29 886 terminations. As a consequence of the cessation of employers during 1991, the number currently not fully processed totals 24 094.
Ministerial Portfolios, April 1991, p. 313	Substantial costs were incurred through the employment of temporary staff. Tender Board approval for expenditure up to $200 000 was obtained for this purpose, however, actual expenditure exceeded approval by $1.6 million.	The use of temporary agency staff has all but ceased. These staff have been replaced by permanent or temporary public servants.
Ministerial Portfolios, April 1991, p. 314	A formalised agreement had not been developed to enable effective management control by the Commission over the levy collection activities of the Levy Collection Agency.	In July 1991 an agreement was entered into by the Commission and the Agency which provided for improved control by the Commission over Agency activities during 1991-92.

Construction Industry Long Service Leave Board

Ministerial Portfolios, May 1990, pp. 208-9 *Ministerial Portfolios*, April 1991, pp. 315-6	Past construction industry contributions in excess of requirements.	In December 1990 the industry contribution rate was reduced to 0.5 per cent. The full impact of this reduction is expected to be reflected in the Board's 1991-92 financial statements.

No action taken

Accident Compensation Commission

Ministerial Portfolios, May 1990, p. 330	Inconsistency between date of quarterly financial statement presentation and preparation of actuarial report.	Position unchanged.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

No action taken - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolios, April 1991, p. 305	Amendments to the Accident Compensation Act requiring quarterly financial statements have resulted in additional costs to WorkCare agencies.	Position unchanged.
Ministerial Portfolios, April 1991, pp. 311-2	The review process aimed at identifying non-registered employers was discontinued in late 1988 due to resource constraints.	Position unchanged.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	Financial period ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
Completed audits				
Department of Labour	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	30 August 1991	31 October 1991
Accident Compensation Commission	30 September 1990	31 October. *Accident Compensation Act* 1985, s.38.	31 October 1990	13 November 1990
.. ..	31 December 1990	31 January. *Accident Compensation Act* 1985, s.38.	31 January 1991	15 February 1991*(a)*
.. ..	31 March 1991	30 April. *Accident Compensation Act* 1985, s.38.	30 April 1991	14 May 1991
.. ..	30 June 1991	30 September *Accident Compensation Act* 1985, s.38.	7 October 1991	7 October 1991
Construction Industry Long Service Leave Board	30 June 1991	31 March. *Construction Industry Long Service Leave Act* 1983, s.8.	17 September 1991	23 September 1991
Medical Panels	30 September 1990	31 October. *Accident Compensation Act* 1985, s.72M.	29 October 1990	2 November 1990
.. ..	31 December 1990	31 January. *Accident Compensation Act* 1985, s.72M.	13 January 1991	1 February 1991
.. ..	31 March 1991	30 April. *Accident Compensation Act* 1985, s.72M.	30 April 1991	3 May 1991
.. ..	30 June 1991	30 September. *Accident Compensation Act* 1985, s.72M.	12 September 1991	25 September 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Completed audits - *continued*

Entity	*Financial period ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Victorian Accident Rehabilitation Council	30 September 1990	31 October. *Accident Compensation Act* 1985, s.177.	31 October 1990	9 November 1990
.. ..	31 December 1990	31 January. *Accident Compensation Act* 1985, s.177.	31 January 1991	13 February 1991 *(a)*
.. ..	31 March 1991	30 April. *Accident Compensation Act* 1985, s.177.	30 April 1991	2 May 1991 *(a)*
.. ..	30 June 1991	30 September. *Accident Compensation Act* 1985, s.177.	25 September 1991	30 September 1991 *(a)*
WorkCare Appeals Board	30 September 1990	31 October *Accident Compensation Act* 1985, s.71Q.	29 October 1990	7 November 1990
.. ..	31 December 1990	31 January *Accident Compensation Act* 1985, s.71Q.	31 January 1991	6 February 1991
.. ..	31 March 1991	30 April. *Accident Compensation Act* 1985, s.71Q.	30 April 1991	3 May 1991
.. ..	30 June 1991	30 September. *Accident Compensation Act* 1985, s.71Q.	12 September 1991	25 September 1991

(a) Qualified audit report issued.

3.15

MANUFACTURING AND INDUSTRY DEVELOPMENT

KEY FINDINGS

- Agencies have not evaluated the effectiveness of the Winter Energy Concession Scheme.

  Paras 3.15.5 to 3.15.8

- Total expenditure on the Scheme in 1991-92 is $28.6 million, which is $4.3 million over budget.

  Paras 3.15.12 to 3.15.16

- Abuse of the Scheme by certain householders amounted to more than $120 000 in 1991.

  Paras 3.15.9 to 3.15.11

- The level of labour productivity at the Gas and Fuel Corporation's workshops did not meet the Corporation's own targets.

  Paras 3.15.7 to 3.15.40

- The Geelong Regional Commission's involvement in tourist-related developments warrant review in light of significant losses totalling $8.6 million incurred on these developments, namely:
  - Bay Link, $2.8 million *Para. 3.15.50*
  - Surfcoast Plaza, $4.6 million *Paras 3.15.54 and 3.15.56*
  - IMAX, $1.2 million *Para. 3.15.71*

- The Commission's Bay Link project was estimated to be finalised by December 1983 at a total cost of $60 million, however, construction had not yet commenced.

  Paras 3.15.46 to 3.15.51

- Specialised theatre equipment, known as the IMAX system, purchased by the Commission in 1989 for $1.8 million, has remained in storage since.

  Paras 3.15.70 to 3.15.72

- There is a low-level of labour productivity at the Port of Melbourne Authority workshops resulting from overstaffing and poor work practices.

  Paras 3.15.81 to 3.15.112

- The cost of maintaining and repairing the Authority's container cranes could be reduced by up to $1.2 million a year.

  Para. 3.15.94

- The holding of high levels of stock, valued at $3 million, is costing the Authority around $450 000 annually to finance.

  Paras 3.15.110 to 3.15.112

The Minister for Manufacturing and Industry Development is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Manufacturing and Industry Development

Public bodies

Albury-Wodonga (Victoria) Corporation
Coal Corporation of Victoria
Exhibition Trustees
Gas and Fuel Corporation of Victoria
Gas and Fuel Corporation Superannuation Fund
Geelong Regional Commission
Latrobe Regional Commission
Overseas Projects Corporation of Victoria Ltd
Port of Geelong Authority
Port of Geelong Authority Superannuation Fund
Port of Melbourne Authority
Port of Portland Authority
SEC Superannuation Fund
SEC Superannuation Pty Ltd
State Electricity Commission of Victoria
Renewable Energy Authority Victoria

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

WINTER ENERGY CONCESSION SCHEME

Background

3.15.1 Under the Winter Energy Concession Scheme holders of a Commonwealth Health Card are eligible for a 15 per cent discount on electricity and gas bills covering the winter period. In line with the Government's Social Justice Strategy, the purpose of the Scheme is to ensure that low-income households have access to energy during the period of the year in which bills are at a maximum.

3.15.2 Concessions totalling $22.9 million were provided under the Scheme in 1990-91. Funding for the Scheme is included in the budget of the Department of Community Services which has a policy co-ordinating role with the Department of Manufacturing and Industry Development. The latter body liaises with Municipal Electricity Undertakings, the State Electricity Commission of Victoria, and the Gas and Fuel Corporation of Victoria, to ensure that the Scheme is effectively implemented and in a manner consistent with the objectives of the Government's Social Justice Strategy.

3.15.3 The Economic and Budget Review Committee has investigated a range of energy concession schemes as part of its review on the cost of community service obligations. In November 1991, it identified shortcomings in the energy concession arrangements and made recommendations that the Government review the schemes.

3.15.4 During 1990-91, audit undertook a selective review of the operations of the Scheme with particular emphasis on its use by eligible households and the procedures adopted by the State Electricity Commission and Gas and Fuel Corporation to ensure that only eligible households participated in the Scheme. Findings arising from the audit are detailed below.

Effectiveness of the Scheme

3.15.5 A key performance measure to assess the effectiveness of the Scheme in achieving the objectives of the Social Justice Strategy is the *"take-up"* rate, i.e. the percentage of *eligible households* receiving the concession.

3.15.6 Audit found that there were few statistics on the Scheme maintained by the relevant agencies and none had calculated the take-up rate. Audit discussions with the various agencies revealed that a reason for the lack of statistics was that none of the agencies accepted overall responsibility for monitoring the performance of the Scheme.

3.15.7 The Department of the Treasury has estimated the number of eligible households as part of a joint review of Commonwealth/State concession arrangements. Using this estimate of eligible households, audit determined that **the average take-up rate of the Scheme for 1990-91 was only 50 per cent.** The take-up rate for the energy utilities and Municipal Electricity Undertakings as calculated by audit are shown in Table 3.15A.

TABLE 3.15A
ENERGY UTILITY TAKE-UP RATES, 1990-91

Utility	*Actual recipients*	*Take-up rate*
		(%)
State Electricity Commission of Victoria	290 460	48.5
Gas and Fuel Corporation of Victoria	275 959	46.1
Municipal Electricity Undertakings	60 055	55.4
Average take-up rate		**50.0**

3.15.8 Clearly, little has been done by the agencies to evaluate the effectiveness of the Scheme and it is evident that there is a lack of overall direction and responsibility. The Government needs to assign responsibility to the relevant bodies to enable appropriate monitoring to take place.

- *RESPONSE provided by Director-General, Department of Community Services*

  The take-up rates in the majority of other States using the eligible household estimates provided for the National Costings Exercise were approximately the same as in Victoria.

  The assumptions used to estimate eligible households are currently under review and discussions with the Commonwealth and other States are underway to develop an accepted methodology.

  More recent calculations of the take-up rate undertaken by CSV using ABS data have indicated that the National Costings Exercise (the figures adopted by audit) have over-estimated the number of eligible households by at least 15 per cent.

- *RESPONSE provided by Director-General, Department of Manufacturing and Industry Development*

  It is the Departments view that the responsibility for monitoring the overall effectiveness of the scheme, including access and equity issues etc. is carried by the Concession Steering Committee with input from the participating agencies. In view of audit's comments this issue will be raised with the Committee in the near future.

Is there abuse of the Scheme?

3.15.9 All domestic tariff users of energy who hold a Commonwealth Health Card are eligible for the Scheme but only in respect of their principal place of residence.

3.15.10 Although the State Electricity Commission and Gas and Fuel Corporation have developed guidelines for checking eligibility of claims, the procedures are not always followed. Audit review of the customer databases of both the Commission and Corporation for duplicate use of pensioner numbers revealed instances where:

- concessions were claimed for more than one residence, e.g. claimed for *both* principal place of residence and holiday home;
- the same pensioner numbers were used on claims lodged under different names and addresses; and
- non-domestic tariff users had received the concession, e.g. businesses and body corporates.

3.15.11 The audit examination, which revealed that abuse of the Scheme exceeded $120 000, indicated a need for the agencies to assess the extent of such abuse and to strengthen eligibility verification procedures.

- *RESPONSE provided by General Manager, Gas and Fuel Corporation of Victoria*

  Despite the implementation of a number of measures to constrain abuse, the report claims correctly that instances have occurred.

  To prevent these instances in the future, GFCV has recently introduced regular reporting from customer master files to identify and allow investigation of duplicated pensioner numbers and claims for more than one residence. With this change, we expect a notable reduction in those instances of abuse related to gas consumers.

- *RESPONSE provided by General Manager, Customer Services, State Electricity Commission of Victoria*

  The Commission plans to issue guidelines for the 1992 claiming period to strengthen eligibility checking procedures, particularly by agencies. Improved mechanisms for the reporting of duplicate claims are also being investigated. Furthermore, efforts are being made to implement verification procedures through liaison with pension agencies.

Funding of the Scheme

3.15.12 Expenditure on the Scheme has increased from $5.8 million in 1983-84 to $22.9 million in 1990-91. The estimated expenditure for 1991-92 is $24.3 million.

3.15.13 Anticipated expenditure on the Scheme is calculated annually by the Ministry of Finance, based on payments made in the previous year, plus a 2 per cent growth in the Scheme and a 4 per cent tariff increase.

3.15.14 Amounts paid by the Department of Community Services to energy utilities to November 1991 totalled $23.9 million and there was a further $4.7 million awaiting reimbursement from the Department. **Consequently, total payments for 1991-92 will exceed the budget by at least $4.3 million (or 17.7 per cent) for the year. The Department has recently been granted a Treasurer's Advance to cover the shortfall.**

3.15.15 The budget overrun was due to the fact that the Ministry of Finance had underestimated both the growth in the number of eligible households and the extent of tariff increases. In this regard, total concession card holders increased by 25 per cent from October 1990 to October 1991, due mainly to the increase in the unemployed, and average tariff increases for 1991-92 were 4.4 per cent and 5 per cent at the State Electricity Commission and the Gas and Fuel Corporation, respectively.

3.15.16 The Economic and Budget Review Committee identified the need for the Government to conduct a study to estimate likely financial commitments resulting from concession schemes. The need for such action is reinforced by the audit findings on the Winter Energy Concession Scheme referred to above.

GAS AND FUEL CORPORATION OF VICTORIA

REVIEW OF WORKSHOP OPERATIONS

3.15.17 Management of the Gas and Fuel Corporation's fleet of motor vehicles, trucks and plant is the responsibility of the Corporation's Transport Department. The maintenance section of the Department operated 7 metropolitan workshops (located at Ardeer, Clayton, Dandenong, Fitzroy, Thomastown, Tooronga and Vermont) and employed 108 staff at 30 June 1991.

3.15.18 These workshops perform the service, maintenance and repair of the metropolitan fleet and LPG tankers, currently totalling approximately 2 500 vehicles and items of plant. Regional repairers are contracted to maintain the Corporation's country-based fleet.

3.15.19 Since September 1988 the Corporation has utilised a computerised fleet management system (Fleetplan) to record and monitor fleet management information.

3.15.20 The Corporation's maintenance costs for 1990-91 amounted to approximately $3.1 million and the written-down value of its vehicle fleet at 30 June 1991 was $38.8 million.

3.15.21 An audit review was undertaken of the Corporation's management procedures in place to ensure the efficient operation of the workshops.

Overall conclusions

3.15.22 The audit review concluded that the Corporation does not have processes in place to provide assurance that the workshops are operating efficiently and meeting the established business goals. Audit found that the level of labour productivity did not meet the Corporation's own targets.

Service targets

3.15.23 Predetermined service times have been formulated for various vehicle services and are being progressively introduced into each workshop. **However, there is no systematic monitoring of the extent to which staff meet these service times.**

3.15.24 Workshop supervisors consider that the more important measure is whether the workshops completed jobs in accordance with daily schedules. This approach, however, presupposes that schedules are formulated in a manner which encourages maximum efficiency. Audit found that times allocated on workshop booking schedules were often considerably in excess of the predetermined service times.

3.15.25 The level of workshop productivity currently achieved by the Corporation falls below both Corporation targets and accepted commercial practice. A review of actual service times recorded on Fleetplan indicated that over **60 per cent of jobs exceeded the expected service time and that, on average, the services took twice the time expected.** While in a number of cases the service times included time spent performing additional repair work **it was found that the times charged for repair work were excessive when compared with commercial standards.**

3.15.26 Furthermore, customer surveys conducted by the Corporation's Transport Department in December 1990 indicated that, while services provided by the Department were generally well regarded, improvement was needed in the time taken to service and repair vehicles.

3.15.27 A comparison of actual service times with expected service times needs to be performed periodically by the Corporation to assist assessment of the efficiency of its maintenance operations.

RESPONSE provided by General Manager, Gas and Fuel Corporation of Victoria

The 'expected service times' referred to by audit are part of the Workshop Scheduling module in Fleetplan which has now been introduced to 4 of the 7 workshops. To reduce time spent entering data, certain standard information for scheduled services has been set-up. This data can then be added to (or amended) as required to include 'work arising from services'.

Other than local supervisory control, it was not intended to use this feature as a performance measure. However, it is agreed that a comparison of actual and expected service time could be periodically monitored.

Need for review of manning levels

3.15.28 In October 1991 the Board of Directors of the Corporation accepted the major conclusions of an independent review which recommended significant changes in the structure and direction of the Corporation. Important elements of the new strategy are significant staff reductions and improvements in the level of productivity.

3.15.29 As the Corporation moves towards the recommended staff reduction of 1 800 (30 per cent) over a 4 year period, the resultant decrease in fleet size could have a significant impact on the workload of the maintenance section.

3.15.30 Transport Department staff advised audit that manning in the maintenance section is set to fall by 38 from the current level of 94, representing a reduction of 40 per cent. However, the projected manning levels are based on the overall staff reductions expected within the Department and do not necessarily reflect the expected reduced workload of the maintenance section.

3.15.31 A critical review of manning levels against projected workloads should be undertaken by the Corporation, applying accepted commercial standards and the Corporation's own targets as performance benchmarks.

RESPONSE provided by General Manager, Gas and Fuel Corporation of Victoria

Staffing levels at motor workshops had been optimised in accordance with the proportion of fleet maintained at each workshop. However, since 1991 when significant fleet reductions began, the previous balance has been altered. This has particularly affected Clayton Motor Workshop, where the reduction in new fleet items being commissioned together with a reduction in fleet size has reduced the workload.

The long-term reduction in fleet size has been recognised in the CRESAP report and projected manning levels have been estimated accordingly.

Performance indicators

3.15.32 In its *Annual Report* for 1990-91 the Corporation sets out performance targets to be achieved by various departments in the coming year. In order to assess the operations of the Transport Department, actual results for the *"average vehicle running operating cost per kilometre"* and *"vehicle breakdown rate per million kilometres"* are compared with such targets. Furthermore, maintenance costs per kilometre are calculated and internally monitored.

3.15.33 The Transport Department also publishes its business goals on an annual basis. In 1990-91 these goals addressed the areas of satisfying customer needs, providing a quality service, providing an adequate work environment, maintaining fleet reliability and optimising fleet cost and efficiency.

3.15.34 Allied to these goals were 8 specific objectives. One of these objectives, for example, was to *"improve the level of customer service in all areas of the operation"*. However, targets or benchmarks had not been established against which the objectives could be compared and the broad performance measures outlined in the annual report do not provide management with the means to assess whether individual objectives have been achieved.

3.15.35 The Corporation needs to establish performance indicators addressing each of the specific objectives and periodically monitor the extent to which the objectives have been achieved.

RESPONSE provided by General Manager, Gas and Fuel Corporation of Victoria

Some of the objectives set by the Department and published in its "Business Goals and Strategies" booklet were of a qualitative nature, and not readily measured by a performance indicator.

The Department has conducted only one survey (in late 1990) of customer satisfaction. It was intended to carry out surveys at regular intervals (e.g. annually), but with regionalisation occurring, the motor workshops are being made part of the region and no longer under Transport Department control. Future surveys would therefore be quite different in approach.

There is scope to establish performance indicators for some of the objectives, as recommended by audit.

Information system

Background

3.15.36 The recording of maintenance jobs on Fleetplan was introduced to most workshops in the period 1989 to 1990. The main input to the system at the workshops are jobsheets which record the nature of work performed on each vehicle, parts used and the time taken to carry out each job.

3.15.37 In addition to the jobsheets, workshop staff are required to complete a time card detailing the time spent on each vehicle for inclusion in the Corporation's costing records.

Comparison of Fleetplan data to job costing system

3.15.38 Audit compared times charged on the job costing system with those recorded in Fleetplan and found significant inconsistencies. The audit review indicated that only 46 per cent of the time charged on the job costing system at the Clayton workshop was recorded on Fleetplan, with minor discrepancies noted at other workshops. While the Corporation's Transport Department staff were unable to account for the discrepancies they offered the following explanations:

- times recorded on the job costing system could be overstated to cover unoccupied time;
- excessive time taken due to inefficiency or problems encountered on the job may not be charged on Fleetplan; and
- small jobs may not be recorded on Fleetplan.

3.15.39 Under any of the above scenarios the quality of the time records will hinder management's ability to identify under-utilisation of resources or inefficient work performance.

3.15.40 To overcome the deficiency in the reliability of time recorded, the Corporation should issue clear guidelines to workshop supervisors requiring close review of time records prior to input.

- *RESPONSE provided by General Manager, Gas and Fuel Corporation of Victoria*

  Previous directives on times to be charged to particular jobs is that the actual hours are to be recorded in Fleetplan. These may vary from the hours recorded in time sheets as there is no idle time account code, hence all workshop hours are charged against the work that is in the shop for that day. This is clearly not satisfactory but the difference between these 2 gives a measure of idle time or under-utilisation of labour resources.

  With the implementation of FLAME accounting system, Fleetplan is to be used as a "feeder" of maintenance costs to the general ledger. New procedures are being prepared, together with training for workshop staff to ensure a high accuracy of data.

- *GENERAL RESPONSE provided by General Manager, Gas and Fuel Corporation of Victoria*

  The Corporation has achieved a high standard of fleet maintenance with costs generally below industry standards.

  Emphasis has been placed on high levels of vehicle availability to match the operational needs of user departments.

  Work practices in motor workshops have been designed to achieve minimum fleet operating costs, and not to maximise workshop profits which is the norm in the private automotive repair sector.

GEELONG REGIONAL COMMISSION

REVIEW OF DEVELOPMENT ACTIVITIES

Background

3.15.41 The Geelong Regional Commission was established under the *Geelong Regional Commission Act* 1977. The Commission has responsibility for the planning and controlling of development in the City of Geelong and 8 neighbouring municipalities. A primary aim of the Commission is to improve regional employment opportunities. In this regard, the Commission claims to have facilitated the creation of over 5 000 jobs in the region. The Commission, in 1988, developed the Geelong Regional Development Strategy to aid in the integration and co-ordination of the economic, physical, environmental and social resources, and to facilitate balanced development of the region.

3.15.42 An audit review was undertaken of the activities of the Commission, with specific focus on the impact of providing financial assistance to industry and tourist activities.

Overall conclusions

3.15.43 The audit review concluded that:

- while the Geelong Regional Commission's project development activities have in the past been profitable, the inherent risks associated with these activities and the significant losses now being incurred on tourist-related projects, raise concerns as to the appropriateness of the Commission's continued involvement in providing financial assistance to industry and tourist activities; and
- the Commission's project evaluation procedures and management information systems available to monitor and control development activities are not able to provide sufficient, accurate and timely information to assist management in making informed investment decisions.

Risks associated with Commission activities

3.15.44 The Commission's development projects fall into 3 categories namely, large development projects, tourist-related projects and industry support. Each of these activities incur a certain element of risk, the extent of which can substantially effect its financial position. Specific comments on each of these activities is detailed below.

Large development projects

3.15.45 Large projects, which often involve tourism components, require a substantial investment and consequently can carry a high level of risk, as illustrated by an audit review undertaken on 2 of these projects, details of which are outlined below.

Bay Link

3.15.46 In February 1981 the Commission initiated the City by the Bay Study, which was designed to direct future development of Geelong's Central Business District towards Corio Bay, to make use of the commercial/recreational potential of the Bay front and to provide a structured framework for the development of designated land extending from the Corio Bay foreshore.

3.15.47 The entire development was initially proposed to be undertaken by a single private sector developer. However, when the developer withdrew from the development in December 1982 the project was effectively divided into 3 components: Market Square, Bay City Plaza and Bay Link. Market Square and Bay City Plaza were subsequently developed by the Geelong City Council and a private developer, respectively. It was planned that the Commission would then develop Bay Link at an estimated cost of $60 million with the assistance of equity funding from the State Government. The Commission, with the consent of the State Government, assumed the role of assembling the required foreshore land consisting of 5 properties for Bay Link.

3.15.48 While the City by the Bay concept document anticipated that Bay Link would be completed by December 1983, it was not until December 1991 that the land for the Bay Link project was finally assembled. **To date, no construction work has commenced on the project and the specific elements to be incorporated into the development have not been finalised.**

3.15.49 Audit considers that the main reasons for the Commission's slow progress on developing Bay Link were as follows:

- protracted negotiations with local authorities on planning issues;
- although the project has received government approval, funding for the development has not been provided by the Government leading to the Commission being constrained from proceeding further; and
- difficulty in acquiring properties crucial to the project due to resistance from tenants and limitations on the amount of compensation payable.

3.15.50 Delays in the commencement of the project have resulted in the following:

- at December 1991, the Commission had incurred holding costs of approximately $1.8 million, which does not include holding costs associated with the IMAX system referred to in paragraph 3.15.71;
- the value of properties acquired by the Commission, including holding costs, has fallen by $1 million, based on independent valuations at 30 June 1991; and

- the original development concept is now largely outdated and inappropriate to existing public demands.

3.15.51 Bay Link has been underway for 10 years. In view of the considerable ongoing expense associated with the project and the doubts now existing as to the appropriateness of the original development concept, urgent action by government is needed to determine the future of Bay Link.

Surf Coast Plaza

3.15.52 Early in the 1980s the Commission assisted 2 surf-related clothing and sports goods manufacturers to expand their operations in order to encourage them to remain in Victoria. Subsequently, the Commission decided to develop a major tourist, recreational and retail centre on land surrounding the manufacturing operations. The development, known as Surf Coast Plaza, was planned to provide an innovative shopping, dining, entertainment and exhibition complex which would act as a catalyst to the tourist industry by providing a national focus for the whole surf coast area. A major tourist drawcard was to be a surfing museum known as Surfworld, incorporating a surfing Hall of Fame and a theatrette.

3.15.53 Due to a lack of private sector interest, the Commission undertook development in its own right at an estimated cost of $3.5 million. Construction commenced in 1985 after an $800 000 concessional interest loan was obtained from the Victorian Development Fund. The loan was provided on the basis that no interest was payable until net income from the project was sufficient to pay debt servicing costs. **The development was completed in 1991 at a total cost of $3.4 million.**

3.15.54 A 1987 feasibility study undertaken by the Commission forecast that the development would start generating positive cash flows in July 1994 and that the break-even point for the project would be 2004. At 30 June 1991 **the accumulated cash deficit for the project was $3.5 million or 49 per cent higher than the original projection of $2.4 million.**

3.15.55 Based on these figures, and the considerable uncertainty as to future rental returns, audit considers that the Commission will not receive a financial return from its investment in the foreseeable future. **As such, it will also not be able to pay interest on the $800 000 loan from the Victorian Development Fund, resulting in the State Government effectively subsidising the development by approximately $100 000 a year.**

3.15.56 In 1991 the Valuer-General valued Surf Coast Plaza at an estimated market value of $2.3 million, although construction costs were $3.4 million.

3.15.57 Audit considered that the factors which have contributed to the poor financial performance of the Surf Coast Plaza were as follows:

- One of the prime objectives in establishing the Surf Coast Plaza was to encourage tourism through promotion of the surfing image of the area. This image, in part, was to be enhanced by the establishment of Surfworld as part of the Plaza. **Although the Surfworld building was completed in 1987 at a cost of $500 000, the surfing exhibition was not proceeded with, mainly due to doubts as to its viability and the reluctance of the Commission to incur a further financial exposure of $1.2 million, being the projected cost of the exhibition**; and
- The failure to develop the Surf World Complex as a major attraction has resulted in the Commission experiencing considerable difficulty in attracting tenants to the development and obtaining commercial returns from existing tenants. A number of shops have remained vacant for several years.

3.15.58 Audit questions whether the Commission's legislative mandate envisaged its direct involvement in undertaking large-scale development projects which can involve high financial risk to public moneys, and which could ultimately impact upon the Commission's financial viability.

3.15.59 In the light of prevailing economic conditions and the unsatisfactory status of the projects referred to, the Government and the Commission needs to reassess the future viability of the projects before any further expenditure is incurred.

RESPONSE provided by the Chairman, Geelong Regional Authority

The Geelong Regional Commission (GRC) has had the difficult task of consolidating adjoining parcels of privately controlled land comprising one CBD block in Geelong preparatory to private sector development. The last site was acquired in 1988, and possession obtained in 1990.

Only a public sector organisation with the representative interests and resources of the GRC could have progressed the City by the Bay development to its current status of substantial completion.

The overall City by the Bay development has generated over $120 million of construction work and is understood to provide some 2 500 jobs to date.

The government has not given approval for the GRC to participate in any capital raising in order to undertake the final stage of the development.

The private sector has always been an intended source of capital investment for Baylink.

Future management of the Baylink project

The City by the Bay project, incorporating Baylink and peripheral tourist precincts, is an extensive and complex project involving a number of stake holders.

Much of the project has been completed. Having regard to the size of the multi-stage project a 10 year plus development period might not be considered to be an excessive time frame. During this period there have been 2 financial downturns.

For the past 7 months the former chairman of the Urban Land Authority has been exploring new strategies for the future management of Baylink, with the GRC and the Geelong Council.

The general disposal of Baylink project properties is not considered to be either commercially prudent in the current property market or necessary for the financial stability of the GRC.

Surf Coast Plaza

Surf Coast Plaza and the adjacent estate were developed to strengthen and improve local employment in an area of high unemployment. Today, the estate contains round 25 businesses with a total employment of around 300 people. The surfing products industry now employs 350 people in Torquay and earns significant export income.

Feasibility studies for the project have been on a discounted cash flow basis, in accordance with Department of the Treasury guidelines, and accordingly have specifically excluded non-cash expenses such as depreciation.

The inability to secure corporate sponsorship in the current economic climate has prevented the development of Surf World.

Acquisitions of significant development properties

The Geelong Regional Commission Act 1977 Section 20(2) authorises the GRC to borrow up to $50 million. These loans, which currently amount to $20 million are facilitated through the Department of the Treasury. This legislative authority suggests that the GRC was intended to undertake more than planning and minor development projects to encourage the economic development of the Geelong region.

The acquisition of private land must be with the consent of the Minister (s.15(1)(b)) and consistent with the Valuer-General's independent valuation.

The property portfolio of the GRC has declined at market value consistent with the slump to real property values. Against this non-cash decline in value should be matched the property value gains of the past. The GRC is incurring holding costs which can be managed within the cash flow management plan and cash reserves.

Tourist-related projects

3.15.60 In line with its function of facilitating economic growth and protection of the Region's natural resources, the Commission is also involved in establishing and managing tourist developments. Such developments, because of their nature, often carry a high financial risk due to:

- difficulties in estimating future operating revenue;
- difficulties in maintaining public and tourist interest; and
- additional demands and responsibilities placed on the Commission by each tourist development to provide an adequate level of operational management.

3.15.61 Audit review of the tourist-related developments disclosed that a number of projects were not generating the returns originally anticipated and, as a consequence, are placing a drain on the Commission's financial resources. Details of the specific audit findings in relation to the major tourist developments are outlined below.

National Wool Centre

3.15.62 In January 1985 the Commission purchased the historic C.J. Denny's bluestone woolstore for its proposed National Wool Centre, which was also to incorporate a wool museum. It was envisaged that the complex would provide a commercial, historic, educational and entertainment focus for one of Australia's major industries and provide a much needed impetus for tourism in the Geelong region. A 1986 feasibility study forecast that the costs involved in the project would be recouped by 2004.

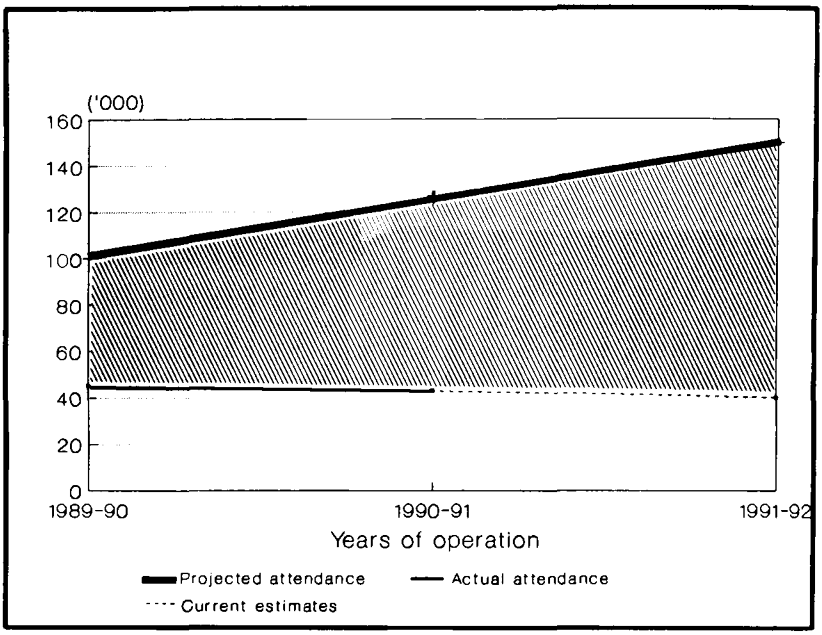
3.15.63 The Centre was completed in 1988 at a cost of $10.1 million and was financed by borrowings ($4.5 million) and government grants ($5.6 million).

3.15.64 Financial performance of the Centre has not met expectations. In 1990-91 the Centre incurred an operating loss of $834 000, compared with the feasibility study forecast loss in that year of $290 000. The poor performance was primarily due to:

- The failure of the museum to achieve expected patronage levels. In the first two and a half years of operations there were 138 000 visitors which was 54 per cent less than projected. Chart 3.15B illustrates actual and projected attendances for the period 1989-90 to 1991-92;
- The inability to attract the level of corporate sponsorship envisaged. Sponsorship received to 30 June 1991 totalled $102 000, compared with a projected total of $830 000 by that date; and
- A reduction by 25 per cent of rentals payable by the Centre's commercial tenants, due to the effect of the downturn in the economy on rents paid for commercial sites in Geelong.

3.15.65 The National Wool Centre is likely to remain a financial burden on the Commission and the taxpayer unless patronage levels can be significantly improved.

CHART 3.15B
NATIONAL WOOL MUSEUM, PROJECTED VS ACTUAL ATTENDANCES



National Transport Museum

3.15.66 In 1987-88 the Dalgety Wool Store was transferred to the Commission from the Victorian Tourism Commission on the condition that the building would be developed as a National Transport Museum. The Commission envisaged that this building would be developed in conjunction with the abutting Denny Lascelles Woolstore, which it had purchased for $565 000 from the former Ministry of Housing.

3.15.67 The Commission undertook a feasibility study on the future development of both sites and submitted a development plan to the Government in October 1989. However, since that date no further work has been undertaken on the development and the Commission now believes that the National Transport Museum is unlikely to proceed.

3.15.68 At 30 June 1990 the Valuer-General valued the 2 woolstores at $4.5 million. During 1990-91 the Commission was able to generate income of $142 000 from rental of storage space in the buildings.

3.15.69 In effect, the Commission currently possesses public assets valued at $4.5 million with no clear direction as to their future use and from which minimal income is being derived. Unless a purpose can be found for the properties in the near future, consideration could be given to their disposal as surplus assets, with proceeds being directed towards alternative purposes for the benefit of the region.

IMAX Theatre

3.15.70 In May 1989 the Commission **purchased specialised theatre equipment, known as the IMAX system, for $1.8 million to be used in the proposed theatre** forming part of the Bay Link project. Part of the purchase arrangements, included exclusive rights to operate the IMAX system in the Port Phillip region until 1993. However, the delay in completing the Bay Link project as referred to in paragraph 3.15.50 of this Report, **has resulted in the equipment remaining in storage since purchase.**

3.15.71 Delays in the establishment of the IMAX theatre have resulted in the Commission incurring holding costs of approximately $1.2 million, including the reduction in value of the equipment resulting from expiry of half the exclusive rights period of 5 years provided in the contract.

3.15.72 The 3 projects detailed above, which were originally planned in more optimistic times, are now confronted with the harsh financial reality of the 1990s. Without further government support or a dramatic increase in patronage the continuing viability of the National Wool Centre is debatable. Both the proposed National Transport Museum and the IMAX Theatre have the potential to remain a drain on the public purse for some time. While I recognise that the involvement of the Commission in tourist projects is consistent with its objectives and that such involvement provides a stimulus to the local economy, consideration needs to be given to the desirability of proceeding any further with the development of the National Transport Museum and Imax Theatre.

RESPONSE provided by the Chairman, Geelong Regional Commission

Gross revenue at the National Wool Centre exceeds $2 million (to March 1992). With an accepted tourist-industry multiplier of 3 expanded revenue generated in the Region since December 1988 is worth in excess of $6 million.

Museum visitation forecasts were developed on the basis of complementary tourist attractions proceeding on the Baylink site and Dalgety Woolstore to create a massing of attractions sufficient to generate full day and overnight packages from Melbourne and beyond.

Museum attendance figures of 163 400 since the building opened in December 1988 do not include patrons attending woolsales, customers of other commercial operations in the building - excluding the tavern/bistro - which it is estimated would exceed another 500 000 people since opening day.

Surveys indicate that around 25 per cent of patrons have come specifically to Geelong to visit the Museum.

The NWM has become the catalyst for increased tourism development and expansion of tourism opportunities in the Geelong Otway tourist region, creating a significant focus on Greater Geelong, The Otways, Queenscliff and the Bellarine Peninsula.

The Museum has won 2 VTC Tourism Awards for Cultural and Historical Tourism and has attracted many delegations of overseas visitors who have heard of its existence.

Management of the Museum is currently under review in conjunction with the Museum of Victoria to ascertain means of reducing costs.

Industry support

3.15.73 The third area of development activity is industry support. One aspect of this activity involves the Commission providing serviced industrial allotments in the Geelong region for purchase by the private sector. These relatively low risk developments have proven to be very profitable over many years.

3.15.74 In addition to industrial subdivisions, the Commission in the past has provided support to industries either in the form of assistance to firms in the region experiencing financial difficulties or in assisting industries wishing to become established in the region. In the course of the review, audit noted that demands for assistance were unexpected and placed strains on the Commission's resources. This led to the normal project evaluation procedures being modified significantly.

3.15.75 Projects of the above nature inevitably carry a high degree of risk, especially where the Commission may decide to buy the assets of a financially troubled company with a view to leasing the assets back to the company or another party. Such action may only provide temporary relief if markets for products do not improve and the Commission could be left holding assets which it may have trouble in disposing. This is particularly relevant if the Commission has borrowed funds to purchase the assets which in turn, fail to provide a return to the Commission.

3.15.76 To date, the Commission has not incurred any significant losses arising from such activities. While acknowledging the risks involved the Commission considers them to be acceptable in view of the positive benefits derived from supporting Geelong industry.

3.15.77 Audit also noted that the legislative ability of the Commission to engage in such activities is uncertain, in that it does not specifically provide for the Commission to acquire assets, other than land, from companies in financial difficulty.

3.15.78 The risks associated with government support to industry are widely documented. If it is the Government's intention to continue to allow the Commission to provide industry assistance in the manner outlined above, then there is a need to specify such powers in legislation and to provide policy guidance on this issue.

RESPONSE provided by the Chairman, Geelong Regional Commission

The audit recommendation is rejected because it is considered to be unjustified on the evidence and analysis provided. Audit's assessment is factually incorrect.

<u>Factory accommodation assistance</u>

There is no evidence to suggest that the GRC has provided any direct financial assistance to industry such as loans, purchase of either equity or intangible assets in contrast with entrepreneurial businesses. The GRC;s primary focus is on community benefits. It deals in and acquires only tangible assets on the basis of Valuer-General valuations.

The 3 major examples examined by audit relate to the acquisition of pre-existing factory buildings, together with some plant and other chattels in one instance. The plant and chattels were acquired as part of the sale package from a liquidator.

Financial risk of acquisition

The suggestion that the factory acquisitions were high risk and relied upon the financial stability of the lessee is incorrect. Only one factory accommodation project was a sale and lease back. The factory accommodation projects were collectively substantially profitable both from a financial result and the provision of community benefits.

The suggestion that the financial failure of any factory lessee could result in significant losses is incorrect.

Each asset acquired by the GRC was based on an alternative use value or resale value independently assessed by the Valuer-General and in one instance a number of private valuers.

The risk analysis of these projects is necessarily simple, since essentially the worst case financial situation is assumed, on a short-term holding of the property.

The last factory accommodation project was undertaken almost nine years ago. There have been no similar projects considered to be acceptable in recent times as a result of the slump in the manufacturing sector and the consequent negative impact on factory values.

The GRC is essentially in a maintenance mode and concentrating on the Baylink project.

Government consultation

The boundaries of the GRC's activities are constrained by government involvement. Property may be acquired or sold subject to the Valuer-General's valuation and the minister's approval. Further the borrowings of the GRC are obtained via Treasury.

The acquisition of property is considered on a case-by-case basis by the Minister.

GRC legislative charter

The GRC believes that it has acted within its legislative charter. On one occasion, 9 years ago, it purchased plant and equipment together with unfinished product which was incidental to the primary acquisition of the factory. The purchase was a "job lot" offer from a liquidator.

It is unclear why the acquisition of property from "companies in financial difficulty" should be a cause for audit concern. Provided the purchase price is approximately equal to the auction realisation value of the property there is minimal risk. In the case of the International Harvester factory acquisition the purchase price was below the auction realisation value of the property as assessed by a leading industrial valuer.

Administrative procedures

3.15.79 Due to the nature of the Commission's activities it is very important for adequate project evaluation and monitoring processes, supported by suitable administrative systems, to be in place to provide management with essential information for decision making purposes. A review of the Commission's procedures disclosed the following major deficiencies:

- Although feasibility studies and market research is undertaken prior to commitment of funds to projects, the form and content of these studies varied markedly. At times, information on these projects was inadequate, unreliable and optimistic, particularly in relation to revenue projections and economic benefits;

- Detailed information on project costs is not readily accessible for management purposes; and
- Post-project reviews are not undertaken and, as such, valuable information on assessing and improving performance is not provided.

3.15.80 The administrative deficiencies outlined impact upon the ability of the Commission to consistently make investment decisions in the best interests of the public.

RESPONSE provided by the Chairman, Geelong Regional Commission.

The project evaluation methods, but more particularly the MIS facilities which existed a number of years ago are likely to have been deficient for current day project analysis.

While many industry assistance projects have been considered in recent years, none have been accepted in the last 9 years since the acquisition of the International Harvester factory.

Action is in hand to improve the GRC's project evaluation procedures and MIS. From January 1992 reports on a project basis have been prepared. Further integration with feasibility is being pursued by the GRC.

The GRC's computer system has been upgraded and there is a link and system support to the $5 million Unix based technical computer system of the Geelong and District Water Board.

PORT OF MELBOURNE AUTHORITY

REVIEW OF WORKSHOP OPERATIONS

3.15.81 For some years a program of micro-economic reform on the waterfront has been actively pursued by the Federal and State Governments in association with the waterfront industry. The aim of these reforms is to reduce the high shipping costs which have been a severe impediment to Australia's international competitiveness and economic growth. These high shipping costs have been identified in a number of government-initiated reviews as being primarily the result of the poor labour productivity in the various waterfront sectors, including port authorities.

3.15.82 In view of government, industry and community concerns relating to shipping costs, an audit review was undertaken to identify the level of productivity and potential for implementing cost saving reforms at the Port of Melbourne Authority's workshop operations. This area was selected for review as it is responsible for a large proportion of the Authority's employment numbers and costs.

Overall conclusions

3.15.83 With the support of the State Government the Authority has embarked on a process of developing a more commercial emphasis including the specific aims of improving productivity and cost-effectiveness of the workshops.

3.15.84 In line with these aims some improvements, such as the amalgamation of the workshops, were noted. However, audit found that there was a low level of labour productivity resulting from overstaffing and poor work practices at the workshops. Consequently, the workshops were not providing the Authority with a cost competitive service in accordance with their operating aim. Unless more decisive action is taken to address these matters productivity will remain low resulting in doubt as to the economic justification for the continuing existence of the workshops.

Scope of workshop activities

3.15.85 Since the foundation of the Authority in 1876, construction and maintenance services for its diverse range of assets have been provided internally. Currently, these services are provided by the Workshops Division which comprises electrical, marine, mechanical and civil sections.

3.15.86 At 30 November 1991, total workshop staff numbered 344. The total cost of workshop operations for the 1990-91 year amounted to $23.6 million, which was 22 per cent of the Authority's operating expenditure for that year.

3.15.87 Table 3.15C shows total workshops expenditure for 1989-90 and 1990-91, together with proposed expenditure for 1991-92.

TABLE 3.15C. PORT OF MELBOURNE AUTHORITY WORKSHOP COSTS
($'000)

Item	*1989-90 Actual*	*1990-91 Actual*	*1991-92 Budget*
Recurrent	19 178	17 928	20 439
Capital	5 368	5 679	3 560
Total	**24 546**	**23 607**	**23 999**

RESPONSE provided by Acting Chief Executive Officer, Port of Melbourne Authority

Personnel numbers and operating costs (in constant dollars) have been significantly reduced over the last 3 years with a targeted 4 per cent productivity improvement for the 1992-93 financial year. These reductions have been achieved without reducing services and surely must reflect efficiencies in all aspects of management and improved practices and a continuing commitment to reduce operating costs.

Management initiatives

3.15.88 During 1988 the Authority established a joint working party to examine the viability of amalgamating the ship repair facility at Williamstown with the central workshop at West Melbourne. The working party's report, issued in April 1989, concluded that an amalgamated workshop would enable a reduction of up to 71 staff with a potential wages saving of $2 million a year.

3.15.89 Relocation to West Melbourne began in April 1990 and the Williamstown facility was closed in March 1991. Staffing levels were reduced by 65 as a result of the amalgamation.

3.15.90 Audit was pleased to note that since the amalgamation, a number of other significant improvements to the operation and management of the workshops have been introduced, including:

- development and implementation of a departmental works program, to enable improved resource allocation;
- development and implementation of a planned maintenance program for plant and equipment, to reduce downtime resulting from equipment failure; and
- improvements in budgeting procedures and the recording of repair costs to facilitate improved monitoring.

Analysis of workshop performance

3.15.91 A review by audit of the activities undertaken by certain sections within the workshops revealed low labour productivity which, in turn, reflected poorly on the cost competitiveness of the workshops.

3.15.92 The audit identified instances where the output from various workshop sections was not cost competitive when compared to the equivalent output of a commercial operator.

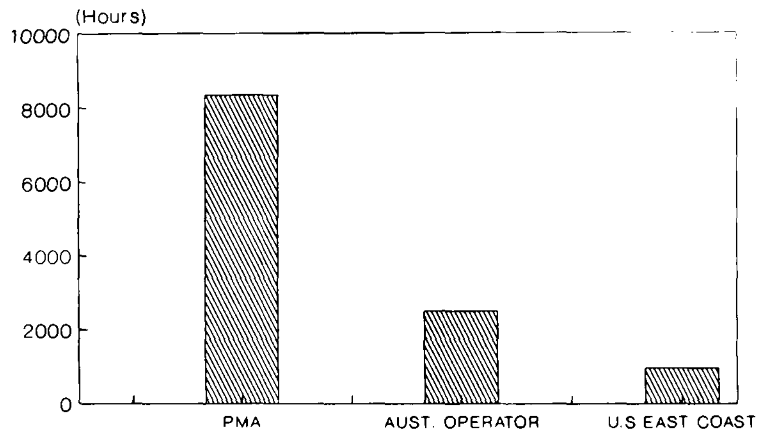
Mechanical Section

3.15.93 The main activity of the Mechanical Section is vehicle repairs. Audit review of repairs undertaken revealed that **some repair times were between 3 and 8 times higher than those of commercial operators or manufacturer's specifications.** Further, timesheets reviewed by audit disclosed that during 1991 only 41 per cent of available time was spent on job repairs. The balance comprised absenteeism (9 per cent) and program activity time which was considered by audit to be unproductive as it included standby, workshop cleaning and off-site purchase of spare parts.

Electrical Section

3.15.94 A structured maintenance program for the Authority's container cranes is carried out by the Electrical Section. Audit found that a high level of crane availability was maintained which reflected well on service quality. However, as shown in Chart 3.15D **the amount of time spent during 1990-91 on the maintenance and repair of cranes was more than 3 times that of other operators utilising similar cranes.** Audit estimated that if crane maintenance hours were reduced to a more commercial level, **costs could be reduced by up to $1.2 million a year.**

CHART 3.15D. COMPARISON OF AVERAGE ANNUAL MAINTENANCE HOURS PER CONTAINER CRANE



Marine Section

3.15.95 The Marine Section conducts the maintenance and repair of the Authority's floating plant. Matters regarding the productivity of this Section which arose during the audit review included:

- budgeted jobs completed by the Section in the 12 month period to the end of January 1992 revealed that **most jobs had incurred significant cost overruns which, in some instances, were more than 40 per cent in excess of the original estimate;** and
- budgets prepared for certain floating plant repairs revealed that man-hour **estimates were approximately 30 per cent in excess of the time required by commercial operators to undertake the same repairs.**

3.15.96 The above findings are indicative of the fact that appropriate performance measures have not been established to monitor the cost-effectiveness of the workshops. Until such measures are developed the Authority will not be in a position to identify and improve labour productivity and ensure the cost competitiveness of the workshops.

RESPONSE provided by Acting Chief Executive, Port of Melbourne Authority

Mechanical Section

The low productivity level in the Auto Mechanics Section has been identified and processes to substantially reduce manning levels have been implemented.

Discussions have also been held with the union regarding multi-skilling and actions implemented.

Electrical Section

A simple survey of labour resources used by the other crane maintenance groups within the Port of Melbourne shows a similar pattern to that of the PMA's operation.

Labour hours alone without reference to the use of contractors or to the scope of responsibilities is an unreliable vehicle for comparison.

PMA as a hirer of equipment is required to provide a very high level of reliable availability demanded by the PMA's 3 stevedore clients, whereas stevedoring owner-operators (as sole user of their cranes) have the advantage of trading-off crane availability against maintenance effort.

Marine Section

The 12 month period examined by the Auditor-General in relation to the Marine Section included the amalgamation and re-establishment period and could not be considered as a truly representative sample.

Time overruns primarily occur when the Marine Section is requested to respond to emergency breakdowns and due to manning levels some works are deferred. During these peak workload periods the priority of each job is assessed and agreement reached with the asset owner should a delay be incurred.

The audit report states that PMA man-hours are in the order of 30 per cent in excess of commercial repairers. The credibility of the process adopted to reach this conclusion, that is, for a commercial repairer to provide an estimate based on the examination of a PMA estimate, is highly questionable. Without the commercial repairer independently viewing the condition of the vessel, the layout of engines and any other local contingencies the comparison is unrealistic.

Work practices

3.15.97 There is a large degree of absenteeism and a number of work practices at the workshops which audit considers have contributed to the low level of labour productivity and have restricted the achievement of cost competitiveness. Comment on these matters is detailed in the following paragraphs.

Absenteeism

3.15.98 Consistent with the employment conditions for other Authority staff, all workshop employees are credited with 13.5 days sick leave entitlement each year.

3.15.99 The average amount of sick leave taken by workshop staff for 1990-91 was 13 days and for the 7 months ending 31 January 1992, 11 days. The Authority calculated the cost of sick leave taken by workshop staff to be in the order of $595 000 for the 1990-91 year.

3.15.100 The amount of sick leave taken by workshop employees was substantially in excess of other Authority staff and up to twice the level found in a review of the Gas and Fuel Corporation workshops referred to earlier in this section of the report. The Authority needs to examine the level and causes of absenteeism and its effect on productivity.

Demarcation

3.15.101 Seventeen different unions represent workers in approximately 20 broad trade categories at the workshops. Formal lines of demarcation exist between most of the employee groups based on trade classification and union membership, as illustrated in the following examples provided to audit by the Authority:

- Wharf carpenters are responsible for the construction of wharves, whereas any construction above wharf height must be carried out by carpenter-joiners, even though the Authority recognised that both trade groups have the skill to perform the duties involved;
- All pipe fitting and work with metal materials below 10 gauge is performed by plumbers although much of the work could be satisfactorily performed by the fitters and boilermakers; and
- Certain workers transferred from the Williamstown workshop are currently paid a ship repair allowance of $50 per week. However, other workers involved in the same activities do not receive the allowance and have refused to work alongside those who do.

3.15.102 The need to allocate tasks according to union coverage or historical precedents rather than on the basis of available skills, restricts the efficient allocation of staff resources by workshop management. The need to deploy different trade groups on certain jobs that could be handled by one group can result in duplicate supervision requirements, overstaffing on tasks and additional travelling time charged to jobs.

3.15.103 Audit was advised by the Authority that it is currently developing award restructuring proposals aimed at reducing the number of awards at the workshops to 3 and that this would significantly reduce the current levels of demarcation.

Failure to enforce disciplinary procedures

3.15.104 Discussions by audit with workshop management revealed that the ability of supervisors and foremen to effectively supervise staff activities had been adversely affected by a perception among workers that they were almost immune from effective disciplinary action. This perception was considered to have arisen as a result of the Authority's failure to enforce disciplinary measures in line with it's policy guidelines.

3.15.105 Audit examination of Authority files disclosed instances of misuse of Authority vehicles, falsification of timesheets, use of bogus medical certificates and theft of cargo and Authority property. While these instances constitute dismissable offences under the Authority's guidelines, none of the employees involved were dismissed and there was no evidence that other appropriate action had been enforced.

3.15.106 The failure to deal with instances of misconduct in accordance with established guidelines adversely impacts on staff morale and productivity.

Absence of multi-skilling and over-staffing

3.15.107 When the workshop amalgamation was approved in May 1989, a number of benefits were foreshadowed, including the *"opportunity to develop a multi-skilled, cohesive and productive workforce"*.

3.15.108 In audit opinion, only limited progress has been made towards the achievement of this objective and **the absence of multi-skilling was a significant factor contributing to over-servicing, over-staffing and the resultant poor labour productivity.** The following examples were noted by audit:

- With the advent of containerisation and limited use of storage sheds for general cargo at the Port, the need to retain the 2 full-time rodent controller positions has not been warranted for a number of years. However, action to address the problem had only recently been taken, with management negotiating with the union for a reduction of 5 days per fortnight spent on rat-catching activities.
- The Authority currently has 32 drivers responsible for the cartage of equipment and supplies and transport of work teams to and from work locations. Audit analysis indicated that the number of drivers could be reduced by 60 per cent, representing cost reductions in the order of $600 000 a year.
- In the Mechanical Section the Authority employs 11 staff, 3 of whom are employed as a battery fitter, a tyre fitter and a lube mechanic and only perform functions associated with these designated positions. Audit estimated there was only sufficient work within the abovementioned functions for one multi-skilled person rather than the 3 that were currently engaged. In addition, audit analysis indicated that the work currently performed by the Mechanical Section could be comfortably undertaken by 4 multi-skilled tradespeople, instead of the 11 staff currently employed.

3.15.109 To assist with a reduction in the cost of workshop services the Authority should establish strategies to develop a multi-skilled workforce and, thereby, reduce the existing levels of excess staff.

RESPONSE provided by Acting Chief Executive, Port of Melbourne Authority

Absenteeism

The PMA notes and accepts the auditor's findings of the high level of absenteeism. Clearly, this trend over the last 3 years, has been influenced considerably by the unstable working environment as a result of the amalgamation and imminent redundancies.

Excessive demarcation

The auditor's concluding paragraph summarises accurately that the current award restructure proposals will significantly reduce the current level of demarcation.

Failure to enforce disciplinary procedures

Supervisors continue to enforce disciplinary procedures but, in instances of dismissable offences during the last 2-3 years, the PMA decision has been subject to appeal to higher authority external to the PMA such as the Industrial Relations Commission of Victoria.

The report focuses on dismissals but does not acknowledge the PMA's initiation of other disciplinary procedures to enforce adherence to PMA's rules and regulations.

Absence of multi-skilling and overstaffing

Due to long-standing industrial awards/agreements most processes to multi-skill needs to be managed with sensitivity. A number of issues require extensive industrial negotiations and also the timing can be critical.

Some examples of recent progress in multi-skilling are:

- *integration of all labourers into one unit with a reduction of ganger numbers;*
- *labourers driving a 4WD vehicle for beach cleaning traditionally driven by a TWU member;*
- *civil plumbers/painters working on marine works;*
- *joiners amalgamated into one operational unit; and*
- *tyre fitting duties shared in auto mechanics garage (recently finalised).*

These achievements were achieved without strikes/bans and during a particularly sensitive industrial environment. The PMA is aware of the issues raised by the auditor and substantial progress has been made in 2 of the 3 areas reported.

OVERALL COMMENT provided by Acting Chief Executive, Port of Melbourne Authority

A comprehensive program of Port Authority reform is being pursued across all areas of the PMA's current responsibilities.

The PMA workshop is but one of the number of areas subjected to PMA critical appraisal and corrective action.

In its identification of issues requiring attention such as the workshops, the PMA has had to take into consideration the need to manage industrial reforms with minimum disruption to port operations.

While the PMA acknowledged there were areas requiring attention in the workshops and there are opportunities for further improvement, the emphasis of the report has been to target instances of poor performance and to label all workshop sections collectively as having poor labour productivity.

In the PMA's view the processes adopted to formulate a number of the conclusions are questionable.

It is disappointing therefore that the report has been written with such a negative flavour with only minimal acknowledgement of the number of initiatives pursued by the PMA that have been already been implemented since amalgamation and which the PMA quite clearly is vigourously pursuing.

Inadequate material supply arrangements

3.15.110 The Authority's workshop stores hold stock worth approximately $3 million. An internal audit review of stock levels at 30 June 1991 raised concerns regarding the level of obsolete and slow moving items. **Financing costs in respect of the stock held was estimated by audit to be $450 000 for the 1990-91 year with additional costs incurred for staffing and operating the stores system.** Despite the substantial costs involved in operating the stores, the system was found to be ineffective.

3.15.111 In discussions with workshop staff, widespread dissatisfaction was expressed to audit regarding the store department's inability to meet the requirements of timely provision and availability of items. In this regard, a review of purchase orders for the 3 months to September 1991 revealed that more than 95 per cent had been initiated by workshop foremen due to the store being unable to supply the required items from stock. Many of these purchase orders involved workshop foremen going off-site to purchase stock directly from outside suppliers. The need for staff to go off-site to purchase supplies results in unnecessary costs being added to a job as the unproductive time is charged at $33 per hour.

3.15.112 An overall assessment of the material supply arrangements needs to be undertaken by the Authority with reforms focusing on meeting user's key service requirements of timely provision and availability of supplies.

RESPONSE provided by Acting Chief Executive, Port of Melbourne Authority

As responded to the internal audit review of stock levels at 30 June 1991, the number of stock items have been reduced by some 1 600 or 15 per cent over the past 3 years. This reduction has been substantially achieved through regular reviews of slow moving/idle items reports.

PMA has recently implemented an on-line real-time purchasing and inventory system. This system will facilitate efficient and cost-effective rationalisation of inventory and direct access to users for purchases of future materials requirement and inventory inquiry.

As part of the new system implementation PMA is now in the process of assessing material supply arrangements with a definite focus on meeting users key service requirements of timely and cost-effective availability of supplies.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced

Department of Manufacturing and Industry Development

Ministerial Portfolios, April 1991, p. 322	Failure to fully monitor the performance conditions associated with the Department's $32 million industry assistance loans portfolio.	The Department has implemented appropriate procedures to monitor the loans portfolio.

Gas and Fuel Corporation of Victoria

Ministerial portfolios, April 1991, pp. 326-33	The loss of over $3.2 million on appliance retailing to domestic consumers points to need for Corporation to review its involvement in these activities.	Changes recommended by management consultants, engaged to review appliance retailing, have been adopted by the Corporation.

Port of Melbourne Authority

Ministerial Portfolios, May 1989, p. 249	Financial arrangements and organisational responsibilities for rail sidings on PMA land not resolved with PTC. Projected benefits of Webb Dock rail link not yet achieved.	Arrangements in place for majority of rail sidings. There are new proposals for Webb Dock which depend on outcome of Commonwealth's national freight initiative.

State Electricity Commission of Victoria

Ministerial Portfolios, May 1989, p. 162, April 1991, pp. 330-3	Revised financial arrangements for supply of electricity to Municipal Electricity Undertakings (MEUs) aimed at improving the productivity of the MEUs do not maximise returns to the Commission and result in inequities to electricity consumers.	The financial arrangements were negotiated by the Department of Manufacturing and Industry Development. The Department and the Commission are to monitor the progress of MEUs in achieving productivity improvements.
Ministerial Portfolios, May 1990, p. 200	The Commission's 1988-89 and 1989-90 financial statements were qualified due to the failure of the Commission to account for debt restructuring in accordance with Australian Accounting Standards.	The Commission amended its policy for the 1990-91 year to accord with Australian Accounting Standards.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Department of Manufacturing and Industry Development	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	24 October 1991	31 October 1991
Albury/Wodonga (Victoria) Corporation	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October.	8 October 1991	28 October 1991
Coal Corporation of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	27 August 1991	13 September 1991
Exhibition Trustees	31 December 1990	31 March. *Annual Reporting Act* 1983, s.9.	21 March 1991	17 April 1991 *(a)*
.. ..	31 December 1991	.. ..	27 March 1992	9 April 1992 *(a)*
Gas and Fuel Corporation of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	13 September 1991	30 September 1991
Gas and Fuel Corporation Superannuation Fund	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	2 October 1991	31 October 1991
Geelong Regional Commission	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 21 November 1991.	15 November 1991	18 November 1991
Latrobe Regional Commission	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	23 August 1991	24 September 1991
Overseas Projects Corporation of Victoria Ltd	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law.	18 September 1991	19 September 1991
Port of Geelong Authority	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	9 September 1991	30 September 1991 *(a)*

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Completed audits - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Port of Geelong Authority Superannuation Fund	30 June 1991	No reporting requirements. Section 4 of Port of Geelong Authority (Superannuation) Regulations 1972 requires the Superannuation Fund to be audited by the Auditor-General.	9 September 1991	30 September 1991
Port of Melbourne Authority	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	25 September 1991	30 September 1991
Port of Portland Authority	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	2 September 1991	30 September 1991
SEC Superannuation Fund	30 June 1991	30 November. *Annual Reporting Act* 1983, s.9.	1 November 1991	11 November 1991
SEC Superannuation Pty Ltd	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law	1 November 1991	15 November 1991
State Electricity Commission of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	21 August 1991	28 August 1991
Renewable Energy Authority Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	24 September 1991	24 September 1991

(a) Qualified audit report issued.

3.16

PLANNING AND HOUSING

KEY FINDINGS

- The financial operations of the Home Opportunity Loans Scheme are not reported to the Parliament, notwithstanding that Victorian taxpayers will be required to contribute to any losses incurred by the companies involved.
  Paras 3.16.7 to 3.16.10
- The State's net financial contribution to the Home Opportunity Loans Scheme has risen significantly over the years and totals $22.8 million at March 1992.
  Paras 3.16.11 to 3.16.17
- The level of the Home Opportunity Loans Scheme's doubtful debts has escalated over the past 12 months to $5.6 million at 30 June 1991. However, the level could be substantially higher as a detailed assessment of the loan portfolio has not been undertaken.
  Paras 3.16.18 to 3.16.22
- During 1991, positive action has been initiated to address problems identified in my previous Report to the Parliament on the operations of the Construction Group.
  Paras 3.16.26 to 3.16.31
- The establishment of a central fund to finance cost overruns and stand-by labour and administrative costs of the Construction Group provides it with a significant advantage over private contractors who compete for jobs.
  Paras 3.16.32 to 3.16.38
- Although certain low-interest loans are provided to borrowers on the condition that they must not sublet the mortgaged property, audit highlighted that up to 400 cases of subletting may currently exist.
  Paras 3.16.39 to 3.16.44
- As actual proceeds from the sale of rental stock were approximately $12 million below original budget estimates, the Department's commitment to acquire around 15 000 housing units by 1993 may not be achieved without supplementary funding.
  Paras 3.16.45 to 3.16.51
- Despite the improvement in the rental arrears position, audit considers that the Department's rental arrears remain unacceptably high when compared with other States.
  Paras 3.16.52 to 3.16.57

The Minister for Planning and Housing is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Planning and Housing

Public bodies

Architects Registration Board of Victoria *(a)*
Docklands Authority *(b)*
Historic Buildings Council
Loddon-Campaspe Regional Planning Authority
Plumbers, Gasfitters and Drainers Registration Board
Upper Yarra Valley and Dandenong Ranges Authority
Urban Land Authority
Victorian Government Major Projects Unit *(c)*

(a) The Act establishing the Board was proclaimed on 18 September 1991.

(b) The Authority was established on 5 June 1991 and is responsible to the Minister responsible for Major Projects. The Authority did not enter into any financial transactions for the period ending 30 June 1991.

(c) The Victorian Government Major Projects Unit, established under the *Urban Land Authority Act* 1979, is responsible to the Minister responsible for Major Projects and is included in this section of the Report.

Comments on matters of significance arising from the audit of the Department of Planning and Housing are discussed below.

DEPARTMENT OF PLANNING AND HOUSING

HOME OPPORTUNITY LOAN SCHEME

3.16.1 The Home Opportunity Loans Scheme, which is currently the Government's major home finance initiative, aims to provide housing finance to low to middle-income earners who normally would not have access to traditional sources of housing finance.

3.16.2 The Scheme provides 3 types of financial assistance namely, Standard Home Opportunity loans, Shared Home-Ownership finance and Priority Housing finance. The Standard Home Opportunity loans, the predominant assistance available under the Scheme, offers fixed interest loans for approximately the first 5 years with loan funds provided up to 95 per cent of the value of the property. As the loan instalments for the first half of the loan term (maximum term 25 years) do not cover the full interest expense on these loans, the amount owing escalates over this period. To ensure loans are ultimately repaid loan instalments are increased annually.

3.16.3 Funding for the financial assistance provided by the Scheme has been obtained from Victorian Housing Bonds Limited through the issue of Housing Bonds.

3.16.4 Home Opportunity Loans Limited and the Home Opportunity Loans Trust were established by the Government in 1988 to administer the Scheme. The Department has been assigned responsibility for monitoring the Scheme's performance on behalf of the Government.

3.16.5 Since the inception of the Scheme, approximately 12 670 loans, secured by residential mortgages, have been provided. At 31 December 1991, the Scheme had loans outstanding in excess of $872 million.

3.16.6 The audit review focused on the cost and financial commitments of the Scheme and its impact on Victorian taxpayers. As **I am not the auditor of the companies and trust involved in the Scheme**, the review was restricted to an examination of relevant records maintained by the Department, including a financial consultant's report prepared for the Department in July 1991 on the operations of the Scheme.

Lack of public accountability of the Scheme

3.16.7 An audit review of the State's involvement in the operations of the Scheme disclosed that the company administering the Scheme is effectively controlled by the State as:

- its policy decisions require government approval; and
- the Government has provided an indemnity to the company for the repayment of funds raised on behalf of the Scheme.

3.16.8 Given the significant control and commitment by the State to the Scheme, the Treasurer of Victoria requires the Department to provide reports on the Scheme's lending performance and financial management on a quarterly basis.

3.16.9 Notwithstanding this arrangement, it is of concern that the financial operations of the Scheme are not reported to the Parliament, nor are they fully disclosed within the Department's *Annual Report* even though the Scheme is effectively controlled by the State. In this regard, a qualified audit opinion was issued by my Office on the 1990-91 financial statements of the former Housing and Construction Victoria, due to its failure to consolidate the financial transactions relating to the Scheme within its financial statements as required by Australian Accounting Standards.

3.16.10 Given the magnitude of the State's financial commitment to this Scheme and that Victorian taxpayers are required to contribute to any losses incurred by the companies involved, audit considers the financial operations of the Scheme should be reported annually to the Parliament to enable public scrutiny of the Scheme's operations. Refer to section 4.4 of this Report for further comments on Companies, Trusts, Joint Venture Arrangements and Incorporated Associations.

RESPONSE provided by Director-General, Department of Planning and Housing

In view of the fact that none of the Directors of Home Opportunity Loans Ltd are appointed by the State and day-to-day management and operational decisions are the responsibility of the National Mortgage Market Corporation, the Manager of the Scheme, it was considered that the Government was not required under the Accounting Standards to consolidate the operations of HOLS into the Planning and Housing balance sheet and operating statements. However, following further discussion with Treasury and the Ministry of Finance officers, it is planned to consolidate the HOLS operation into the balance sheet and accounts of Planning and Housing at 30 June 1992. This will ensure that the operations of the Scheme will be reported to the Parliament.

Cost of the Scheme to Victorian taxpayers

3.16.11 Under arrangements entered into between the Department and the participating companies, Victorian taxpayers are obliged to meet certain costs, including interest subsidies and operating support, to ensure the Scheme's continued financial viability. **The net contributions made by the State to the Scheme from its inception to 31 March 1992 totalled $22.8 million and are detailed in Table 3.16A.**

TABLE 3.16A
STATE'S CONTRIBUTIONS TO THE SCHEME
($million)

Item	*1988-89*	*1989-90*	*1990-91*	*1/7/91 to 31/3/92*	*Total*
Contributions -					
Interest subsidies	1.37	4.23	4.56	*(a)*4.54	**14.70**
Operating support	0.24	2.30	1.22	6.31	**10.07**
Total annual contributions	1.61	6.53	5.78	10.85	**24.77**
Less distributions from company	0.20	1.57	0.24	..	**2.01**
Net contribution *(b)*	**1.41**	**4.96**	**5.54**	**10.85**	**22.76**

(a) Budget for year is $6.2 million.
(b) These figures exclude the cost of the Department's Home Finance Division's activities in the administration of the Scheme.

3.16.12 Clearly, the State's financial contributions to the Scheme have risen significantly over the years and indeed the Department envisages this trend will continue in the future.

3.16.13 Under the Scheme, certain borrowers are eligible for loans at concessional interest rates. Interest subsidies, which range from 2 per cent to 4.5 per cent, are paid by the Department to the company from funds provided under the Government's Social Justice Strategy. **Interest subsidies paid to date total $14.7 million.**

3.16.14 The debt servicing obligations and operating costs of the Scheme are in the first instance met from the cash flow generated from loan repayments. However, if this cash flow is insufficient, the Department is required to provide the necessary financial support to fund the Scheme's operations. **Since the Scheme's inception, $10.1 million has been provided for this purpose. However, this has been offset by distributions from the Scheme over the period totalling $2 million.**

3.16.15 The Department advised that the Scheme's losses in the current financial year are being monitored to ascertain whether they are indicative of future financial results. Preliminary studies by the Department suggest that the poor results have occurred due to inadequate lending margins over borrowing costs in respect of indexed loans and timing differences as a result of using different CPI rates for interest income and borrowings.

3.16.16 The current economic climate of rising unemployment, declining incomes and falling property values, has also precipitated increases in the number of loans in arrears, loans subject to special arrangements which have resulted in reduced repayments and defaulting loans. These factors all have a negative effect upon the income streams of the Scheme.

3.16.17 To ensure the company is able to meet its debt servicing obligations if it experiences cash flow difficulties, a Trust Fund was established by the Department in 1988 with funds provided predominantly from the Estate Agents Board. **The balance of this Fund, at 31 December 1991, totalled $20.2 million. In addition, a $50 million standby facility has been arranged with the Victorian Development Fund to supplement these funds should the need arise.**

RESPONSE provided by Director-General, Department of Planning and Housing

Table 3.16A comprises a mixture of very different costs. There is an important distinction to be made between the mechanics of providing subsidy benefits to borrowers and the cost of the financing vehicles' operations.

Clearly an alternative method of providing the subsidy benefit to eligible borrowers would have been for HOLS to charge borrowers the full interest rate and provide them with individual monthly subsidy payments for the first 3 years. However, this would have been administratively clumsy. The same effect was achieved by HOLS charging the eligible borrower a reduced (subsidised) rate of interest with the cost of that subsidy being reimbursed to HOLS by the Department. Obviously the subsidy is a cost of the Lending Program and not a cost of the HOLS Trust.

It is also important to note that the Department has been operating subsidised lending programs for many years. The 2 current subsidised Lending Programs, the Priority Property Settlement Scheme and the Shared Home-Ownership Scheme could both have been funded from a totally different funding source. The point to be recognised is that the subsidy cost follows the Lending Programs, not the funding source.

Accordingly, interest subsidies should be considered entirely separately from the operating results of the HOLS Trust.

It is agreed that the current economic situation has had an effect on the level of arrears. Operating deficit support in respect of the 6 months results to 31 December 1991 was provided during February 1992. Operating margins and other costs are under review to seek to achieve a break-even objective over the longer-term.

Escalating doubtful debts

3.16.18 The general deterioration in economic conditions has resulted in financial hardship for certain borrowers, necessitating repossessions and the discharges of mortgages where they have failed to make satisfactory arrangements to repay outstanding loan instalments. **In recognition of the problems being encountered by borrowers in repaying loans advanced, the Scheme's doubtful debt provision was increased from $400 000 at 30 June 1990 to $5.6 million at 30 June 1991.**

3.16.19 Audit was advised that **the extent of doubtful debts within the loan portfolio was determined by applying a fixed percentage (0.8 per cent) to the total loan portfolio rather than undertaking a detailed review of each loan.** As borrowers participating in the Scheme are generally unable to obtain finance elsewhere and loans advanced generally equate to property values, **there is a higher risk associated with the loans under this Scheme and therefore, a detailed assessment of the loan portfolio should be undertaken when determining the extent of doubtful debts.**

3.16.20 At 31 December 1991 there were 941 loans, totalling $63.7 million, with repayments in arrears. While the Department has been assigned the responsibility for monitoring the performance of the Scheme on behalf of the Government, it does not have direct access to loan files, and therefore the capacity to monitor the level of arrears and adequacy of follow-up action is restricted to this extent.

3.16.21 A July 1991 consultant's report on the operations of the Scheme also expressed concern on the effect of the current economic climate upon the ability of borrowers to meet their financial commitments and the value of the underlying security held by the Company in relation to outstanding loans. In times of static or declining property values and disposable income, certain *equity gaps* arise where the amounts owing on loans, including interest, exceed the current value of the property. This scenario has become a significant risk for the State with almost 20 per cent of all loans discharged resulting in losses to the Scheme. **Indeed, since the Scheme commenced in 1988-89, in excess of $1.1 million has been lost as a result of loans discharged. Increases in the number of revised loan repayment arrangements resulting in payment reductions have also been evident in the 6 months to December 1991.**

3.16.22 While the Scheme was not intended to operate as a profit generating venture, by its very nature it has inherent risks, which should be carefully monitored by the Government particularly in the current economic climate.

RESPONSE provided by Director-General, Department of Planning and Housing

Significant work has been undertaken during 1991-92 in both the arrears recovery area and quantification of an appropriate provision for doubtful debts. The combination of the down-turn in the economy coupled with declining property values has resulted in an increase in both actual bad debt write-offs and potential future write-offs associated with current arrears cases. However, it should be noted that the total bad debts write-offs during the nearly 4 years of the Scheme's operations to 29 February 1992 amount to approximately $1.1 million which is approximately 0.1 per cent of the loans portfolio at that date. While this could be seen as a very reasonable result, there is evidence of higher write-offs to come during 1992-93 as the effects of current economic conditions continue to impact on the Scheme's borrowers. An appropriate revision to the Provision for Doubtful Debts will be made at 30 June 1992 in order to deal with this eventuality. The above provision stood at $5.6 million at 30 June 1991.

Of the 941 loans totalling $63.6 million which were in arrears at 31 December, only 232 loans totalling $15.2 million were more than 2 months in arrears. Total arrears of instalments for this group amounted to $571 000.

The Department receives monthly reports on arrears status and is monitoring this aspect of the operation closely. Each loan is backed by a property mortgage and the required doubtful debt provision takes the above asset backing into consideration.

A detailed assessment of the loans portfolio is being undertaken by the Scheme's managers for the purpose of calculating the provision for doubtful debts at 30 June 1992 and results will be carefully monitored.

OPERATIONS OF THE CONSTRUCTION GROUP

3.16.23 The *Report on Ministerial Portfolios, April 1991* contained critical comment on the performance of the Construction Group within the Department. The main issues raised in the Report were:

- an average of 17 per cent or 43 employees of the Construction Group's workforce were on stand-by every day during the 6 months to December 1990;
- excessive stand-by labour costs incurred by the Group had an adverse impact on the Group's productivity;
- projects completed by the Group incurred substantial time and cost overruns and compared poorly with private sector contractors; and
- certain industry work practices significantly increased the Group's direct labour costs.

3.16.24 As a result of my Report to the Parliament, the Economic and Budget Review Committee reviewed the Construction Group's activities in order to assess its progress in reducing stand-by labour costs and improving its cost performance. In November 1991 the Committee reported, inter alia, that the Department had:

- implemented measures which have reduced the number of stand-by labour days but there was substantial scope for further improvement to, at least, achieve and maintain levels comparable with private sector building and construction firms;
- established a detailed strategic framework that, if successful in the achievement of its desired outcomes, should make the Construction Group more competitive;
- determined not to retain the Construction Group if its performance against established criteria was not met; and
- agreed to undertake internal reviews of the Group's performance and report the results to the Government in October 1991 and April 1992.

3.16.25 The Committee also requested copies of the Department's internal reports on the Group's performance as a means of monitoring its performance and endorsed the Department's decision not to retain the Group if improvements were not achieved.

Has the Construction Group's performance improved?

3.16.26 During 1991 audit carried out a review of the Group's progress in addressing the matters previously reported to the Parliament.

Stand-by labour costs

3.16.27 For the 6 months to December 1991, stand-by labour costs exceeded $220 000 ($2 million for 1990-91) with an average of 3 employees (1 per cent of the workforce) on stand-by each day. **The improvement in stand-by labour costs has largely been achieved by downsizing the Group from 252 to 207 tradespeople at 31 December 1991.**

3.16.28 Several other measures were introduced to further reduce the number of employees on non-productive stand-by, including the placement of tradespeople with other agencies. In addition, the excess painting tradespeople were used in a campaign to clean-up railway stations.

3.16.29 As commented in my April 1991 Report, workers on stand-by occupy the Group's unutilised factory located in Fitzroy. Audit was advised that the Department is considering consolidating the Group's staff into a more suitable suburban facility with the aim of minimising operating costs.

Performance against cost budgets

3.16.30 The Department's internal report which was provided to the Government in October 1991, indicated that from a sample of the Group's major projects, **61 per cent of these projects were completed within cost budgets**. This compares favourably with its performance for the 18 month period to December 1990 when only 24 per cent of its projects where completed within budget.

Work practices

3.16.31 The relevant industry awards which are applicable to the Group's workforce are currently undergoing restructuring by the Commonwealth Government in an attempt to eliminate undesirable work practices. As this process is expected to take at least 3 to 4 years to finalise, **any improvement in work practices will be protracted.**

Establishment of a central fund to monitor the Group's effectiveness

3.16.32 A key measure introduced by the Department to improve the viability and competitiveness of the Group was the requirement to charge all client agencies commercial rates, as established by independent quantity surveyors, for works undertaken by the Group. However, the differential between the commercial rates set and the actual costs incurred by the Group are drawn down from a central fund administered jointly by the Department and the Ministry of Finance. In addition, stand-by labour and administration costs are also charged to this fund.

3.16.33 As the level of funds drawndown substantially reflects the level of costs not recouped from works undertaken by the Group, management is provided with a key indicator of the Group's effectiveness.

3.16.34 For 1991-92, $4.6 million was allocated to this fund to meet contract overruns, administration costs and stand-by labour costs. **At 31 December 1991, $1.5 million had been drawndown from the fund.**

3.16.35 The availability of this fund provides the Group with a significant advantage over its competitors in that the Group can recover cost overruns from the fund rather than incur losses or pass cost overruns on to clients.

3.16.36 This position is illustrated in the awarding of a contract relating to the Langwarrin Primary School to the Group. In this instance, the Group submitted a tender for $199 000 which was above the lowest tender of $124 000. However, the Group agreed to undertake the contract at the lowest tender price which was substantially below the estimated commercial cost of the contract of between $225 000 and $234 000, as determined by an independent quantity surveyor. In agreeing to undertake this contract, the Group was cognisant that its tradespeople were required to be paid regardless of whether they are actively engaged on a project or on stand-by and that the Government is desirous of eliminating or minimising stand-by costs.

3.16.37 At the date of preparation of this Report the revised estimated cost of the project was around $320 000 which included agreed contract variations of $73 000 which are pending.

3.16.38 It is of concern that the Group was able to minimise its stand-by labour costs by amending its tender price to match the lowest tender for the project, with the knowledge that any cost overruns could be recovered from the central fund. It is critical that the Department closely monitors the level of drawdowns from the fund because, as stated above, it is a key indicator of the Group's effectiveness.

RESPONSE provided by Director-General, Department of Planning and Housing

The Department's commitment to the improvement in the Construction Group's performance is confirmed and an extensive program is in place to achieve this. The medium-term strategy is aimed at making the Group a commercially cost competitive unit through the upgrading of project management systems, an improvement in the management skill level, the implementation of employment procedures that allow flexibility for workforce numbers and improvement in work practices.

The Group is also aiming to improve productivity through Award Restructuring in line with the Federal Government's Building Industry Reform Strategy.

It is agreed that the Group should not amend the competitive tender price after submission, but should seek approval to carry out works prior to tenders being called. Senior managers of the Building Division of Planning and Housing have been requested to ensure this process is followed.

The Auditor-General's comments that the Department needs to closely monitor the drawdowns from the central fund is supported. Joint arrangements between the Department of Planning and Housing and the Ministry of Finance are in place to do this.

SUBLETTING OF PROPERTIES

3.16.39 In line with the Government's Social Justice Strategy, the Department aims to assist low to middle-income Victorians attain home ownership. Achievement of this goal is addressed through the provision of Government loans to lower-income applicants who are unable to acquire funding from private lending institutions. An important condition relating to the low-interest loans is that the borrower must occupy the property and not sublet to a third party.

3.16.40 The Department has identified up to 50 cases of subletting of properties which were financed from low-interest loans provided by the Department. In these instances the Department has either allowed subletting to occur on a short-term basis where extenuating circumstances exist or has required the mortgagee to re-occupy, re-finance or sell the property.

3.16.41 However, a detailed audit review highlighted that up to 400 cases of subletting may currently exist involving loan funds amounting to $8 million.

3.16.42 An examination of a sample of low interest-loans revealed:

- **an instance where a property had been sublet since 1974; and**
- **other instances where mortgagees owned at least 2 houses and small businesses and failed to repay the Government loan instalments on the property subject to finance, which was sublet.**

3.16.43 It is apparent that some mortgagees are deriving financial advantages from subletting of properties subject to low-interest government loans as interest rates for these loans are below those rates charged for property investments from private lending institutions.

3.16.44 Given the objectives of the Government's Social Justice Strategy and financial implications of subletting properties subject to government finance, the Department needs to carefully reassess its current approach to identifying and deterring such practices.

RESPONSE provided by Director-General, Department of Planning and Housing

Only 50 confirmed cases of subletting have been identified with audit estimating that 400 cases may exist. The 50 cases represent approximately 0.16 per cent of all departmental loans and if 400 cases existed this would represent 1.3 per cent of all departmental loans.

Of the 2 examples cited by audit, in the first example, approval was sought and given to the borrower to lease for part of the period. The debt owed is less than $4 500. In the second case, the Department has instituted default proceedings against the purchasers which has resulted in the loan being paid in full.

Subletting restrictions are difficult to enforce cost-effectively and the Department will continue to take action whenever subletting is discovered and will review options available to improve the enforcement of subletting restrictions within staffing resource limitations.

SALE OF RENTAL HOUSING STOCK

3.16.45 During 1990, the Department undertook a detailed assessment of its housing stock. The review identified that significant costs were incurred in maintaining certain aged houses, an imbalance between housing locations and tenant demand, and a significant number of houses that no longer met the community's expectations for rental purposes. Based on the results of this review the Department, in September 1990, issued a Stock Improvement Policy which aimed to dispose of unsuitable properties and to use the proceeds to redevelop existing houses and contribute to the Department's commitment to acquire around 15 000 housing units over a 4 year period ending 30 June 1993 to be utilised for rental purposes.

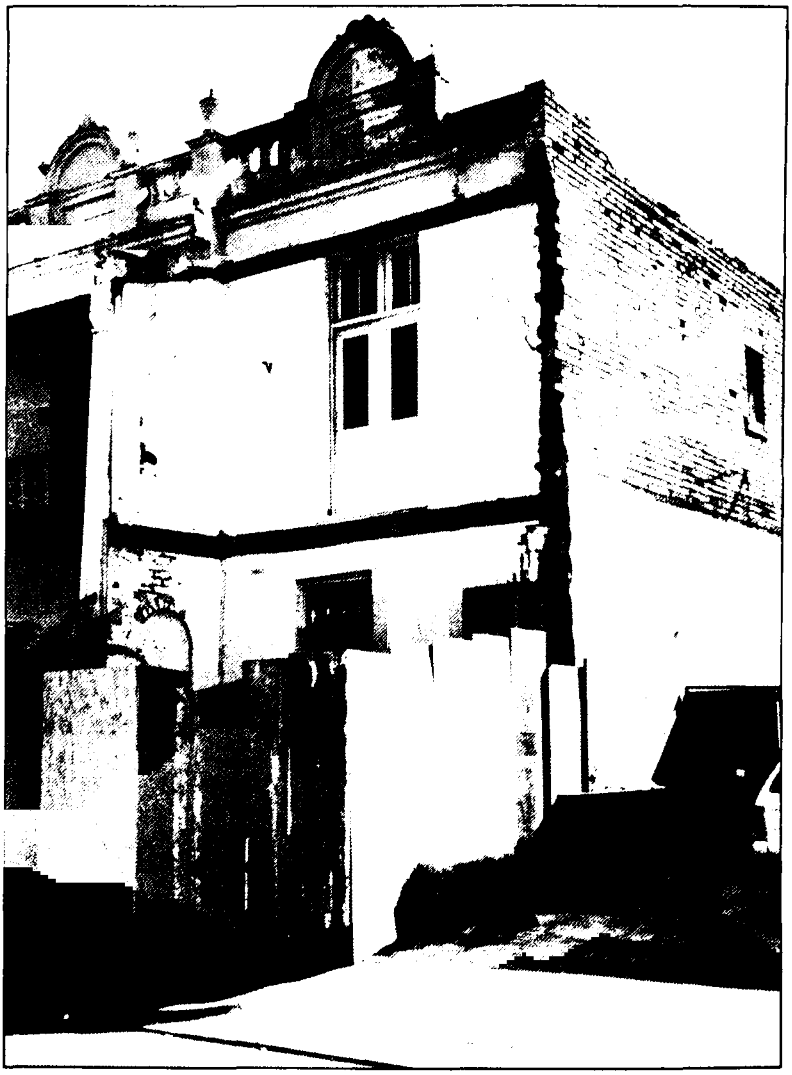
3.16.46 **In June 1990, it was envisaged that 300 properties would be sold generating approximately $16 million for the year ended 30 June 1991.** However, in late 1990 it became obvious that the targeted revenue would not be achieved. As a consequence, the revenue projections were reduced to only $6 million. **Actual sales for the year fell well short of the revised target, with gross revenue of only $3.6 million being raised from 57 property sales.**

Why did the policy fail to achieve its 1990-91 financial targets?

3.16.47 The audit review highlighted that the Stock Improvement Policy has resulted in better stock management processes being developed within the Department, including the sale of unsuitable houses and subsequent re-investment of those funds in new houses. **However, in the absence of proper management strategies and action plans, the Policy's financial objectives were not achieved.**

3.16.48 As the Policy was not approved by the former Minister for Planning and Housing until September 1990, the procedures and guidelines supporting the Policy were not issued until mid-November 1990.

3.16.49 The poor quality of the houses available for sale and the difficulty in attempting to sell these houses in a depressed market impacted on the achievement of the financial objectives.



Poor quality departmental house in Collingwood available for sale.

Impact of the non-achievement of revenue targets

3.16.50 As previously indicated, revenue expected to be generated from house sales was to be applied towards funding the Department's capital works programs, including the acquisition of housing units for rental purposes. However, **as actual proceeds were approximately $12 million below original budget estimates, the Department's commitment to acquire 15 000 rental housing units by 1993 is unlikely to be achieved without supplementary funding.**

3.16.51 As a result of inadequate planning, the poor quality of houses available for sale and the depressed market conditions, the Department's capacity to improve the quality of existing rental stocks has been diminished.

RESPONSE provided by Director-General, Department of Planning and Housing

It was anticipated by management that in implementing a new house sales policy consultation with interest groups, development of action plans, a detailed new house sales policy and the obtaining of Ministerial approval would take some time. Achievement of this by September was within expectations leaving more than sufficient time in which to achieve the necessary sales under normal circumstances. The level of subsequent concern raised by interest groups and the need for further consultation resulted in unexpected delays at this point.

However, the major difficulty experienced was the lack of potential buyers, both from among our own tenants and the community at large. A number of houses had to be withdrawn from sale due to the inability to attract purchasers willing to offer the independent valuation placed upon them. Further, houses were not put forward when it was realised that a similar result was likely and budgeted revenues were adjusted accordingly.

The end result was therefore not due to inadequate planning but the present state of the property market. Further, the Department's capacity to improve the quality of existing rental stocks has not been diminished but merely delayed until the property market improves. In the interim period these houses are still part of the Department's rental stock.

RENTAL ARREARS

3.16.52 Reports to the Parliament of the Auditor-General since 1984-85 have commented upon the unsatisfactory level of rental arrears and the corrective action initiated by the Department.

3.16.53 In November 1991, the Economic and Budget Review Committee reported that the Department's rental arrears still remained high but there was an overall decline in the level of arrears and bad and doubtful debts. The Committee found that the Department's strategies had contributed to the reduction in rental arrears, however, there was still scope for significant improvement.

3.16.54 A further review by audit during 1991, found that some improvement had been achieved as shown in Table 3.16B.

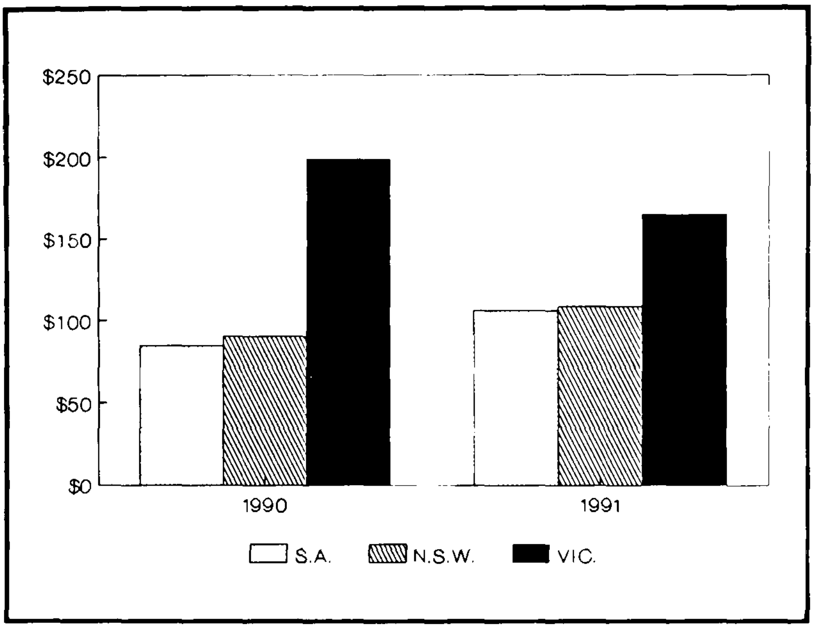
TABLE 3.16B. RENTAL REVENUE AND ARREARS
($million)

Item	*1989-90*	*1990-91*	*1/7/91 31/12/91*
Rental revenue	252.5	293.6	160.4
Less rebates	98.5	123.1	71.8
Net rent	154.0	170.5	88.6
Rental arrears	**12.3**	**10.5**	**10.1**
Bad debts	3.5	2.7	*(a)*
Provisions for doubtful debts	5.8	5.4	*(a)*

(a) Write-offs and provisions are only determined by the Department at year-end.

3.16.55 Despite the improvement in the rental arrears position at 30 June 1991 (a reduction of 14.6 per cent) and marginal improvement in the first 6 months of 1991-92, audit considers that the Department's rental arrears remain unacceptably high when compared with the situation in other States. Chart 3.16C shows a comparison of rent arrears per public household in New South Wales, South Australia and Victoria.

CHART 3.16C
AVERAGE RENTAL ARREARS PER PUBLIC HOUSEHOLD, AT 30 JUNE



Number of public households in S.A. 62 675; N.S.W. 122 121; Vic. 63 684.

3.16.56 Victoria's average rental arrears per public household are over 50 per cent higher than New South Wales and South Australia, even though Victoria's net rent per household is 19 per cent and 6 per cent lower than New South Wales and South Australia, respectively.

3.16.57 Despite the continued improvement in the arrears position since June 1990, the Department needs to closely monitor the effectiveness of its rent collection strategies to ensure the desired outcomes are achieved.

RESPONSE provided by Director-General, Department of Planning and Housing

A significant reduction has been achieved in rental arrears in Victoria over the past several years, with arrears falling from $17.1 million in 1985-86 to $10.5 million in 1990-91. The arrears improvement has meant that arrears has reduced from 58 days rent outstanding in 1985-86 to 22 days rent outstanding in 1990-91.

The inter-State comparisons shown graphically compares Victoria's arrears with the 2 best performing States in Australia, New South Wales and South Australia. The chart clearly shows an improving position in Victoria, while arrears in both South Australia and New South Wales have increased significantly. Victoria's arrears per property is significantly better than Western Australia and only marginally higher than Queensland. Victoria is the only State in Australia where arrears are reducing and on current trends Victoria's rental arrears will be comparable with the best performing States in a couple of years.

While it is acknowledged that there is still room for improvement on rental arrears, the Department of Planning and Housing believes that current policies are effective and have demonstrated good results over the past several years.

THEFTS AND IRREGULARITIES

3.16.58 In the *Report on Ministerial Portfolios,* April 1991 audit commented on the Department's investigations into over-claiming by private contractors employed to perform property maintenance and malpractice by 2 departmental inspectors. The Report also referred to the various actions taken by the Department to address these matters.

3.16.59 In relation to these investigations audit has recently been advised that:

- Claims totalling $300 000, lodged by a painting contractor, were withheld by the Department following the identification of instances of over-claiming amounting to $85 000. After lengthy negotiations, the contractor agreed to forfeit claims totalling $210 000 in return for a penalty interest payment of approximately $40 000; and
- Two departmental inspectors resigned following inquiries by the Department into allegations of improper allocations of work to contractors, falsification of claims and manipulation of the quotation process. The Department no longer engages the contractors involved. The Victorian Police declined to prosecute due to insufficient evidence.

3.16.60 During 1991, the Department advised audit of 2 irregularities:

- A departmental clerical officer involved in the tender process incorrectly awarded a number of tenders to a construction company of which the clerical officer was a partner. Fictitious work orders, falsified records and a fictitious contract with the construction company were also identified. While the clerical officer has been suspended from duty with pay, a Public Service Board hearing has been deferred pending the outcome of court proceedings relating to criminal charges of deception; and
- A departmental clerical officer fraudulently obtained $3 600 through lodging false claims for rental bond assistance. The clerical officer was found guilty under the Public Service Act, however, a penalty has still to be determined by the Chief Executive Officer. Following a court hearing into criminal charges, the clerical officer was placed on a good behaviour bond and has subsequently repaid $2 100.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced	
Department of Planning and Housing		
Second Report, 1984-85, pp. 76-7 and subsequent reports	Level of rental arrears has substantially increased over the previous years.	For further comments, refer to paragraphs 3.16.52 to 3.16.57 of this Report.
Second Report, 1985-86, p. 122	Absence of strategy to assess the viability of retention of commercial properties.	Matter now resolved with the implementation of a strategy to progressively dispose of all commercial properties.
Second Report, 1986-87, p. 91	The integrity of the rental database was questioned due to the magnitude of credit balances of current and former public tenants.	Measures have been introduced to address the matters raised including the correction of database errors.
Ministerial Portfolios May 1989, pp. 136-7	There are no on-going reviews of dwelling eligibility or dwelling suitability in terms of current needs; at the same time the waiting list of tenants was 34 000.	Where possible, the Department has now relocated single tenants living in multi-bedroom units into new smaller units in the same area.
Ministerial Portfolios, May 1990, p. 186	A number of contractors employed by the Department were avoiding payment of their legal obligations, e.g. payroll and income tax.	Site inspections and monitoring by the Department ensure that any instances of contractors not meeting their legal obligations are promptly identified.
Ministerial Portfolios, May 1990, pp. 186-7	Irregularities in maintenance programs.	For further comments, refer to paragraphs 3.16.58 to 3.16.60 of this Report.
Ministerial Portfolios, April 1991, p. 343	An average of 17 per cent (43 employees) of the Construction Group's workforce were on stand-by every day during the 6 months to December 1990.	For further comments, refer to paragraphs 3.16.23 to 3.16.38 of this Report.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced - *continued*

Ministerial Portfolios, April 1991, pp. 343-5	Excessive stand-by labour costs were incurred by the Construction Group which adversely impacted on the Group's productivity.	For further comments, refer to paragraphs 3.16.23 to 3.16.38 of this Report.
Ministerial Portfolios, April 1991, pp. 346-8	Projects completed by the Construction Group incurred substantial time and cost overruns and compared poorly with private sector contractors.	For further comments, refer to paragraphs 3.16.23 to 3.16.38 of this Report.
Ministerial Portfolios, April 1991, p. 348	Certain industry work practices significantly increased the Construction Group's direct labour costs.	For further comments, refer to paragraphs 3.16.23 to 3.16.38 of this Report.
Ministerial Portfolios, April 1991, pp. 348-50	Serious irregularities occurred in the management of the Department's motor vehicle fleet, including retention of a "phantom fleet" of almost 200 vehicles.	The number of vehicles is now below the prescribed limit and stricter controls ensure compliance with government policy.

No action taken

Department of Planning and Housing

May 1983, p. 22 *Ministerial Portfolios*, May 1989, p. 140	Inadequate controls exist over custody of documents held as loan advances.	Position remains unsatisfactory due to the lack of fireproofing facilities.
Ministerial Portfolios, May 1989, pp. 140-1	Need for separate financial statements to disclose public account transactions.	Separate financial statements were not prepared in 1990-91 to disclose Public Account transactions.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Housing and Construction Victoria *(a)*	30 June 1991	31 October. *Annual Reporting Act* 1983. s.8.	11 November 1991	18 November 1991*(b)*
Department of Planning and Housing	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	29 October 1991	8 November 1991
Historic Buildings Council	30 June 1991	30 September. Annual *Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	28 October 1991	30 October 1991
Loddon-Campaspe Regional Planning Authority	30 September 1991	31 December. *Loddon-Campaspe Regional Planning Authority Act* 1987, s.30.	23 December 1991	23 December 1991
Plumbers, Gasfitters and Drainers Registration Board	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	12 September 1991	13 September 1991
Upper Yarra Valley and Dandenong Ranges Authority	30 September 1991	31 December. *Annual Reporting Act* 1983, s.9.	19 December 1991	31 December 1991
Urban Land Authority	30 June 1991	30 November. *Urban Land Authority Act* 1979, s.13.	8 November 1991	11 November 1991
Victorian Government Major Projects Unit	30 June 1991	30 November. *Urban Land Authority Act 1979*, s.13.	16 March 1992	16 March 1992

(a) By Order-in-Council dated April 1992, the functions of the former Housing Construction Victoria are to be merged with the Department.

(b) Qualified audit report issued.

3.17

POLICE AND EMERGENCY SERVICES

KEY FINDINGS

- Failure of the Government to ensure that appropriate procedures were in place prior to the Traffic Camera Office becoming operational resulted in offenders not prosecuted and revenue forgone by the State.

  Paras 3.17.1 to 3.17.12

- Traffic Camera Office penalty enforcement procedures lapsed in relation to 7 399 corporate offenders, resulting in revenue forgone by the State of up to $4.4 million.

  Paras 3.17.1 to 3.17.12

- The need for a Police Hospital is highly questionable in view of the low occupancy rates, high operational costs and duplication of services.

  Paras 3.17.13 to 3.17.27

- It is planned to relocate the Police Hospital at a cost of $3 million.

  Para. 3.17.27

The Minister for Police and Emergency Services is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

Ministry for Police and Emergency Services
Office of the Chief Commissioner of Police

Public bodies

Country Fire Authority
Metropolitan Fire Brigades Board

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

MINISTRY FOR POLICE AND EMERGENCY SERVICES

TRAFFIC CAMERA OFFICE

Prosecution process

3.17.1 The Traffic Camera Office (TCO) was established as part of a road safety initiative aimed at reducing the road toll through improved road law enforcement.

3.17.2 The TCO enforces the law by issuing traffic infringement notices (TINs) to owners of vehicles who have been photographed breaking the law by either speeding, or committing red light or bus lane traffic infringements. In addition, the driver receives demerit points.

3.17.3 Where the registered owner claims not to be the driver of the vehicle, the owner is required by law to provide the name of the driver to ensure demerit points are correctly assigned. Where the registered owner is a *company*, the company must name the driver to allow for the assigning of demerit points. Failure of a company to name a driver may result in a further penalty.

3.17.4 Ordinarily, when an owner/driver fails to pay a TIN within 56 days after notification of the offence, the case is transferred to the Attorney-General's Department for the process to continue through the court system.

3.17.5 For companies, a notification letter is sent out and if no nomination of the offending driver is received within 28 days, a Corporate Non-Nomination notice (CNN) may be forwarded to the company. If this happens, the company is liable for a fine of $600 ($500 prior to August 1991), a vehicle registration suspension of 3 months applies and there is a continuing liability for the initial infringement penalty. Should the company subsequently fail to nominate the driver or pay the CNN penalty within 14 days, the case is transferred to the Attorney-General's Department.

3.17.6 If the prosecution discretion which is available to the TCO is **not** exercised within 12 months from the date of each offence then, under the provision of the Magistrates' Court Act 1989, the fine **lapses.**

3.17.7 Accordingly, it is important for adequate mechanisms to be in place to allow the prosecution process to take place so that:

- offenders are brought to account under the law; and
- the financial penalty imposed by the law is collected by the State.

Failure to prosecute companies

3.17.8 An audit review found that in respect of 1990-91, penalty enforcement procedures were allowed to lapse in relation to 7 399 corporate offenders. This position had arisen despite the fact that the companies in question had been initially requested by letter, and a subsequent reminder, to provide the names of offending drivers.

3.17.9 The use of the discretionary powers available to the TCO to drop proceedings, resulted in potential revenue of up to $4.4 million forgone by the State, consisting of fines of $711 000 and penalties of $3.7 million for non-provision by companies of drivers' names.

RESPONSE provided by Secretary, Ministry for Police and Emergency Services

Of the 7 399 Corporate Letters issued prior to 1 July 1991 for which a Corporate Non-Nomination penalty notice was not issued, more than 1 700 were "suspended". Action was in progress either to apply the penalty or following review, have the offence cancelled. There were on 24 March 1992, 5 384 Corporate Letters from that period which were not suspended.

The $4.4 million not collected has been estimated by audit on the basis of a penalty face value of $500 on non-nomination penalties that might have been issued to corporations had the systems been available to do so. This assumes that these amounts are collectable. As is the intention of the legislation, the vast majority of these result in a driver nomination, in which case the penalty is cancelled and no payment is then due.

Of the 4 868 non-nomination offences issued since 1 July 1991, at 19 March 1992 only 35 had been expiated. On this basis, the TCO would have collected 38 fine payments from the 5 394 not issued - a total of $19 000. Not $4.4 million as estimated by audit.

3.17.10 Audit was advised that the TCO had not actively proceeded with the enforcement of penalties involving company vehicles because:

- The TCO's recently developed *"failure to nominate driver"* system and other computerised administrative procedures did not become fully operational in 1990-91. Police officers were reluctant to use alternatives to the computerised system due to the complexities of the legislation regarding use of traffic cameras in conjunction with other resource constraints; and

- The TCO road safety initiative is directed towards changing the attitude of delinquent drivers through the imposition of demerit points with the collection of revenue being a secondary issue. It was deemed appropriate to allow a period whereby companies were to become educated as to their responsibilities in relation to their employees and the public, as opposed to enforcing the substantial penalties that were available under the new legislation.

3.17.11 The appropriate procedures became operational in early 1992 and, at the time of the audit review, corporations have been issued with 4 335 CNN penalties, with a face value of $2.6 million, for offences occurring since 1 July 1991.

3.17.12 The failure of the Government to ensure that appropriate resources and administrative procedures were in place prior to the TCO becoming operational has resulted in, failure to prosecute offenders, revenue forgone by the State and police duties becoming one of education of corporations instead of enforcement of legislation passed by Parliament.

RESPONSE provided by Secretary, Ministry for Police and Emergency Services

Audit has commented that the priority to these administrative systems should have been higher. The systems to support the processing of corporate non-nomination offences was given third priority in the TCO development plan.

First priority was given to the systems for issuing TINs and the collection of fines - without which the program would not have achieved any of its objectives. Second priority was given to the follow-up processes for dealing with these TINs - the issuing of Courtesy Letters as prescribed, the application of demerit points and PERIN enforcement.

These core systems had to be in place to process any penalty notices, as well as corporate offences. Had the corporate offence systems been accorded a higher priority, these core systems would not have been implemented for 12 months or more after the date on which they first commenced (10 June 1990).

The road safety and collection implications of deferring implementation of the core systems were simply too great to await the development of the corporate non-nominations processes.

It should also be pointed out that the development schedule for the computer system was exceedingly tight. The system was specified, developed, tested and operational in 6 months, as required to support the dramatically increased operational use of speed cameras.

Audit also referred to the timing of public education and community consultation.

Community debate and consultation occurred while the proposed legislation was being framed. However, community education regarding the particular policy encompassed in the legislation and discussion concerning enforcement policy can only occur after the legislation is made.

The integrity of the traffic camera program is a critical success factor for the overall road safety strategy. To have rushed this task and implemented a less than fully functional system prematurely could have created a public backlash which would have jeopardised the road safety program as a whole.

Traffic camera enforcement has gained community acceptance, as evidenced by the 80 per cent support for speed cameras shown in driver surveys conducted in May 1991 and again in December 1991. As a result the speed cameras have had an enormous impact on driving behaviour, and have contributed to the 42 per cent reduction in the State's road toll since 1989.

OFFICE OF THE CHIEF COMMISSIONER OF POLICE

MANAGEMENT OF POLICE HOSPITAL

3.17.13 A Police Hospital has been in existence in Victoria since 1852 for the purpose of providing medical and welfare services to members of the Victorian Police Force. In 1975, during the decision process to construct a more modern Police Hospital, the question of retention of the Hospital arose. The rationale to retain the Police Hospital included the provision of security to patients which assisted their recovery, the ability of medical staff to more readily identify stress arising from police work and the availability of priority treatment to police injured in the course of duty.

3.17.14 The current Police Hospital, one of only 2 in the world, was constructed in November 1981 at a cost of $1.8 million, and provides for both in-patient and out-patient care and other services to members of the Victoria Police Force. The Police Hospital is fitted-out and staffed for a maximum of 20 in-patients, but has space to accommodate 30 beds.

3.17.15 In December 1988 a Cabinet decision was made to relocate the Police Hospital due to the proposed closure of the adjacent Prince Henry's Hospital which provided certain services for patients. Following a relocation feasibility study which was completed in January 1990, a recommendation was made to the Minister by a Victoria Police Hospital working party to take up an option to relocate to a metropolitan private hospital. Due to delays in arriving at a final decision, the option lapsed.

3.17.16 In December 1990, a Cabinet sub-committee agreed that the Police Hospital be relocated to the Royal Melbourne Hospital, at a cost of approximately $3 million, tentatively in August 1992. The relocated Police Hospital will accommodate 15 in-patients and will be staffed accordingly. It will also supply the necessary out-patient services.

3.17.17 Following the eventual closure of Prince Henry's Hospital in 1991, services provided at the Police Hospital have been reduced.

3.17.18 During 1991-92 an audit review of the Police Hospital was undertaken to determine:

- whether the Office of the Chief Commissioner of Police (OCCP) had addressed the significant under-utilisation of the Police Hospital, the substantial losses incurred and its viability, all of which were reported in the Auditor-General's 1986-87 *Second Report* to Parliament; and
- the adequacy of the relocation feasibility study undertaken by the OCCP.

3.17.19 Significant matters arising from the audit review are set out in the following paragraphs.

Utilisation of the Police Hospital

3.17.20 The staffing levels of the Police Hospital have remained substantially unchanged (25 in 1987-88 and 25.5 in 1990-91) although the emphasis has changed from in-patient treatment to out-patient treatment.

3.17.21 Table 3.17A indicates the low usage of the Police Hospital over the last 8 years.

TABLE 3.17A. BED OCCUPANCY/OUT-PATIENTS

Item	*1983-84 to 1986-87*	*1987-88*	*1988-89*	*1989-90*	*1990-91*
Bed occupancy rate (%)	32	26	28	19	**16**
Average daily bed occupancy*(a)*	6.3	5.1	5.6	3.8	**3.1**
Outpatients	*(b)*	5 804	11 304	25 077	**19 845**

(a) Total of 20 beds available.
(b) Not available.

3.17.22 Until January 1992, all police officers were entitled to use the Police Hospital for in-patient services regardless of whether they held any private health insurance. Since this date, only police officers willing to pay, or with health insurance, are entitled to use the Police Hospital. The decision to restrict automatic access to the Police Hospital to those members with private hospital insurance or members prepared to pay, leads one to question whether the rationale for the Police Hospital is still valid. **In view of the reduced right of access of police to hospital facilities the need for retaining the Police Hospital is highly questionable.**

RESPONSE provided by Deputy Commission of Police (Administration)

The conclusion drawn here is difficult to understand when we have responded to criticisms from the Auditor-General on previous occasions for not recovering costs from members using the Hospital.

After consultation with the Police Association, there was an agreement to follow a policy of cost recovery. Implementation was deferred until 1 January 1992, so that the appropriate advice to members could be completed and enable members to join a private health fund and qualify.

Financial operations

3.17.23 The State meets the cost of operating the Police Hospital after offsetting recoveries from private health funds, WorkCare and the Transport Accident Commission.

3.17.24 An audit estimate of the in-patient cost of operating the Police Hospital, using both cash and accrual-based accounting principles, showed that the cost has escalated over the past 4 years as detailed in Table 3.17B.

TABLE 3.17B. OPERATING COSTS OF POLICE HOSPITAL
($)

Item	*1987-88*	*1988-89*	*1989-90*	*1990-91*
Operating loss*(a)* -				
Cash	507 417	700 318	873 984	**896 913**
Accrual	805 619	1 022 755	1 214 334	**1 238 038**
Average bed cost per patient per day -				
Cash	301	329	565	**600**
Accrual	478	506	852	**922**
Average subsidy per bed per patient per day -				
Cash	117	180	364	**414**
Accrual	294	357	651	**736**

(a) Includes the cost of both in-patient and out-patient treatment.

RESPONSE provided Deputy Commission of Police (Administration)

Table 3.17B does not indicate what has been taken into account in the calculations, therefore it is not possible to make comment, which is unsatisfactory from our point of view.

3.17.25 The following deficiencies in financial management controls, which were reported in my *Second Report to Parliament, 1986-87* remain unresolved, some 4 years later:

- expected income and expenditure cash flows are not submitted to the OCCP;
- the OCCP is not aware of the total cost of operating the Police Hospital and still does not prepare financial statements on its operations; and
- management control systems do not exist to enable an assessment of the economy, efficiency and effectiveness of operations of the Police Hospital.

- *RESPONSE provided by Deputy Commission of Police (Administration)*

  A very one-sided view of the real situation and I find it incredible that after a week at the Hospital, no evidence was discovered to indicate progress has been made in this area since 1986-87. The information which is purported to be unavailable to OCCP is available and the operation of the hospitals are monitored.

- *FURTHER AUDIT COMMENT*

  The information contained in Table 3.17B was extracted from OCCP records. The point audit is making is that the OCCP does not consolidate this information for the purpose of determining financial performance of the Hospital or the economy, efficiency or effectiveness of operations.

Relocation feasibility study

3.17.26 As previously stated, a Victoria Police Hospital working party had undertaken a relocation feasibility study. However, the feasibility study did not address critical issues such as:

- the requirement by police officers for a discrete hospital;
- the anticipated usage by police officers;
- net annual operating costs;
- type of health care to be provided; and
- whether the relocation and operating costs justified the retention of the Police Hospital.

RESPONSE provided by Deputy Commission of Police (Administration)

This conclusion is incorrect, as consultants reported on these particular issues, which led to the 1990 Cabinet decisions.

A Business Plan prepared and supported by an independent assessment makes comment, not only of current and anticipated usage but also proposed a strategy for increased usage. The usage figures were the basis for reducing the number of beds from 20 (actual) to 14 for an interim period to be reviewed within 18 months of re-opening at the Royal Melbourne Hospital.

3.17.27 As previously indicated audit is of the view that the need for a discrete Police Hospital is highly questionable. Plans for its relocation to Royal Melbourne Hospital at a cost of approximately $3 million has not been adequately justified by the OCCP, especially in view of the limited estimated usage and duplication of services already available in the public hospitals system and the ongoing operating costs to the State.

RESPONSE provided by Deputy Commissioner (Administration).

Cabinet has seen fit on 2 occasions to approve continuation of the Police Hospital services.

I agree that some processes and procedures need further attention and they are being programmed to coincide with the move to the Royal Melbourne Hospital in July 1992. Internal audit has had a significant involvement in the process and personnel have been trained to perform the functions to monitor and report on the performance of the Hospital.

The following points should be noted in relation to the assertion of under-utilisation (3.17.18) and the limited estimated usage (3.17.27)

(i) The in-patient services have been wound-down since 1989, due to the reduction of services from Prince Henry's Hospital. There has been no mention of this fact, although the auditors were informed in detail, of the phasing-down.

The modern trend of day surgery with shorter periods in hospital has resulted in a reduction in the number of beds when the Hospital is re-located.

(ii) Using the Table 3.17.21, the figures indicate that the perceived under-utilisation has been more than dealt with.

In-patients - from 6.3 - 3.1 due to Prince Henry's closure and following modern trends.

Out-patients - 1987-88 - 5 807 to a high 25 077 in 1989-90 and 19 845 in 1990-91.

The failure of the audit to make comment on this aspect indicates a biased assessment of the facts.

There is also a failure to provide information of the number of in-patients that would be acceptable to audit.

(iii) Duplication of services. No detail is given of the services provided by the Police Hospital that are available in the public hospital system and, until that detail is available, I do not propose to comment. It clearly indicates that the auditors have failed to appreciate or take into account, the role of the Police Medical Officer, the Police Hospital and the service provided to employees.

A disappointing feature of audit's report is the failure to recognise that there is any added value from the cost of services provided by the Police Hospital. There has been no recognition or assessment of the prevention and health care services provided; or the employer's responsibility to employees who work in a recognised high-stress environment, under occupational health and safety or good personnel management practice.

The report is unfair, the audit thrust in 1986-87 was that "Police do not need a hospital" a thrust which unfortunately, in my view, has been transported to the current report.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced

Office of the Chief Commissioner of Police

Second Report, 1986-87, p. 120	Under-utilisation of the Police Hospital and substantial losses incurred in its operation should be addressed by management.	For further comments, refer to paragraphs 3.17.13 to 3.17.27 of this Report.
Ministerial Portfolios, May 1989, pp. 193-5	Inefficient and ineffective management of the police motor vehicle fleet. Non-compliance with government policy.	A computerised fleet management system has been purchased and installed and planned to be fully operational in April 1992.
Ministerial Portfolios, May 1989, p. 195 *Ministerial Portfolios,* May 1990, p. 226	Outstanding warrants at IBR estimated at $42.2 million at June 1989, not being controlled effectively due to limitation of the recording system and lack of follow-up.	Responsibility for the collection of outstanding warrants was transferred to the Sheriff's Office on 21 June 1991.
Ministerial Portfolios, May 1989, p. 196	The Consolidated Fund was owed $9.9 million due to significant deficiencies in the management, recording and follow-up of outstanding debts.	A computer system was introduced during 1990 to allow improved recording and reporting of outstanding debts. However, the value of outstanding debts was $9.9 million at 30 June 1991.
Ministerial Portfolios, May 1989, p. 197	Inadequate recording and stocktaking procedures at the Uniform Store.	A new inventory system is scheduled to go on-line in July 1992.
Ministerial Portfolios, May 1990, pp. 227-31	Deficiencies in tendering procedures in relation to the provision of prisoners' meals, cleaning of police vehicles and cleaning of prisoners' laundry.	A contract is in place for the provision of prisoners' meals in the metropolitan area. All police districts are required to seek competitive quotations for the cleaning of police vehicles and prisoners' laundry.
Ministerial Portfolios, May 1990, p. 231 *Ministerial Portfolios*, April 1991, pp. 370-1	Significant increases in the number and value of retrospective expenditure approvals.	Two instances of retrospective expenditure approvals totalling $2.1 million were noted in 1990-91.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Ministerial Portfolios, May 1990, pp. 232-4	Poor cash management practices.	The Office has continued to introduce procedures which meet the management policies of the Ministry of Finance. Decentralisation of the accounts payable function has been completed to improve efficiencies of the financial management system.
Ministerial Portfolios, May 1990, p. 235	Inadequate action taken to address weaknesses in the Office's stores management practices.	A new inventory system is scheduled to go on-line in July 1992.
Ministerial Portfolios, May 1990, p. 236	Deficiencies in control over and management of the Office's assets.	Assets at 8 work centres have been fully recorded on the computerised On-line Management of Assets System, with recording at a further 8 centres under way.
Ministerial Portfolios, April 1991, pp. 364-8	Inadequate policies and procedures reduced the efficiency and effectiveness of the operations of the computerised financial management and information payroll system.	A post-implementation review of the financial system has been undertaken. Subsequent modifications have resulted in improved system performance.
Ministerial Portfolios, April 1991, pp. 368-70	Revenue projections of the accelerated warrants execution project of 50 per cent unlikely to be achieved.	Project ceased. Responsibility for outstanding warrants was transferred to the Sheriff's office on 21 June 1991.
Ministerial Portfolios, April 1991, p. 370	No incentive for multiple fine defaulters to pay monetary penalty.	In January 1992, the *Sentencing Act* 1991 was proclaimed bringing into effect that non-payment of multiple fines could result in long sentences.
Ministerial Portfolios, April 1991, p. 371-2	Internal control weaknesses resulting in salary overpayments totalling $341 000.	Salary overpayments register with details of recovery action established. Outstanding overpayments at 26 February 1992 totalled $259 964.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Country Fire Authority		
Ministerial Portfolios, April 1991, pp. 372-4	Practices adopted regarding residences occupied by Authority employees are in conflict with government guidelines.	Authority has identified and commenced action on residences to be sold, leased or rented out to comply with government guidelines.
Metropolitan Fire Brigades Board		
Ministerial Portfolios, May 1989, pp. 306-9	Lack of an adequate disaster recovery plan covering the Board's EDP operations.	The Board has taken certain action to reduce risk. The Board anticipate that a complete disaster recovery plan will shortly be in place.
Ministerial Portfolios, April 1991, pp. 375-8	Board could not determine the overall efficiency and effectiveness of its firefighting vehicle maintenance operation.	Board is now provided with appropriate information to monitor this area.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits		
Ministry for Police and Emergency Services	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	17 October 1991	24 October 1991
Office of the Chief Commissioner of Police	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	23 October 1991	28 October 1991 *(a)*
Country Fire Authority	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	25 September 1991	14 October 1991 *(a)*
Metropolitan Fire Brigades Board	30 June 1991	30 September. *Annual Reporting Act* 1983 s.9.	24 September 1991	24 September 1991 *(a)*

(a) Qualified audit report issued.

3.18

PREMIER

KEY FINDING

- The Government decided not to proceed with recommendations of a panel of consultants that the Public Service Board be abolished.

  Paras 3.18.4 to 3.18.7

The Premier is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

Department of the Premier and Cabinet
Office of the Auditor-General
Office of the Public Service Board

Public bodies

Victorian Relief Committee

Comments on matters arising from the audit of the Public Service Board are discussed below.

OFFICE OF THE PUBLIC SERVICE BOARD

3.18.1 The Public Service Board's function is essentially to provide independent advice to government on matters of organisation, management and staffing and, within agencies, to develop and introduce improved management and staff practices that will enable effective, efficient and economic operations.

3.18.2 In May 1988, the Estimates Committee, a sub-committee of the Parliamentary Economic and Budget Review Committee, reported on its examination of the personnel management and management improvement functions of the Board.

3.18.3 The Committee drew attention to the abolition of, or substantial structural changes in, Public Service Boards in other States and recommended a review of the Board's powers, functions and operations be undertaken.

Review of Board

3.18.4 As mentioned in the *Report on Ministerial Portfolios, April 1991* a panel of consultants, established by the Government to review the Board's functions, issued a report in 1990 to the Premier which recommended the abolition of the Board and a number of related administrative changes.

3.18.5 Following the review of the recommendations a draft Bill (the Public Service Management Bill 1991) was initiated, however, the Government decided not to proceed with the Bill but to pursue several administrative reforms within the existing structures for Public Service management.

3.18.6 The 6 reforms adopted by the Government are:

- to reinstate the Public Service Board's consultancy service;
- to improve the co-ordination and provision of staff training and development;
- to expand the Board's program of auditing departmental personnel functions;
- promotion appeals at the SES level be heard by the Promotions Appeal Board;
- delegations to Chief Administrators be expanded; and
- that each member of the Board take particular responsibility for policy oversight of different aspects of the Board's work.

3.18.7 Audit will monitor the efficiency of the implementation of the above reforms.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORT

Report	Subject	Status at date of preparation of this Report
	Matter resolved	
Ministerial Portfolios, April 1991, pp. 386-7	Panel of consultants which reviewed the functions of Public Service Board recommended the abolition of the Board.	For further comments, refer to paragraphs 3.18.4 to 3.18.7 of this Report.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
		Completed audits		
Department of the Premier and Cabinet	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	9 October 1991	18 October 1991
Office of the Auditor-General	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	10 September 1991	20 September 1991 *(a)*
Office of the Public Service Board	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	11 October 1991	24 October 1991
Victorian Relief Committee	30 June 1991	30 September. *Victorian Relief Committee Act* 1958, s.7A.	21 August 1991	30 September 1991

(a) The Office of the Auditor-General was audited by a firm of private auditors.

3.19

SCHOOL EDUCATION

The Minister for School Education is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of School Education

Public bodies

Institute of Educational Administration
Victorian Curriculum and Assessment Board

Comments on matters of significance arising from the Department of School Education are discussed below.

DEPARTMENT OF SCHOOL EDUCATION

INTEGRATED EDUCATION FOR CHILDREN WITH DISABILITIES

3.19.1 During 1991-92, a review was undertaken of the implementation of government policy for the provisions of integrated educational services for the disabled.

3.19.2 The findings of the review will be the subject of a Special Report to the Parliament.

LOSSES, THEFTS AND OTHER IRREGULARITIES

3.19.3 Particulars of losses and thefts of equipment and funds, and other irregularities which occurred in 1991, and which were notified to my Office by the Department of School Education, are summarised in Table 3.19A.

TABLE 3.19A
LOSSES, THEFTS AND OTHER IRREGULARITIES, 1991
($)

Item	*Amount*
Losses and thefts -	
Equipment	133 166
Funds	7 775
Other irregularities -	
Property damage	28 173
Total reported losses, thefts and other irregularities	**169 114**

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced

School Education

Second Report, 1982-83, pp. 48-9 *Third Report,* 1983-84, p. 25 *Second Report,* 1986-87, pp. 67-8 *Ministerial Portfolios,* May 1989, pp. 72-4 *Ministerial Portfolios,* May 1990, pp. 108-9	A substantial number of State primary school councils were not meeting their legislative requirements to have accounts audited.	There has been a significant reduction (85 per cent) in the number of outstanding audits.
Second Report, 1982-83, pp. 48-9 *Third Report,* 1983-84, p. 25 *Second Report,* 1986-87, pp. 67-8 *Ministerial Portfolios,* May 1989, pp. 72-4 *Ministerial Portfolios,* May 1990, pp. 108-9	The level of arrears of audits of post-primary schools performed by the Ministry's internal audit personnel had increased substantially.	The Ministry's continued use of accounting firms to assist Ministry audits has led to a further decline of arrears in post-primary school audits.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Matters resolved or action commenced - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Second Report 1984-85, pp. 53-4 *Second Report* 1985-86, p. 98 Ministerial Portfolios, May 1989, p. 93 *Ministerial Portfolios*, May 1990, p. 104-5	The incidence and control of salary overpayments continues to require attention.	Ministry initiatives taken in late 1990 have resulted in a 36 per cent decrease in salary overpayments from $4.7 million at 30 June 1990 to $3 million at 30 June 1991. However, audit continues to express concern at: • the remaining high value of overpayment balances; • the number and magnitude of new overpayments that are occurring ($927 000 or 30 per cent of overpayments balances at 30 June 1991 occurred during the 1990-91 year); and • continuing delays in detection and recovery procedures.
Second Report 1985-86, pp. 95-6 *Second Report* 1986-87, p. 93 Ministerial Portfolios, May 1989, p. 93 *Ministerial Portfolios*, May 1990, p. 140	Action required to finalise establishment of a computer-based property information system.	The target date for completion of the project has been extended to 31 July 1992.
Second Report 1986-87, pp. 58-66 *Ministerial Portfolios*, May 1989, pp. 90-2 *Ministerial Portfolios*, April 1991, pp. 150-1	Potential exists for achieving annual savings of up to $51.5 million from adoption of contract cleaning throughout the State's education system.	The Department has not adopted contract cleaning but because of an industrial agreement ratified in January 1991, believes annual savings of $6 million are achievable.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Ministerial Portfolios, May 1989, pp. 75-6 *Ministerial Portfolios*, May 1990, pp. 106-7	Budget overruns in the salaries and associated costs component of the School Education Program. Central expenditure exceeded allocations by $51.7 million in 1989-90.	Continued improvement but still incurred an overrun of $17.5 million in 1990-91. School cleaners and emergency teacher salaries and associated costs components overruns remain significant at $6.7 million and $8.6 million, respectively. The main reason for the overrun was teacher award restructuring for which no provision could be made in the budget.
Ministerial Portfolios, May 1990, pp. 100-4	Several deficiencies in the financial operations of the Victorian Schools' Nursery noted by audit.	The sale of the Victorian Schools' Nursery to the State Training Board is currently being negotiated by the Department of School Education.
Ministerial Portfolios, April 1991, p. 136	Comparative analysis of WorkCare for employees in Victorian government and non-government schools, disclosed, on average, that government school employees are 3 times more likely to submit a standard WorkCare claim.	The Department, while reluctant to use comparisons, will use other State school system and non-government employees as a benchmark in measuring improvements to the WorkCare Administration.
Ministerial Portfolios, April 1991, p. 137	Twenty-one per cent of teacher claims are for stress. Because of the long-term nature of the illness, stress-related claims amount for 40 to 50 per cent of direct standard WorkCare claim costs.	A consultant has been engaged to prepare 3 reports to address the problems of stress among teachers. The reports will focus on Discipline and Welfare, Staff Development and Staff Welfare.
Ministerial Portfolios, April 1991, p. 138	Audit believes that delays in initiating the rehabilitation process, in some instances, up to 3 years, have had a detrimental effect on the Ministry's ability to meet its early return to work objective.	A joint teacher union, SPSF and departmental review will investigate the relationship between return to work-based on the time taken from the claim to the referral for rehabilitation. In addition, the providers of rehabilitation services to the Department are preparing reports on the return to work issue of departmental staff and also on overall return to work for all workers.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Matters resolved or action commenced - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolios, April 1991, pp. 140-1	Audit computer matching of ACC and Ministry WorkCare data for the periods 1 September 1985 to 31 December 1990 revealed that: • the Ministry would be owed \$4.7 million in recoupments from the ACC if the Ministry forwarded all currently held medical certificates to the ACC; and • the Ministry would be due a further \$4.5 million in recoupments from the ACC if the Ministry is able to furnish valid medical certificates to the ACC in respect to the other claims.	Ninety per cent of claims during the period 1 September 1985 to 31 December 1990 have been reconciled to ACC data and settlement is taking place.
Ministerial Portfolios, April 1991, pp. 146-9	Following the collapse of the Farrow Group, audit observed that there was scope for improvement in Ministry's oversight of school investments, in particular a need to: • examine investment practices of school councils to ensure investments are not unduly concentrated; • ensure school councils are advised and educated on its legal responsibilities; • ascertain each school council's holding in non-Authorised Trustee Investments (ATI) and instruct these schools to liquidate such investments; and • advise schools on their rights and obligations concerning recovery of deposits from Farrow Group.	Revision of *Schools Information Manual* emphasising the restriction of investments to ATI and requiring detailed disclosure of all investments in the school's annual financial statements. Correspondence regarding the options available to the schools was distributed by the Ministry.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Ministerial Portfolios, April 1991, p. 149	Serious control and procedural weaknesses were identified within the computerised financial management and reporting system.	Ministry has implemented or is currently in the process of implementing the appropriate procedural changes recommended by audit.
	No action taken	
Department of School Education		
Ministerial Portfolios, April 1991, p. 135	The Ministry does not maintain a monitoring and reporting framework to enable determination of actual costs associated with workplace injuries to its employees.	The Ministry does not maintain a system to monitor actual costs of workplace injuries to its employees.
Ministerial Portfolios, April 1991, p. 139	The Ministry's 1989-90 financial statements were qualified due to the Ministry's failure to adequately support the WorkCare debtors figure of $19 million.	The Department's 1990-91 financial statements were qualified as the Department again unable to adequately support the WorkCare debtors figure of $5 million.
Ministerial Portfolios, April 1991 p. 140	The Ministry's WorkCare management information system is deficient. Specifically, the Ministry is unable to: • determine the total of WorkCare weekly payments for all its employees at any point in time; • determine the component of WorkCare leave re-imbursed by the ACC for each employee an d each claim; and • match amounts re-imbursed to amounts outstanding for each employee and each claim.	The Department is still unable to determine the WorkCare debtor figure at any point in time. The process is a manual calculation based on certain estimates. Situation is unsatisfactory.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits		
Department of School Education (formerly Ministry of Education and Training)	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	16 October 1991	31 October 1991 *(a)*
Institute of Educational Administration	30 June 1991	30 September. Annual *Reporting Act* 1983, s.9.	3 September 1991	23 September 1991
Sir John Monash Business Centre Pty Ltd	6 months ended 31 December 1990	No reporting requirements. Audit conducted at request of the Treasurer.	22 April 1991	21 May 1991
Victorian Curriculum and Assessment Board	30 June 1991	" "	25 September 1991	30 September 1991

(a) Qualified audit opinion issued.

3.20

SMALL BUSINESS

KEY FINDING

- The audit of the financial statements of the Department of Small Business and the Small Business Development Corporation proved satisfactory.

The Minister for Small Business is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Small Business

Public body

Small Business Development Corporation

The audit of the financial statements of the Department of Small Business and the Small Business Development Corporation proved satisfactory.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

There were no matters outstanding.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits		
Department of Small Business	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	31 October 1991	31 October 1991
Small Business Development Corporation	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	7 August 1991	5 September 1991

3.21

SPORT AND RECREATION

KEY FINDINGS

- The Harness Racing Board (HRB) incurred an operating loss of $1.7 million for the 1990-91 racing year compared with a profit of $131 000 in the previous year.

  Paras 3.21.1 to 3.21.7

- The HRB will need to develop strategies to improve its revenue base and contain costs to insure its long-term financial viability.

  Paras 3.21.1 to 3.21.7

- The Government's 12 year assistance package of $144 million and Tennis Australia's obligation to hold the Australian Open at the National Tennis Centre for the next 25 years will enhance the long-term financial viability of the Centre.

  Paras 3.21.12 to 3.21.22

- Tabaret's performance has improved substantially with monthly revenue rising to approximately $23.3 million by February 1992, some 540 per cent higher than February 1991.

  Paras 3.21.33 to 3.21.40

The Minister for Sport and Recreation is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Sport and Recreation

Public bodies

Greyhound Racing Control Board
Harness Racing Board
National Tennis Centre Trust
Totalizator Agency Board
Victorian Institute of Sport Ltd
Victorian Institute of Sport Trust

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

HARNESS RACING BOARD

SUBSTANTIAL DETERIORATION IN OPERATING RESULT FOR 1990-91

3.21.1 The Harness Racing Board controls harness racing within Victoria under the provisions of the *Racing Act* 1958. The majority of the Board's harness race meetings are held at the Moonee Valley racing complex.

3.21.2 For the August 1990 to July 1991 racing year, the Board reported an operating loss of $1.7 million which was a substantial deterioration on the previous year's result of an operating profit of $131 000.

3.21.3 The principal reason for the downturn in the operating result for 1990-91 was that the Board committed itself to higher outlays on stake moneys and trophies of approximately $900 000 ($8.9 million, 1990-91; $8 million, 1989-90), which were based on an estimated increase of 5 per cent in its share of off-course totalizator distribution for the year. However, totalizator turnover did not rise to the extent expected and the Board's share of the total distribution fell by $900 000. **The combination of these 2 factors led to the marked turnaround in the operating result for the year.**

3.21.4 It was not until early 1991, or about half way through the racing year, that the Board became aware that the projections of the level of anticipated off-course totalizator distribution may be substantially overstated. At that time, the Board opted to maintain stake moneys for the year at the increased levels. Towards the end of the racing season, when the magnitude of the reduction in totalizator distribution became more evident, the Board found it necessary to initiate a review of all expenditures for the remainder of the year in an attempt to contain the operating loss.

3.21.5 For the current racing season, the Board has budgeted for an operating loss of $470 000. This anticipated improvement in operating performance is based on a budgeted reduction of $350 000 in stake moneys and expected higher attendances at Board harness race meetings. More important than these 2 factors, however, is an assumption by the Board of an increase of $660 000 in its share of off-course totalizator distribution for the 1991-92 racing year.

3.21.6 Given the experience in 1990-91, audit has stressed to the Board the importance of closely monitoring the likely level of the off-course totalizator distribution for 1991-92 so that early remedial action can be taken if the 1990-91 scenario looks likely to be repeated.

3.21.7 If the Board's predicted result for 1991-92 eventuates, its aggregate operating losses for the last 2 years will be in excess of $2.2 million. The Board will need to develop strategies to improve its revenue base and contain costs in order to ensure its long-term financial viability.

RESPONSE provided by the Chief Executive, Harness Racing Board

Notwithstanding the downturn in income sources, the Board is confident of a dramatic turnaround in profitability in the upcoming year.

As highlighted by audit, stake levels have been redressed as have other major operating expenses of the Board. (It is worthy of note that administration costs for the year were in fact less in 1990-91 than in the previous year.)

The Board is addressing the problem of reduced revenue sources by way of expanding its activities into gaming operations, direct marketing of its on-course activities at Moonee Valley, and the re-organisation of its racing product to maximise the attractiveness of Harness Racing at Moonee Valley.

There is a recognition by the Board that its income base revolves around betting commissions from wagering. In the knowledge that wagering is a mature market, the Board will continue to pursue other income-generating activities while monitoring expenditure levels in a diligent manner.

NATIONAL TENNIS CENTRE TRUST

CURRENT DEVELOPMENTS WITH RESPECT TO THE TENNIS CENTRE'S FINANCIAL VIABILITY

3.21.8 The National Tennis Centre was built primarily to ensure that Melbourne and Australia retained its premier Australian Tennis Open, one of only 4 Grand Slam events in the world. It is acknowledged that by building the Centre, the Government not only achieved a vital link with London, New York and Paris, the other host cities of Grand Slam Tennis, but also retained an event that generates significant economic activity in Melbourne in January each year. In addition, Melbourne now has a world class indoor mass entertainment venue capable of hosting a variety of performances throughout the year.

3.21.9 Readers of previous Reports of the Auditor-General to Parliament will be aware that audit has continually drawn attention to the substantial debt obligations of the Trust and its mounting operating deficits.

3.21.10 The complex financial arrangements in place for the Centre may be described as involving, in substance, a loan of $110 million and the likely payment of interest of $104.5 million in 1997. The *Report on Ministerial Portfolios, April 1991* identified that the accumulated operating deficits of the Trust had reached $26 million by 30 June 1990, just 2.5 years since the commencement of operations at the Centre. The combination of this situation and the Centre's extensive debt obligations led to a call by audit in the April 1991 Report for urgent government action to resolve the long-term financial viability of the Centre.

3.21.11 It is particularly pleasing to report that in August 1991, the Government responded to the situation by announcing in its 1991-92 Budget, details of a long-term financial support package for the Centre.

Nature of the Government's long-term support package

3.21.12 As indicated in previous audit Reports, the Trust has been engaged, since the current financing arrangements were introduced in 1988, in ongoing discussions with the Department of the Treasury on alternative funding options for the Centre, including a possible equity contribution by the Government.

3.21.13 In August 1991, the Government announced it will provide *financial certainty* to the Centre by way of annual grants of up to $12 million for a period of 12 years. **At the time of this announcement, the Government and the Centre's manager, Tennis Australia, had reached agreement in principle on a set of important arrangements which would ensure that the Australian Open remained at the Centre for at least 25 years.** These arrangements were subsequently embodied in a new management agreement between the Trust and Tennis Australia, which was signed by the parties in December 1991 but was effective from 1 July 1991.

3.21.14 The agreement provided for the following government undertakings, additional to the annual financial assistance announced in the support package:

- provision of up to 10 additional practice courts to be located at Albert Reserve by January 1993 with construction funded from an allocation of $1 million from the initial $12 million grant;
- agreement by January 1995 of specifications for further development of the Centre to include at least 10 practice courts and an additional corporate area; and
- agreement to ensure appropriate capital funding of the Trust so that the service requirements and competitiveness of the Centre as a multi-purpose tennis, sports and entertainment venue are maintained.

3.21.15 Included in the revised management agreement between the Trust and Tennis Australia is a new formula for the sharing of revenue between the 2 parties. The new formula provides for a greater return to Tennis Australia above certain threshold figures, but, unlike the previous agreement, the thresholds are indexed in line with inflation. This change results in immediate financial gain to Tennis Australia. However, based on the profit projections embodied in the agreement, the overall return to Tennis Australia expressed in net present value terms, over the 25 year period, will be comparable with the return that would have received under the original formula.

3.21.16 In January 1992, the Treasurer wrote to the Trust to confirm the Government's understanding that the new financial arrangements would also provide for payment of a dividend by the Trust if the Centre achieves agreed levels of operating surplus in future years.

Likely impact of support package on financial viability of the Centre

3.21.17 In assessing the extent to which the government support package adequately addresses the long-term financial viability of the Centre, audit sought to determine the rationale underlying the Government's decision to provide annual assistance of $12 million for a period of 12 years.

3.21.18 It was disturbing to find that, for such a major government decision, the Department of the Treasury was unable to provide specific documented information to audit as to why an annual grant level of $12 million and an assistance period of 12 years were selected. Audit was verbally informed by the Department that, in broad terms, the package was equivalent to the provision in 1997 of a lump sum of $70 million, expressed in 1990-91 dollars, when the Trust is likely to have to meet a deferred interest bill of $104.5 million.

3.21.19 The Trust has assessed the impact of the Government's support package on its future operations. Based on estimated recurrent and capital cash flows for the next 25 years, including early settlement of its short-term borrowings from the Victorian Development Fund, the Trust anticipates that the Government's special funding package will enable:

- progressive principal repayments of the balance of its loan liability ($86.6 million, 30 June 1991) without recourse to short-term borrowings to alleviate cash flow difficulties; and
- settlement of around $25 million of its deferred interest liability of $104.5 million which is likely to become payable in 1997.

3.21.20 The projections prepared by the Trust indicate that **the unsettled portion of the deferred interest debt of approximately $80 million, which will need to be refinanced in 1997, will be progressively eliminated over a 16 year period up to the year 2014.** In preparing its financial projections, the Trust has allowed for a continued improvement in the annual financial result derived from the Australian Open.

3.21.21 Audit has been advised by the Trust that its Finance Committee is currently examining options to maximise the benefit of the annual grant of $12 million for 12 years in order to limit, to the extent possible, the refinancing of the deferred interest payable in 1997.

3.21.22 The Government's 12 year assistance package and Tennis Australia's obligation to hold the Australian Open at the Centre for the next 25 years will enhance the long-term financial viability of the Centre. The Trust's capacity to eliminate its debt obligations within a reasonable period after 1997 will be dependent upon a consistent improvement in the overall financial performance of the Centre.

RESPONSE by Director-General, Department of the Treasury

It is not clear what the nature of the documentation referred to by the audit would be. The level of financial support to the Tennis Centre was determined in the context of the State Government's overall budget, along with other competing priorities. The amount was considered appropriate in terms both of these other priorities and the financial position of the Trust.

Accumulated deficit position at 30 June 1991

3.21.23 In 1990-91, the Trust incurred an operating deficit of $9.3 million compared with a deficit of $10.2 million in the previous year. **At 30 June 1991, the accumulated deficit of the Trust totalled $35.3 million.**

3.21.24 Table 3.21A summarises the Trust's operations for the last 2 years and its accumulated deficit position at year-end:

TABLE 3.21A. SUMMARY OF OPERATIONS
($'000)

Item	*1989-90*	*1990-91*
Revenue -		
Australian Open (gross revenue)	13 291	**14 914**
Concert hire	4 697	**3 902**
Other	1 280	**1 103**
	19 268	**19 919**
Less: Operating expenses	13 446	**14 370**
Operating surplus before depreciation, finance charges and government grant	5 822	**5 549**
Less -		
Depreciation	2 614	**2 728**
Finance charges	15 368	**12 091**
	(12 160)	**(9 270)**
Add government grant	2 000	..
Operating (deficit) for year	(10 160)	**(9 270)**
Accumulated (deficit) at 30 June	(26 072)	**(35 342)**

3.21.25 The above table shows the improved result for 1990-91 was predominantly a result of the lower finance charges that prevailed during the year.

3.21.26 The Trust's annual operating result is substantially influenced by the Australian Open. By way of illustration, around 90 per cent of the 1990-91 operating surplus (before depreciation, finance charges and management fee to Tennis Australia) was derived from the January 1991 Australian Open.

3.21.27 The Trust has advised audit that because of the increased usage of the Centre in the current year and a very successful January 1992 Australian Open, the operating surplus before depreciation, finance charges and government grant is likely to exceed $7.4 million (1991, $5.5 million).

3.21.28 Included as an expense in deriving this figure is a payment to Tennis Australia of $1.8 million as its share of the surplus. This payment compares with a figure of $1.4 million had the terms of the original agreement still been in place.

3.21.29 With the combination of the improved operating performance of the Australian Open and the Government's special funding package, the Trust expects to be able to report, for 1991-92, its most favourable result since commencement of operations at the Centre.

Deliberations by Economic and Budget Review Committee

3.21.30 Since my *Report on Ministerial Portfolios, April 1991* the Parliament's Economic and Budget Review Committee has continued its examination of the long-term financial viability of the Centre.

3.21.31 In November 1991, the Committee reported the findings of its further inquiries to the Parliament. That Report contained a range of recommendations encompassing:

- the importance of the Trust establishing an effective debt reduction strategy during the period of the Government's special financial assistance;
- improved disclosure to the Parliament of the financial results of the Australian Open compared with other activities in the light of the new revenue-sharing arrangement with Tennis Australia;
- a need for the generation of greater revenue from the use of the Centre's facilities for activities other than the Australian Open, e.g. tennis court hire and to ensure that a greater economic return is generated from this major asset of the State (as mentioned above, 90 per cent of Trust revenue is generated by the Australian Open); and
- the Auditor-General to undertake a performance audit of the Tennis Centre's activities.

3.21.32 The performance audit is scheduled for commencement during mid-1992 and will include an assessment of the extent to which the Trust has responded to the recommendations of the Committee.

RESPONSE provided by the Trustees of the National Tennis Centre Trust

In his opening paragraph the Auditor-General recognises the important role the Tennis Centre has played for Victoria and Australia. The only criticism raised relates to the method in which the Centre was financed. The fact that the Centre was paid for with 100 per cent debt has given rise to the accumulated loss of $35 million at 30 June 1992. This bottom line result gives a misleading indication to the public who compare this result with other government departments and instrumentalities, most of which are not called to account for construction and other capital costs in the same manner.

In actual fact the activities at the Centre have generated a substantial positive return from which interest costs on debt can be partly met.

The Auditor-General points out the importance of the Australian Open, and to this end the Trust has successfully negotiated with Tennis Australia to conduct this event at the Centre for the next 25 years.

The financing package announced by the Government, which was subject to lengthy and detailed analysis, has been welcomed by the Trust. This support will ensure that a positive cash flow can be generated without further recourse to public funds.

The 1991-92 accounts will reflect a much improved operating surplus as a result of a very successful 1992 Australian Open and increased usage of the Centre for the remainder of the year. The result (prior to depreciation, interest and the government grant) will be in excess of 30 per cent up on the previous year's result.

TOTALIZATOR AGENCY BOARD

SUBSTANTIAL IMPROVEMENT IN TABARET'S REVENUE PERFORMANCE

3.21.33 As indicated in the *Report on Ministerial Portfolios, April 1991* Tabaret, located at Le Meridien (formerly Menzies-at-Rialto), became fully operational on 27 November 1990.

3.21.34 The April 1991 Report highlighted the poor revenue performance by Tabaret in the initial 3 months of its operations with monthly revenue averaging $5.7 million, well below the level required to achieve an annual turnover target of $100 million.

3.21.35 Since the period covered in the April 1991 Report, there has been a dramatic turnaround in the revenue performance of Tabaret. **By February 1992, the monthly revenue derived from electronic games machines had risen to around $23.3 million, some 540 per cent higher than February 1991.**

3.21.36 Table 3.21B illustrates this rapid growth in Tabaret's revenue with details of monthly gross machine takings and the distribution of such takings for the period November 1990 to February 1992.

TABLE 3.21B. DISTRIBUTION OF TABARET MACHINE REVENUE, NOVEMBER 1990 TO FEBRUARY 1992
($'000)

Month	*Machine revenue*	*Return to patrons*	*Return to TAB*	*Government commission*
1990 -				
November	1 090	959	..	131
December	8 801	7 492	253	1 056
1991 -				
January	4 934	4 154	188	592
February	3 637	3 064	136	437
March	4 291	3 666	110	515
April	(a)13 018	10 909	547	1 562
May	11 182	9 301	539	1 342
June	13 690	(b)11 795	976	(b)919
July	16 939	14 875	1 386	678
August	17 985	15 863	1 403	719
September	19 324	17 196	1 355	773
October	21 391	18 860	1 675	856
November	22 905	20 244	1 745	916
December	24 703	21 745	1 970	988
1992 -				
January	25 455	22 418	2 019	1 018
February	23 297	20 578	1 787	932
Total	**232 642**	**203 119**	**16 089**	**13 434**

(a) New gambling-style electronic games introduced.
(b) Return to patrons increased to 88 per cent and government commission reduced from 12 per cent to 4 per cent.

3.21.37 The table shows the steady monthly growth which occurred following 2 key strategic decisions taken by the Government, namely:

- introduction in April 1991 of new gambling-style electronic games, e.g. Blackjack, Poker; and
- return to patrons increased by 4 per cent to 88 per cent in June 1991.

3.21.38 Government commission (which is paid to the Consolidated Fund) derived from Tabaret for the 7 months to 30 June 1991 totalled \$6.5 million. The Government estimates that revenue of \$8.9 million will be received in the 1991-92 financial year. Actual receipts to the end of February 1992 amounted to \$6.9 million, a position which indicates that, based on current revenue levels, this revenue target should be achieved.

3.21.39 The improvement in Tabaret operations has been so significant that for the August 1990 to July 1991 racing year, revenue is expected to exceed \$250 million for the year compared with the Board's budget of \$189 million.

3.21.40 As a consequence of the improved performance of Tabaret, the Board was in a position to make advance payments totalling $5 million to compensate all racing clubs for the impact of the reduced distribution in the previous year.

RESPONSE provided by the Chief General Manager, Totalizator Agency Board

The TAB appreciates the report of the Auditor-General on this matter. The TAB takes considerable pride in the performance of Tabaret operations over the past 12 months and the Board was always confident that, with the right games and player return percentage, the cashless gaming technology would be successful, as has proven to be the case.

LOSSES, THEFTS AND IRREGULARITIES

Unauthorised credit betting by agents

3.21.41 During 1991, a further 4 instances of unauthorised credit betting by agents were reported to audit by the Board. The net loss to the Board totalled $129 500 of which $61 800 had been recovered at 31 December 1991.

Theft and losses of funds

3.21.42 A number of hold-ups and burglaries occurred at the Board's retail sales outlet during the year ended 31 December 1991. An amount of $42 400 was taken, of which $2 500 had been recovered at 31 December 1991.

Fraudulent activity

3.21.43 Recently, the Board detected a significant defalcation involving the unauthorised alteration of invoices. The extent of the loss has yet to be determined by the Board and the circumstances under which the fraud was perpetrated are currently under investigation by the Board and the police. The Board examined in detail its existing management practices with respect to the payment of invoices and has issued further instructions to ensure that appropriate attention is given to strict observance of formalised system controls and procedures.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced

Department of Sport and Recreation

Ministerial Portfolios, May 1989, p. 223	No provision made for the possible non-recovery of a loan and interest accrued, made to the Australia Games Foundation.	The Department has received approval from the Treasurer for the write-off of the loan and accrued interest conditional upon the assignment of the residue and of naming rights of the Foundation upon its liquidation.
Ministerial Portfolios, April 1991, pp. 395-6	The Department needs to ensure that, during the winding-up process for Melbourne Olympic Candidature 1996 Ltd, including the realisation of assets, the Government's equity is adequately protected.	The Department has received audited financial statements of the company. A committee has been formed to distribute the surplus of $230 000 received by the Department upon the formal winding-up of the Company and the associated Trust.

National Tennis Centre Trust

Ministerial Portfolios, May 1989, pp. 226-7 *Ministerial Portfolios*, May 1990, p. 263 *Ministerial Portfolios*, April 1991, pp. 398-9	The Trust's capacity to meet substantial future debt obligations needs to be promptly addressed by both the Trust and the Government.	For further comments, refer to paragraphs 3.21.8 to 3.21.32 of this Report.

Totalizator Agency Board

Second Report, 1984-85, p.109 *Ministerial Portfolios*, May 1990, p. 272	Need for a major disaster recovery plan for the Board's computer operations.	The recommendations contained in a 1989-90 review of the Board's disaster recovery plan are currently being addressed in the context of the ongoing development of the Board's wagering and gaming systems.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Matters resolved or action commenced - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolios, May 1989, p. 227 *Ministerial Portfolios*, May 1990, p. 272 *Ministerial Portfolios*, April 1991, p. 403	The services of a number of agents were terminated as a result of their involvement in unauthorised credit betting.	For further comments, refer to paragraph 3.21.41 of this Report.
Ministerial Portfolios, May 1989, p. 228	Large unauthorised bets made against selected clients' telephone betting accounts resulted in a loss to the Board of $101 000.	Court proceedings resulted in an order for restitution of $57 400. At the date of preparation of this Report, an amount of $21 700 has been paid in accordance with the order.
Ministerial Portfolios, April 1991, pp. 401-2	In its first 3 months of operations, the Menzies-at-Rialto Tabaret experienced a significant downward trend in revenues.	For further comments, refer to paragraphs 3.21.33 to 3.21.40 of this Report.
Ministerial Portfolios, April 1991, pp. 402-3	Revenue of $210 000 a year forgone by the Board from non-furbishment of the vacant telephone betting area at the Racing Industry Centre.	The vacant auditorium has been converted into a simulation area for the testing of gaming machines and now provides accommodation for gaming development personnel.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Department of Sport and Recreation	30 June 1991	31 October. *Annual Reporting Act* 1983,s.8.	17 September 1991	24 September 1991
Greyhound Racing Control Board	31 July 1991	31 October. *Annual Reporting Act* 1983,s.9.	13 September 1991	8 November 1991
Harness Racing Board	31 July 1991	31 October. *Annual Reporting Act* 1983, s.9.	3 October 1991	8 November 1991
National Tennis Centre Trust	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	9 September 1991	16 September 1991
Totalizator Agency Board	31 July 1991	31 October. *Annual Reporting Act* 1983, s.9.	24 September 1991	22 October 1991
Victorian Institute of Sport Ltd	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer.	25 September 1991	11 October 1991
Victorian Institute of Sport Trust	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer.	25 September 1991	30 October 1991

3.22

TOURISM

KEY FINDING

- The Government needs to take decisive action to resolve the financial viability of the Swan Hill Pioneer Settlement Authority.

Paras 3.22.1 to 3.22.7

The Minister for Tourism is responsible for the following entities which are subject to audit by the Auditor-General:

Public bodies

Alpine Resorts Commission
Emerald Tourist Railway Board
Swan Hill Pioneer Settlement Authority
Victorian Tourism Commission

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

SWAN HILL PIONEER SETTLEMENT AUTHORITY

CONTINUING DETERIORATION IN FINANCIAL OPERATING RESULT

3.22.1 In the *Report on Ministerial Portfolios, May 1989* I reported to the Parliament on the deterioration in the Swan Hill Pioneer Settlement Authority's operating results during the 3 year period 1985-86 to 1987-88, which was attributed to a decline in attendance levels.

3.22.2 The Authority has recorded net losses in each of the years since 1987-88. In addition, there has been a significant weakening of the Authority's liquidity position as measured by a comparison of current assets with current liabilities.

3.22.3 Table 3.22A summarises the Authority's financial operating results and liquidity position for the past 3 years.

TABLE 3.22A. SUMMARY OF FINANCIAL RESULT AND LIQUIDITY POSITION
($'000)

Item	*1988-89*	*1989-90*	**1990-91**
Revenue	1 629	756	**803**
Expenditure	1 748	834	**817**
Net loss	**119**	**78**	**14**
Current assets	427	206	**114**
Current liabilities	360	483	**422**
Net current assets (liabilities)	**67**	**(277)**	**(308)**

3.22.4 The Authority's poor liquidity position at 30 June 1991 is of particular concern as:

- the Authority has found it necessary to delay the payment of creditors; and
- its bank overdraft statutory limit of $250 000, which is **not** subject to a guarantee by the Treasurer, was exceeded at various times during the year.

3.22.5 The Authority's attendance levels and operating results in the 6 months to December 1991 have been below budgeted levels. In addition, audit found it necessary to express doubt, within the opinion issued on the 1990-91 financial statements, as to whether the Authority could continue as a going concern without receiving financial assistance from the public or private sectors.

3.22.6 In an attempt to resolve its financial difficulties, the Authority has reduced its workforce, embarked upon a marketing campaign to increase attendance levels and commenced negotiations with the local council for financial assistance.

3.22.7 In audit opinion, the time has been reached when the Government needs to take decisive action to resolve the financial viability of the Authority.

RESPONSE provided by Manager, Swan Hill Pioneer Settlement Authority

Since September 1990 there has been a dramatic drop in visitor numbers to the Pioneer Settlement. This is due to a number of factors but basically is due to the downturn in the economy within Victoria.

Most heritage parks have suffered a similar fall in visitor numbers, however, the Pioneer Settlement, being furthest from Melbourne, has suffered more than other rural-based parks. The loss of visitor numbers is greatest from Melbourne and country Victoria.

The Authority has carried out extensive reviews of its operations in an effort to maintain and improve visitor levels while trimming costs. The Authority has sought to be recognised as a public body and to take advantage of that status. However, it has been indicated to the Authority that it is considered a local Authority.

Financially, the Authority is struggling to retain what it considers optimum staff levels and operations, despite the withdrawal of a $50 000 operational grant in 1988 and the unexpectedly high cost of operating the Swan Hill Regional Art Gallery, the annual cost of which is $38 000.

The future financial viability of the Authority depends on 2 factors:

- *The ability to increase visitor levels. This does not seem likely in the short-term, especially in the present economic climate. An improvement in the economy should see a corresponding improvement in visitor levels; and*
- *The ability of the Authority to gain financial assistance either in the form of capital funds, operating subsidies or reduced costs and charges. It would appear that the Authority is unable to receive grants or take advantage of other forms of government assistance and the private sector is hesitant to make commitments at this stage.*

Therefore, the Authority is exploring the possibilities of some involvement with local government, specifically the Swan Hill City Council.

VICTORIAN TOURISM COMMISSION

WORLD CONGRESS CENTRE

3.22.8 As indicated in the October 1991 *Report of the Auditor-General on the Finance Statement, 1990-91* the construction and operation of the World Congress Centre has been assisted by the provision of government guarantees and subsidies. In that Report, audit considered that the indebtedness and financial obligations of the State relating to the Government's sponsorship of the Centre over a 12 year term comprise:

- the shortfall between any net operating income generated by the Centre and the interest payments due on the financing arrangements to construct the Centre at a cost of $148.8 million;
- operating subsidies to the Centre to meet outstanding expenditure; and
- a wide range of indemnities provided by the Treasurer to the property trust and the respective banks involved in the arrangements as protection against any losses which may be incurred by them.

3.22.9 The above subsidies and payments which in 1990-91 totalled $15.9 million are made to the World Congress Centre Melbourne Pty Ltd, an exempt proprietary company which acts as the Centre's manager. The company is 40 per cent owned by the Victorian Tourism Commission (4 000 $1 shares) which is entitled to representation by 2 directors, and 60 per cent owned by 4 individuals (1 500 $1 shares) who are also directors of the company.

3.22.10 Despite the magnitude of the Government's financial involvement and the importance of the Centre to the State's tourism objectives, there was little evidence of systematic monitoring by the Commission of the operations relating to the Centre for the first 20 months of its operations.

3.22.11 In December 1991 the Commission's Chairman was formally appointed as its representative on the Centre's Board.

3.22.12 The Commission should ensure the Government's financial and tourism interests in respect of the operations of the Centre are adequately protected.

RESPONSE provided by Chairman and Chief Executive Officer, Victorian Tourism Commission

The Victorian Tourism Commission has been formally represented at every Board meeting since the commencement of operations. The Chairman of the Commission attended meetings from January 1991 prior to her formal appointment in December 1991.

The Commission receives detailed monthly financial and operations reports from the World Congress Centre Melbourne Pty Ltd.

Audited financial statements on an annual basis are also provided.

The Commission is confident that the Government's financial and tourism interests in the operations of the Centre are adequately protected.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced	
Alpine Resorts Commission		
Ministerial Portfolios, May 1989, p. 148	Failure to repay loans.	The Commission was able to meet its principal loan repayments during 1990-91, however, interest arrears of $6 million have been carried forward to the next financial year.
Ministerial Portfolios, May 1989, p. 149	Significant rise in amounts owed to the Commission primarily due to delay in raising invoices and withholding of payments by site holders.	Action has been taken to improve the raising of invoices and collection of moneys due.
Ministerial Portfolios, May 1990, p. 276	Delays in finalising financial statements.	Financial statements for 1990-91 were prepared within the statutory timeframe.
Ministerial Portfolios, April 1991, p. 409	Doubt as to the financial viability of the Commission.	Action has been taken to improve the operating performance of the Commission. In 1990-91 the deficit was reduced to $1.8 million from $4 million in the previous year.
Ministerial Portfolios, April 1991, p. 410	There is a need for the Commission to improve its strategies for management of debtors.	Improved procedures have resulted in a decrease in debtors from $3.4 million to $1.6 million.
Ministerial Portfolios, April 1991, p. 412	Inadequate monitoring of financial performance due to problems with the Commission's computerised information system.	Problems with the Commission's computerised information system have been resolved and monitoring of financial performance has improved.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	No action taken	
Alpine Resorts Commission		
Ministerial Portfolios, April 1991, p. 408	There was an absence of appropriate performance measures which provide assurance to the Government that the Commission is meeting the aims of the Tourism Strategy and fulfilling its role and objectives under that Act.	Position unchanged.
Swan Hill Pioneer Settlement Authority		
Ministerial Portfolios, May 1989, p. 166	Falling attendances cause deterioration in operating results.	For further comments, refer to paragraphs 3.22.1 to 3.22.7 of this Report.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
		Completed audits		
Alpine Resorts Commission	31 October 1991	31 January. *Annual Reporting Act* 1983, s.9.	18 December 1991	31 January 1992 *(a)*
Emerald Tourist Railway Board	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	23 September 1991	10 October 1991 *(a)*
Swan Hill Pioneer Settlement Authority	30 June 1991	31 October. *Annual Reporting Act* 1983, s.9. Extension granted to 31 January 1992.	14 October 1991	6 February 1992 *(a)*
Victorian Tourism Commission	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	12 September 1991	30 September 1991

(a) Qualified audit report issued.

3.23

TRANSPORT

KEY FINDINGS

- The early signs are that the impact of deregulation of the wheat industry on the operations of the Grain Elevators Board will be severe.

  Paras 3.23.1 to 3.23.12

- The Public Transport Corporation could achieve minimum annual savings of $13 million through greater efficiency and improved productivity in its workshop operations.

  Paras 3.23.30 to 3.23.37

- Deficiencies in procedures for major maintenance of trains and trams have serious implications for the future reliability of the train and tram transport network.

  Paras 3.23.87 to 3.23.115

- On average, 113 employees were absent on sick leave each day at the Public Transport Corporation's workshops which represents around 20 days sick leave per employee.

  Paras 3.23.83 to 3.23.86

- The ratio of the Public Transport Corporation's workshop support staff to staff involved in workshop activities is excessive when compared with the Gas and Fuel Corporation of Victoria.

  Paras 3.23.79 to 3.23.82

- The Public Transport Corporation's commercial workshop operations have accumulated losses of $3.2 million since 1 July 1988.

  Paras 3.23.60 to 3.23.78

- The Public Transport Corporation's current cost levels for repairs and maintenance of trains are between 30 to 40 per cent higher than preliminary yardsticks announced by the National Rail Corporation for the new national rail freight system.

  Paras 3.23.132 to 3.23.137

KEY FINDINGS - *continued*

- Significant revenue forgone due to 30 per cent of rent reviews on the Public Transport Corporation's lease property portfolio overdue.
  Paras 3.23.153 to 3.23.157

- Over 69 per cent of the Public Transport Corporation's property leases are set at or below the minimum annual rent with in excess of 900 of these properties leased rent-free or at an annual rent of only one cent.
  Paras 3.23.159 to 3.23.163

- Approximately $2.7 million of the Public Transport Corporation's outstanding rental balances of $5.2 million had been in arrears for more than 150 days.
  Paras 3.23.169 to 3.23.172

- The Public Transport Corporation needs to conduct a cost/benefit analysis before contracting out the management of its lease property portfolio to private estate agents.
  Paras 3.23.175 to 3.23.178

- The revenue forgone by the State for transport fee concessions provided to ineligible pensioners could be as high as $1.3 million a year.
  Paras 3.23.191 to 3.23.196

- In 11 000 cases, pensioners in receipt of fee concessions of $2 million own vehicles but do not hold a drivers' licence, a position which indicates potential abuse of the concession system
  Paras 3.23.197 to 3.23.201

- At 30 June 1991, deficits of the Transport Accident Commission's Glen Waverley Rehabilitation Centre had accumulated to $16.9 million.
  Paras 3.23.202 to 3.23.229

- The improvement in the Transport Accident Commission's financial position has been so significant that by 30 June 1992 its solvency level is likely to reach 36.5 per cent compared with a minimum solvency level of 15 per cent specified under Commonwealth legislation.
  Paras 3.23.230 to 3.23.237

The Minister for Transport is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ministry of Transport

Public bodies

Grain Elevators Board
Marine Board of Victoria
MTA Investments Pty Ltd
MTA Superannuation Fund
Public Transport Corporation
Roads Corporation
Transport Accident Commission

Matters of significance arising from the audit of certain of the above entities are summarised below.

GRAIN ELEVATORS BOARD

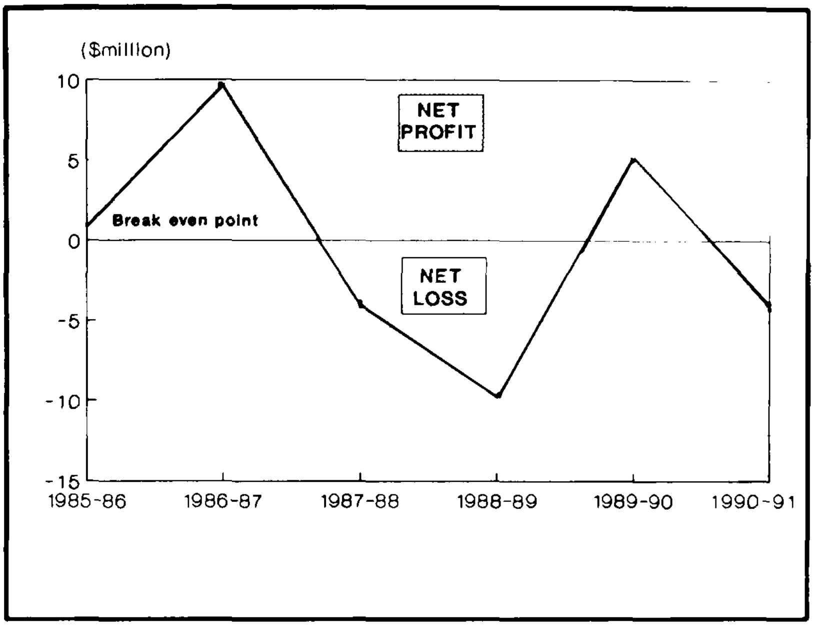
EFFECTS OF DEREGULATION OF WHEAT INDUSTRY

Early adverse financial impact on Board

3.23.1 The Grain Elevators Board has experienced major fluctuations in its operating results over the past 5 years. High fixed costs and volatile movements in revenue, principally caused by variable grain prices and unpredictable climates, have had a significant impact on the results for each year. These fixed costs, which include salaries, interest and depreciation, account for 80 per cent of the Board's annual expenditure.

3.23.2 Chart 3.23A illustrates the fluctuations in the Board's net result over the past 5 years.

CHART 3.23A. FLUCTUATIONS IN OPERATING RESULT



3.23.3 Following deregulation of the wheat industry in July 1989, growers were no longer required to use the Board's storage facilities. This move, which has increased competition in the industry, has had a severe financial impact on the Board's operations. In 1988-89, the Board wrote-down the value of silos by $9.6 million to reflect their economic obsolescence and the expected loss of market share resulting from deregulation.

3.23.4 Following the deregulation of the wheat industry, the Board has experienced a loss of market share of approximately 20 per cent. **This loss of market share, combined with poor harvests, has resulted in an operating loss of $4.2 million reported by the Board for the year ended 30 September 1991**. In addition, the Board has budgeted for an operating loss of $8 million for 1991-92.

RESPONSE provided by Director-General, Ministry of Transport

Deregulation of domestically traded wheat and the combined effect of poor climatic conditions and depressed world market prices have significantly reduced the volume of wheat and other grains received, stored and distributed by the GEB. This loss of volume has caused the 1991 trading loss and the projected 1992 trading loss.

These losses would, if continued for any length of time, give risk to concerns about the value of the GEB's fixed assets and the matter is being kept under review, e.g. there was a write-down in asset values in 1989 in recognition of the declining tonnages experienced to that point.

In future years, the GEB expects profitability to improve as a result of:

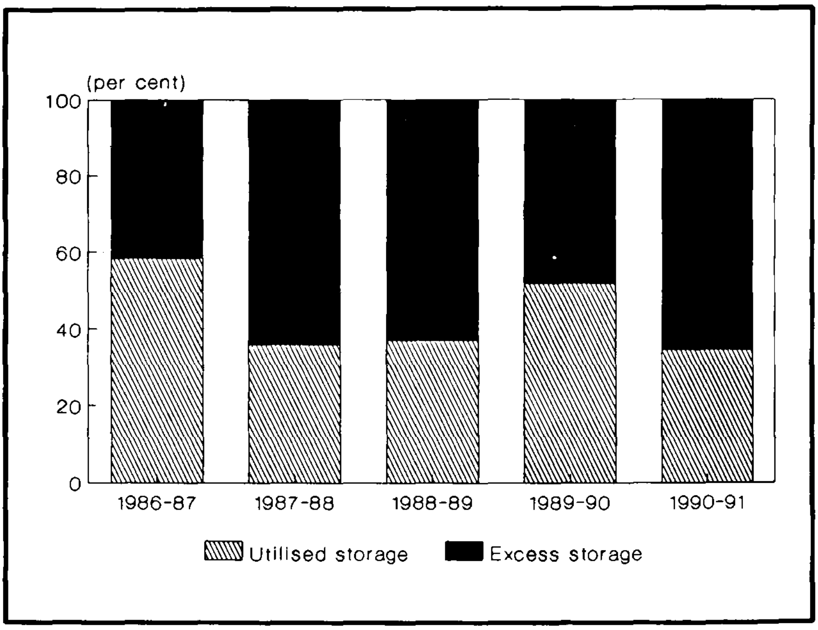
- *a significant reduction in staff and other costs with the effect of reducing the break-even point for grain handling activities from just under 3 million tonnes in 1988-89 to just over 2 million tonnes in 1992-93 (when the full effect of downsizing the actions will be felt);*
- *increased income from handling commodities other than grains (the GEB is currently awaiting a widening of its charter by way of an amendment to the Grain Elevators Act presently before Parliament);*
- *efforts by the GEB to increase the rental of storages to end-users, who otherwise would have by-passed the GEB altogether; and*
- *a significant increase in grain production and GEB grain receivals in line with improved world market prices, (and despite further reductions of grain receivals expected from a partial deregulation of barley).*

Over-capitalisation of grain storage facilities

3.23.5 At 30 September 1991, the Board's storage facilities (silos) had a historical cost value of $132 million.

3.23.6 For some years now, the Board has held substantial levels of unutilised storage capacity. Chart 3.23B illustrates the Board's excess storage levels since 1986-87, which was a peak harvest year.

CHART 3.23B
GRAIN ELEVATORS BOARD, EXCESS STORAGE CAPACITY



3.23.7 The chart shows that in 1990-91, the first full harvest year within the deregulated environment, the Board's utilised storage capacity dropped to its lowest level for the last 5 years.

3.23.8 In 1990-91, the Board obtained independent valuations based on its estimated future cash flows in order to determine whether its net worth was adversely affected by over-capitalised assets. Under this process, a value of $52 million at 30 September 1990 was placed on the Board's operations which compared favourably with a reported historical cost value for net assets of $55 million in the 1989-90 audited financial statements.

3.23.9 While audit considers that a valuation based on future cash flows is appropriate for organisations with stable revenue patterns, some caution is required when the approach is applied to the Board's situation which is characterised by fluctuating cash flows.

3.23.10 Presently, the Board is attempting to downsize its storage capacity by phasing-out those silos that are surplus to normal storage requirements and those in need of major maintenance or replacement. However, as the storage facilities of the Board are unique to the grain industry, the silos have little commercial value outside this market.

3.23.11 The Board's operations may also be affected if the current proposals for the deregulation of the barley market are adopted. This action would increase the competitive pressures on the Board and could result in even further deterioration of its share of the grain market.

3.23.12 The early signs are that the impact of deregulation of the wheat industry on the Board's operations will be severe. The Board will need to continue to evaluate its total operations, including the restructuring of its asset base, if it is to operate competitively and profitably in a deregulated market.

RESPONSE provided by Director-General, Ministry of Transport

The GEB intends as a matter of course to re-assess the fixed assets base once the longer term trend becomes clearer. As mentioned earlier, the GEB has already written-down its asset base in 1989.

With regard to audit's specific reference to surplus assets, the GEB believes that the position is not as yet clear enough as to where there is over-capacity, and how much, to make a hard and fast decision of the kind implied by audit.

In support of this it is pointed out that:

- *There is no direct relationship between the aggregate tonnage of grains (of all types) received and the storage capacity expressed in terms of tonnes of wheat. Grain varies considerably in density: 10 000 cubic metres would, on average store 8 000 tonnes of wheat, 6 500 tonnes of barley and 5 000 tonnes of oats;*
- *Even if the annual tonnage received remained identical from year-to-year, this tonnage will likely be obtained from different areas. Thus, in the presence of geographically fixed storages, there will always need to be a slight over-capacity in some areas to cope with above-average receivals;*
- *The market's requirement for an increasing number of segregations inevitably causes an under-utilisation of existing storage capacities, as some silos will be only partly filled; and*
- *Certain silos will be filled and emptied more than once (in particular port-based silos) thus distorting the simple calculation of the type made by audit.*

PUBLIC TRANSPORT CORPORATION

ANALYSIS OF 1991-92 BUDGET POSITION

3.23.13 The Corporation has continued to have difficulty in keeping to budget estimates.

3.23.14 In 1991-92, the Corporation received a recurrent budget allocation of $448.5 million, which was $101.5 million lower than the previous year's allocation. An audit review of the Corporation's actual recurrent position against budget forecasts at 7 March 1992 showed that **operating revenue was below budget by $46.8 million and operating expenditure had exceeded budget by $2.4 million, an in-excess-of-budget position at that date of $49.2 million.**

3.23.15 The following paragraphs provide details of relevant year-to-date performance compared with budget forecasts.

Passenger revenue

3.23.16 The Corporation's 1991-92 forecast for passenger revenue was $347.3 million, an increase of $45 million from the previous year. **By 7 March 1992, passenger revenue was $26.2 million below the year-to-date budget estimate** as a result of lower than estimated patronage.

Freight revenue

3.23.17 The Corporation's freight revenue target for 1991-92 was set at $176.2 million, a reduction of $3.5 million on the 1990-91 forecast. Due mainly to adverse economic conditions, revenue from freight has continued to fall and **by 7 March 1992 was $17 million below budget.**

Labour costs

3.23.18 The Corporation's labour-related expenditure for 1991-92 was expected to be $596.7 million, a decrease of $53.8 million on the previous year. This estimate was based on planned staff reductions of 1 500 by the end of the financial year and reduced expenditure on overtime.

3.23.19 By 7 March 1992, actual labour costs were $21 million over the year-to-date budget estimate. This position was the result of non-achievement of target reductions in overtime expenditure, payment of wage increases totalling $8.2 million which were not included in original budget estimates and lower than anticipated staff reductions. Staff reductions of 787 had been achieved by the Corporation at 7 March 1992. As this figure represents approximately half of the year's planned reduction, the Corporation will need to terminate a remaining 713 staff over the next 4 months to achieve its target saving in labour costs.

Other recurrent expenditure

3.23.20 During 1991-92 the Corporation implemented strategies aimed at reducing recurrent costs in several areas with anticipated savings of $46.1 million for the year. **At 7 March 1992, the Corporation had recorded savings in operating costs, in terms of below-budget expenditure, of approximately $19.2 million**. These savings comprise a reduction in expenditure on stores and services, $10.8 million, reduced outlays on annual leave associated with the Government's early retirement package and lower than budgeted payments in relation to private bus contractors.

3.23.21 While audit acknowledges that the Corporation has initiated efforts to reduce annual operating expenditure, if the current trends for revenue and labour costs continue to year-end, the Corporation will require additional government funds to supplement its recurrent budget.

RESPONSE provided by Director-General, Ministry of Transport

The 1991-92 budgetary problems at the PTC are entirely due to general economic conditions impacting adversely on all revenues (i.e. passenger, freight and property income). Similar revenue problems are being experienced in the NSW public transport system. The PTC's freight revenue is being further impacted by adverse climatic and export factors.

To minimise the impacts of the revenue shortfalls, cost saving measures have been implemented (including a workforce reduction of 1 500 employees), which are expected to result in expenditure saving against budget of some $12 million. This will occur mainly through savings in materials and fuel costs and private bus subsidy payments. Combined with other measures currently under discussion with government these measures will substantially reduce the level of revenue supplementation that would otherwise have been required.

Clearly the PTC has managed its expenditure effectively to achieve significant savings that were not budgeted and in normal circumstances would have underspent its recurrent budget allocation of $448.5 million.

MANAGEMENT OF WORKSHOPS

3.23.22 The *Transport Act* 1983 requires the Corporation to establish, manage and operate, without "cross-subsidisation", through its Workshops Board, efficient, reliable and technologically up-to-date workshops with a heavy engineering capacity, and to compete for work outside the Corporation.

3.23.23 The Workshop Board established under the Act advises the Corporation on the administration and management of its workshops. The Board consists of 10 members including the Corporation's chief executive, the director of the workshops division and representatives appointed from other workshop management and staff, other divisions of the Corporation and members appointed by the Minister for Transport.

3.23.24 Under the responsibility of the Board is the workshops division comprising centralised management, administration and technical sections and individual workshops at Newport, Ballarat and Bendigo (rail), Preston (tram), Northcote (bus) and Spotswood and West Melbourne (electrical facilities).

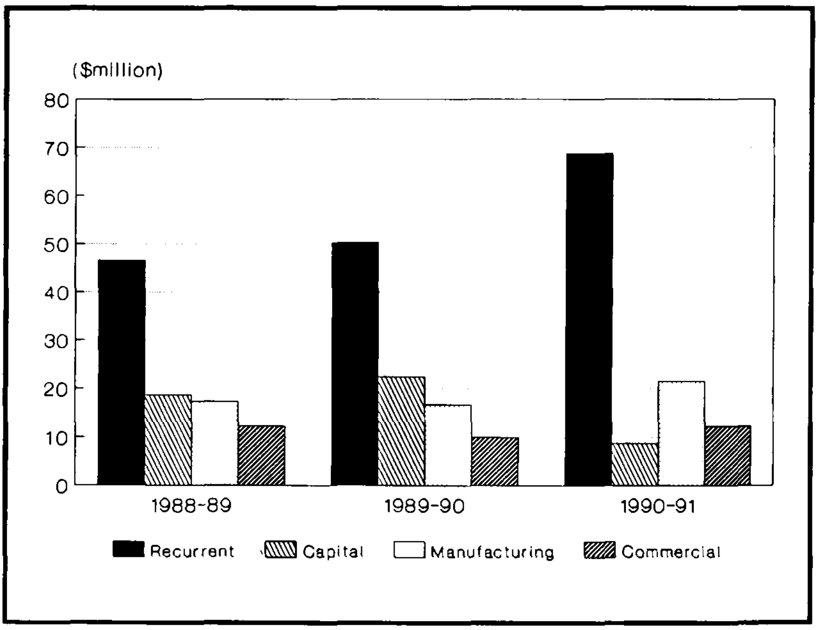
3.23.25 Current workshop activities include:

- repair, maintenance and manufacture of rolling stock and related equipment and components;
- manufacture of structural steel for both vehicle and infrastructure construction;
- commercial engineering, manufacture and maintenance work for other Corporation divisions and external clients; and
- manufacture and repair of signalling and electronic communication equipment.

3.23.26 For internal management and reporting purposes, these activities are classified into 4 major categories, namely recurrent (comprising the workshops maintenance functions), manufacturing, commercial and capital.

3.23.27 In conducting these activities, expenditure of the workshops for the year ended 30 June 1991 exceeded $111 million (1991-92 budget, $94.9 million). Details of expenditure by category between 1988-89 and 1990-91 are provided in Chart 3.23C.

CHART 3.23C. ANNUAL WORKSHOP EXPENDITURE



3.23.28 Expenditure on labour and related overheads amounted to $64 million in 1990-91 or 58 per cent of the total expenditure incurred by the workshops division. At December 1991 staff numbers of the division were 2 069 of which 767 (37 per cent) were employed at the Newport workshop. Staff levels have been reduced since 1987 as a result of the implementation of a workshops business strategy in rail workshops and staff redundancy and rationalisation schemes implemented throughout the Corporation.

3.23.29 During 1991, audit conducted a review to evaluate the economy, efficiency and effectiveness of the Corporation's workshop operations with respect to the maintenance of the transport fleet.

Overall conclusions

3.23.30 With responsibility for the carrying out of major maintenance on trains, trams and buses, the activities of the Corporation's workshops division have a major impact on the overall reliability and efficiency of the transport system.

3.23.31 Following implementation of its 1987 business strategy for rail workshops, the Corporation achieved some improvement in the efficiency of workshop operations, particularly in relation to reducing staff numbers. However, substantial scope exists for the Corporation to achieve further improvements in the efficiency of practices and procedures within workshops.

3.23.32 Audit has determined that minimum annual savings of well in excess of $13 million could be achieved by the Corporation through more efficient management of workshop resources and greater productivity.

3.23.33 Significant long-term implications arise from the current below-target performance of workshops for major maintenance of trains and trams. Signs are emerging of substantial additional costs accruing to the Corporation in terms of increasing instances of unscheduled and urgent repairs because of deficiencies in preventative maintenance. The increasing incidence of urgent repairs is also likely to adversely impact on the future reliability of the transport fleet.

3.23.34 The position is made more serious by the fact that 303 staff in excess of needs are employed at workshops at an annual cost in excess of $7 million. In addition, the Corporation is currently employing substantially higher levels of support staff, at additional annual costs of $3 million, when compared with the workshop activities of the Gas and Fuel Corporation of Victoria (GFCV) and the level of absenteeism due to sick leave in workshops involves annual costs of around $2 million higher than the GFCV.

3.23.35 The financial performance of the commercial activities within workshops has been consistently poor, with annual losses over the last 3 years of approximately $1 million.

Overall conclusions - *continued*

3.23.36 The recent emergence of the national rail system under the auspices of the National Rail Corporation (NRC) is likely to have important implications for the Corporation. The current levels of efficiency of the Corporation's workshops in the repair and maintenance of trains are around 30 to 40 per cent less than preliminary yardsticks announced by the NRC. In such circumstances, there is no guarantee that the Corporation will be allocated repair and maintenance work for freight trains under the national rail freight system.

3.23.37 It is disappointing to report that many of the problems identified by audit during the review of workshops may have been avoided or their impact lessened if more effective oversight of operations had been carried out by the Corporation's Workshops Board. A major turn-around in the productivity and performance of workshops, will require more effective strategic overview and monitoring by the Workshops Board.

Impact on workshops of 1987 business strategy

Key goals embodied in strategy for rail workshops

3.23.38 In early 1987, the Corporation took the important strategic step of developing a business strategy for rail workshops, with the overall objective of improving workshop productivity. Such action followed recognition by the Corporation of significant changes in workload requirements, redundancy of traditional skills and a need for major capital upgrading of workshops. Following consultation with unions and other interest groups, an amended strategy was approved by the Minister and implemented in November 1987.

3.23.39 Apart from the transfer of tram and bus workshops following the amalgamation of the 2 former transport authorities into the Corporation in 1989, the business strategy has been the principal factor influencing workshop operations over the last 4 years.

3.23.40 The principal goals embodied in the 1987 business strategy, which were to be implemented over 2 to 3 years, were:

- a reduction of 687 in staff numbers from 2 160 to 1 473 with specific targets established for each workshop;
- of the 1 473 staff, the equivalent of 155 were to undertake commercial work;
- concentration of specific activities in individual workshops rather than the existing position whereby Newport, Ballarat and Bendigo performed similar works; and
- capital upgrading of $15 million to facilitate the concentration of activities, including re-development of Newport workshop with a consequential freeing of 60 acres of land for disposal.

3.23.41 The Corporation estimated in 1987 that successful implementation of the strategy would generate real annual savings in recurrent expenditure of approximately $20 million (expressed in December 1986 prices). The strategy envisaged that the main source of these savings would be through a reduction in staff numbers.

3.23.42 Documentation provided to audit during the course of the review identified that the potential for achievement of maximum productivity gains was influenced by several restrictive elements, namely:

- the activities of the electrical workshop were not evaluated in detail;
- alternatives, such as the contracting of certain activities to the private sector, were not considered;
- a Corporation requirement that significant workshop operations be retained at Ballarat and Bendigo irrespective of whether this approach represented the most cost-effective alternative; and
- reductions in the level of employment were determined by negotiations with unions and the end result, in audit opinion, did not necessarily reflect the optimum level required for efficient operations at individual workshops.

3.23.43 In addition, the strategy applied solely to rail workshops as the amalgamation of the former State Transport Authority and the Metropolitan Transit Authority, covering tram and bus activities, had not taken place at the time of its formulation.

Extent of achievement of 1987 strategic targets

3.23.44 Given the significance of the 1987 business strategy in terms of the nature and direction of workshop operations, the audit review encompassed an evaluation of the extent to which the targets included in the strategy had been achieved.

3.23.45 The results of this evaluation are provided in the following paragraphs.

Reduction in staff numbers

3.23.46 The audit analysis identified that by December 1991 the Corporation had achieved the target level of staff reductions. Table 3.23D provides relevant details of movements in staff numbers.

TABLE 3.23D
COMPARISON OF ACTUAL STAFF NUMBERS AT RAIL WORKSHOPS AT DECEMBER 1991 WITH 1987 STRATEGIC TARGETS

	Staff numbers			
	Actual June 1987	*Strategy targets*	*Current December 1991*	*Variance to strategy*
Newport *(a)*	1 139	656	658	(2)
Ballarat	373	303	266	37
Bendigo	386	292	273	19
Spotswood	151	162	136	26
Head office *(b)*	111	60	75	(15)
Total	**2 160**	**1 473**	**1 408**	**65**

(a) Excludes first year apprentices and apprentices receiving training on behalf of other divisions.
(b) Excludes staff performing activities transferred to the division after development of the strategy.

3.23.47 The strategic targets and staff numbers identified in Table 3.23D do not include first year apprentices, apprentices receiving training on behalf of other divisions and workshop staff performing activities transferred to the workshops division since implementation of the 1987 strategy. These categories represent a further 161 employees employed in the workshops division at a substantial cost to the Corporation.

Absorption of 155 surplus staff through commercial work

3.23.48 As stated previously, one of the principal goals of the 1987 business strategy was to ensure that sufficient commercial work was generated to occupy 155 staff members.

3.23.49 Audit found that this objective has not been achieved in any year since implementation of the strategy. The volume of commercial work has in fact significantly decreased with levels of work planned for 1991-92 sufficient to occupy only 100 staff members. Major reasons for the failure to achieve targeted levels of commercial work include declining demand and the lack of competitiveness of workshops in comparison to the private sector. Further comments on deficiencies in the management of commercial activities are given in paragraphs 3.23.60 to 3.23.78 of this Report.

3.23.50 Audit has calculated that the cost to the Corporation since 1987 of employing staff not yet absorbed in commercial activities has been approximately $1.4 million.

Capital upgrading

3.23.51 Since implementation of the strategy, **capital outlays on refurbishing the rail workshops have totalled $26 million compared with a budgeted (before inflation) figure of $15 million.** Major projects undertaken in workshops have included carriage and bogie overhaul facilities at Newport (at a cost of $9.3 million), Newport plant shop ($2.9 million), the Bendigo wagon project ($2.8 million) and furniture manufacture facilities at Ballarat and Bendigo ($884 000).

3.23.52 Factors contributing to the additional costs incurred on capital projects included the implementation of additional refurbishment projects, cost overruns on certain activities and delays in finalisation of projects over the 2 to 3 year period proposed in the strategy. This latter factor was particularly relevant at the Newport workshop where certain new capital facilities are yet to be fully utilised such as plant and maintenance facilities and the machining shop.

3.23.53 While land has been vacated at Newport, a decision on its disposal is still to be finalised due to the historical nature of certain buildings located on the site. Accordingly, **it is not clear whether any financial benefits will be available from the disposal of the land.**

Concentration of activities

3.23.54 The aim of concentrating major tasks in particular workshops has been largely achieved. Since the implementation of the strategy, changes to the allocation of activities have included:

- a greater concentration of wagon repairs at Bendigo workshop; and
- emphasis on Ballarat workshop performing general engineering functions.

Adequacy of monitoring by Corporation of 1987 business strategy

3.23.55 As illustrated in the above paragraphs, the 1987 strategy involved significant business targets with substantial financial implications. **Although the Corporation has achieved most targets outlined in the 1987 business strategy, it has not evaluated the overall impact of the strategy to ascertain whether greater levels of cost and resource reductions could be achieved.**

3.23.56 The need for this evaluation is particularly important due to constant changes in the level and type of work undertaken by workshops since 1987. For example, **the workshops division identified 303 staff in excess of planned workload for 1991-92. The annual cost of these additional staff was estimated by the Corporation to be in excess of $7 million.**

3.23.57 In addition, the Corporation has not developed detailed business plans incorporating the tram and bus workshops which were integrated into its workshops division in 1989. Audit considers that the development of an on-going plan is of particular significance, given the changes in the type and extent of activities undertaken by workshops over recent years.

3.23.58 To determine the optimum level of staff required at individual workshops, the Corporation needs to evaluate individual workshop productivity in detail to assess the overall success of the business strategy especially in regard to whether the achieved levels of staff reductions have led to maximum efficiency in resource management.

3.23.59 Additionally, in order to ensure the strategic direction of its workshops is within overall organisational goals, action is required by the Corporation for the development of an on-going plan for all facets of workshop operations.

RESPONSE provided by Director-General, Ministry of Transport

Audit is wrong to state that the workshops' activities were not evaluated in detail. Indeed the full studies of carriage maintenance requirements, wagon maintenance requirements and suburban train maintenance requirements, and numerous other working papers and detailed reports clearly refute this point.

Audit is wrong to claim that the contracting of certain activities was not considered. It was as part of the strategy planning process.

Audit is wrong in stating that it has cost the Corporation $1.4 million through the non-absorption of targeted staff into commercial works. Workshops has absorbed the targeted level of 155 staff through commercial works. This is made up of approximately 80 directs and 75 indirects.

The Report's comments on the capital cost of the workshops strategy are inaccurate. The original strategy cost estimate of $15 million is in December 1986 dollars while the final cost of $26 million is in dollars of the day. CPI adjustments account for most of the variation. Also, workshops has full documentation of the approved changes in the strategy projects scope of works over its 4 year life.

The Report is wrong to imply that the strategy project will fail to achieve its targeted financial benefits because a decision has not been made on the disposal of surplus land. In fact the targeted benefits of the strategy project did not include revenue from the disposal of any land at Newport. The strategy project achieved a staff reduction of approximately 600 or one-third of the division's heavy rail maintenance workforce. In today's dollars this equates to an approximate saving of $17.9 million a year.

The Report is wrong to say the Corporation has not evaluated the overall impact of the strategy report. A mid-life evaluation was completed and a post-construction audit was also undertaken on this project. Both of these evaluations were undertaken by the Corporate Development Division of the PTC.

There were, at the start of 1991-92, 303 staff in excess of allocated 1991-92 funding. However, during 1991-92 the vast majority of the 303 were funded by successfully obtaining non-core work. Consequently there was not a cost of $7 million on account of unfunded workshops staff.

Commercial operations

3.23.60 The Transport Act requires the Corporation to compete, through its Workshops Board, for work outside the Corporation.

3.23.61 Under this legislative responsibility, commercial operations within the workshops division are undertaken with the following specific aims:

- to ensure maximum efficiency in the utilisation of resources in a competitive environment;
- to secure continuing workloads for all workshop facilities; and
- to provide professional services for internal and external customers in an effort to meet sales and costing budget targets.

3.23.62 In pursuing these aims, the division's commercial activities encompass:

- manufacturing and maintenance activities performed under external orders from private and other public sector organisations; and
- internal work performed under special orders from other divisions of the Corporation.

3.23.63 The majority of commercial operations are related to steel fabrication, mechanical, foundry and building activities and the manufacture of furniture. The bulk of this commercial work is performed at the rail workshops at Newport, Ballarat and Bendigo. Only a limited amount of commercial work is currently undertaken by tram and bus workshops.

3.23.64 For the 3 year period 1 July 1988 to 30 June 1991, the commercial operations of the workshops division incurred operating losses totalling $3.2 million. Given this position, the Corporation should re-assess the viability of continuing with commercial activities within the workshops division.

3.23.65 Audit identified that the major reasons for this poor financial performance were:

- declining revenue due to uncompetitive tenders;
- significant cost overruns;
- gaining of tenders for external services by submitting tenders at below full cost recovery levels;
- declining demand for foundry services at the Newport workshop; and
- an involvement in furniture production.

3.23.66 Detailed comments on the poor financial performance of commercial activities follow.

Declining revenue due to uncompetitive tenders

3.23.67 Revenue earned by the Corporation from workshop commercial activities decreased from $9.5 million in 1989-90 to $4.3 million in 1990-91, with likelihood of a further reduction in 1991-92. This situation is not assisted by the failure of workshops to win significant tenders due to an uncompetitive cost structure. Table 3.23E provides examples of lost tenders and the lack of cost-competitiveness of workshops.

TABLE 3.23E
UNSUCCESSFUL COMMERCIAL CONTRACT TENDERS, 1990-91

Tender activity	*Workshop tender bid*	*Tender bid accepted*	*Excess of workshop bid*	
			($)	*(%)*
	($)	*($)*		
Movable intermediate units	1 029 270	609 436	419 834	69
Trailing frame	361 000	238 000	123 000	52
Movable tail units	233 500	185 000	48 500	26
Yarra bridge steelwork	89 070	64 000	25 070	39

Significant cost overruns

3.23.68 An examination by audit of projects in progress during August 1991 revealed that 60 per cent of projects had incurred production costs in excess of original estimates. These cost overruns had occurred principally because of delays in completion of work as a consequence of industrial disputes and difficulties in achieving acceptable quality standards. Examples included:

- Cost overruns of **$1.1 million** on steel fabrication associated with the construction by the Corporation of a railway bridge. Overruns largely resulted from extensive overtime required to meet completion deadlines, following delays caused by industrial bans;
- Additional costs of **$711 000** on the manufacture of components for a private sector firm resulting from an initial failure to meet quality requirements of the client; and
- Delays in excess of 12 months due to an inability to devote the required resources to overhaul of railway bogies, resulting in additional costs of **$484 000**.

Submitting tenders at below full cost recovery levels

3.23.69 Losses in excess of $1 million were incurred on commercial activities due to the Corporation's policy of submitting tenders at rates significantly below levels necessary to achieve full cost recovery. This strategy was pursued by the Corporation in order to ensure adequate levels of work were available for workshop staff irrespective of the cost implications. Table 3.23F provides examples where tenders, below full cost recovery, submitted by the Corporation were accepted.

TABLE 3.23F
TENDERS SUBMITTED BELOW FULL COST RECOVERY
($)

Project	*Total value of project*	*Value of submitted tender*	*Costs not recovered*
Wheel assemblies	1 895 568	1 546 728	348 840
Brake shoes	1 582 320	1 349 136	233 184
Buckets/cabin/drum	440 000	366 962	73 038
Drop crib	149 000	85 010	63 990

3.23.70 In addition, audit found that commercial work undertaken for other sections of the Corporation was generally granted to the workshops division without seeking competitive tenders from alternative sources. Even in cases where tenders are called, it is the Corporation's current policy that workshops be allocated project work if their bid is within 10 per cent of the lowest alternative tender.

3.23.71 Due to the lack of competitiveness of commercial work undertaken by workshops, internal work is performed at substantially higher costs than those available from alternative sources. This additional cost to the Corporation cannot be fully quantified due to the lack of competitive tenders.

Declining demand for foundry services at Newport workshops

3.23.72 Due to changes in technology and a reduction in the requirements of both internal and external customers, the volume of commercial work undertaken by the foundry at the Newport workshop has substantially decreased in recent times.

3.23.73 Commercial revenue from foundry operations declined from $805 000 in 1989-90 to $290 000 in 1990-91 and the Corporation has budgeted for a further reduction in revenue from this source for 1991-92. Although the reduced volume of work has resulted in significant under-utilisation of foundry equipment, staffing numbers, currently 18, have remained substantially unchanged.

3.23.74 Audit was advised that the Corporation is currently examining avenues for expanding the workload for the foundry at Newport workshops.

3.23.75 Given the significant fall in revenue from foundry operations in recent years, the merit of the Corporation's strategy of seeking to maintain full foundry operations and related resources is considered by audit to be questionable.

Involvement in furniture production

3.23.76 The manufacture of furniture was established in 1985 as a commercial activity within the Ballarat and Bendigo workshops to enable continued utilisation of wood crafting skills. These skills have become largely redundant because of reduced use within the transport system of wooden carriages and associated components.

3.23.77 Revenue from the sale of furniture has declined substantially in recent years from $1.4 million in 1989-90 to $400 000 in 1990-91. This adverse revenue trend has continued in the current year with revenue of only $155 000 generated by November 1991.

3.23.78 With the substantial decline in revenue from the sale of furniture, continuation of the activities by the Corporation would seem difficult to justify.

RESPONSE provided by Director-General, Ministry of Transport

The major reason for the decline in commercial activities revenue was not the failure of workshops to win significant tenders as stated in the audit. Rather it was due to the amalgamation of The Met and V/Line into the PTC. All former MTA commercial work is now treated as core maintenance business or manufacturing activities.

The $1 million loss referred to is on a fully distributed cost basis. Given that workshops operate in an environment where there is no compulsory redeployment or redundancy, it is economically efficient to pursue commercial works at more than marginal cost but less than fully distributed costs.

If a job is achieved at more than marginal cost but less than the fully distributed cost, workshops minimises the loss it would incur relatively to not covering those relevant direct workers' marginal cost and not obtaining any contribution to fixed overhead costs.

It is inappropriate for audit to suggest that the major reason for the substantial decline in revenue from commercial activities was as a result of a significant number of tenders being lost because of an uncompetitive cost structure, without audit comparing this 1990-91 information with previous years for workshops.

Staffing issues

High level of support staff

3.23.79 Total staff of the workshop division, including apprentices, was 2 069 at 31 December 1991, comprising 1 442 at rail workshops, 500 at tram and bus workshops and 127 at head office.

3.23.80 The audit review found that in excess of 450 staff within workshops, who are employed at an annual cost to the Corporation of approximately $13.5 million, were not involved in performing activities directly related to maintenance, manufacturing and commercial operations. These staff, representing 20 per cent of the total staff of the division, were involved in administrative, supervisory and other support functions.

3.23.81 In audit opinion, this ratio of support staff to staff directly involved in workshop activities is excessive. Audit compared the support staff numbers with workshop activities in the Gas and Fuel Corporation of Victoria (the results of an audit review of the Gas and Fuel's workshop are referred to in paragraphs 3.15.17 to 3.15.40 of this Report. This comparison identified that, on average, levels of support staff for workshops within that organisation were only 75 per cent of those which existed in the Corporation. **Audit estimated that annual savings of approximately $3 million could be achieved if the Corporation's support staff numbers were reduced to the levels in the comparable public sector body.**

3.23.82 The Corporation should evaluate the need for current levels of support staff employed within the workshops division.

Absenteeism due to sick leave

3.23.83 An analysis by audit of absenteeism within the workshops division identified that an average of 157 employees were absent on sick leave each day. **This position represented an average of 20 days sick leave per employee during the year. The level of absence equated to $4.5 million in terms of lost employee time.** Table 3.23G analyses sick leave taken within workshops during 1990-91.

TABLE 3.23G. ANALYSIS OF SICK LEAVE, 1990-91

Location	*Average days per employee*	*Annual cost*
		($'000)
Newport	20	1 844
Preston	17	703
Ballarat	22	692
Bendigo	21	645
Spotswood	22	341
Northcote	14	125
West Melbourne	16	113
Head office	6	90
Total cost		**4 553**

3.23.84 Audit found that the average number of employees on sick leave in the Gas and Fuel Corporation of Victoria was approximately one-third the rate of absenteeism within the workshops division. Notwithstanding this substantial difference, the Corporation has not investigated the underlying causes of its high level of absenteeism.

3.23.85 Audit found that savings of around $2 million a year could be achieved by the Corporation if its experience with sick leave in workshops was equivalent to the position in the other public sector agency.

3.23.86 The magnitude of the current levels of employee sick leave within workshops and of the associated costs warrant investigation by the Corporation.

Is maintenance of the transport fleet effectively planned and performed?

3.23.87 Maintenance of the State public transport fleet constitutes a significant responsibility of the Corporation's workshop division. Approximately $69 million (62 per cent) of the workshop division's total expenditure related to maintenance of the Corporation's transport fleet in 1990-91. To ensure that benefits from this substantial expenditure are maximised, it is necessary that:

- the Corporation have an overall strategic management framework for the maintenance of its fleet and related equipment;
- adequate consideration be given to the impact of capital acquisition and disposal decisions on the level and cost of maintenance; and
- repairs and maintenance be performed as scheduled at the appropriate level of quality.

3.23.88 Within the structure of the Corporation, maintenance of the transport fleet is under the responsibility of the relevant operating divisions including passenger services and freight operations. In accordance with these responsibilities, operating divisions perform minor maintenance tasks on a daily basis and schedule the heavier maintenance activities to be undertaken by the workshops division.

3.23.89 The audit review revealed a number of deficiencies in maintenance procedures covering the rail, tram and bus transport fleets. The audit findings are summarised in the following paragraphs.

Maintenance procedures within rail workshops

3.23.90 Regular preventative maintenance in line with manufacturing recommendations is considered essential for ensuring a cost-effective and reliable rail service.

3.23.91 The Corporation's preventative maintenance procedures for the rail fleet comprise 2 principal elements, namely:

- on-going maintenance of key components within the rail workshops at Newport, Ballarat, Bendigo and Spotswood; and
- the scheduling of inspections of equipment and components to identify items requiring repair or replacement.

3.23.92 Substantial outlays are incurred annually on the maintenance of trains and related equipment and components. In 1990-91, the total expenditure of the 4 rail workshops in connection with maintenance of the rail fleet amounted to $52 million or 75 per cent of total maintenance expenditure by the workshops division. In addition to these outlays, further expenditure was incurred by the freight and passenger services divisions on day-to-day maintenance of a minor nature performed on trains and related equipment.

Train maintenance at Ballarat workshop.

Failure to achieve targets for major maintenance

3.23.93 The audit review found widespread below-target performance in maintenance functions undertaken by the rail workshops. **For 1990-91, target levels of output set by the Corporation were not reached for 16 of the 17 major maintenance activities allocated to the rail workshops division** and in many cases actual performance was below target by more than 10 per cent. Table 3.23H provides examples of the significant levels of under performance.

TABLE 3.23H
COMPARISON OF ACTUAL PHYSICAL OUTPUT OF RAIL WORKSHOPS TO TARGET, 1990-91

Maintenance activity	*Actual Number of jobs completed*	*Target Number of jobs to be completed*	*Variance*
Traction motor repairs	402	500	(98)
Replacement of train wheel assemblies	52	105	(53)
Motor alternator overhauls	33	60	(27)
Yearly carriage overhauls	51	67	(16)

3.23.94 In addition to the failure of rail workshops to meet key quantitative targets, representatives of operating divisions expressed concern to audit at the quality of the maintenance undertaken by rail workshops. Some indication of the level of this concern has been documented in recent reports by operating divisions to the Workshops Board. In particular, a report by the freight services division indicated that, **during November and December 1991, 37 individual faults occurred in locomotives shortly after overhauls had been performed at the rail workshops.** In each case, the locomotive had to be removed from service for further repairs. Despite concern expressed by the Board at faults occurring after overhauls, little improvement has been made to the quality of maintenance in subsequent months.

3.23.95 Although the Corporation recognises the substantial under performance of the rail workshops, corrective action had not been initiated at the time of audit examination.

Failure to achieve planned maintenance inspections

3.23.96 Maintenance inspections to ascertain faults and the need for repairs to be undertaken at rail workshops form a significant component of the Corporation's preventative maintenance strategies for the rail fleet. These inspections are performed by operating divisions.

3.23.97 The Corporation has established an inspection frequency standard of 16 trains per week to ensure that the total train fleet is inspected every 30 000 to 40 000 kilometres. Audit found that this frequency standard was up to 4 times longer than intervals recommended by equipment manufacturers.

3.23.98 During 1990-91, an average of only 13 of the 16 programmed maintenance inspections of trains were carried out each week which, on an annual basis, is equivalent to 150 inspections not taking place. Shortages in planned maintenance inspections have continued into 1991-92, with an average of only 12 inspections performed each week up to 31 December 1991.

3.23.99 The audit review found that a significant reason for the shortfall in maintenance inspections of trains was the need for operating divisions to devote resources to assist in urgent repairs normally undertaken by the rail workshops. As previously mentioned, the rail workshops have operated at below-target levels for major maintenance overhauls. This position has led to the involvement of operating divisions in urgent repair tasks, at the expense of scheduled maintenance inspections.

3.23.100 Clearly, the above scenario is not conducive to efficient and reliable maintenance of the State's rail fleet.

Serious impact of deficiencies in rail maintenance activities

3.23.101 In audit opinion, the above deficiencies in the Corporation's maintenance activities have had a significant impact on the overall operation of the rail system in terms of:

- adversely affecting the reliability of the rail transport system; and
- leading to higher costs and additional resources required for repairs and maintenance.

3.23.102 The reliability of the rail network, in terms of train cancellations and delays, significantly declined during the period July 1987 to June 1990. Over this period, cancellations of scheduled services increased by over 10 per cent with an average of 6.3 per cent of all services cancelled during 1989-90. Audit was advised that equipment failures and faults were the major reasons for the high levels of train cancellations.

3.23.103 The Corporation has achieved substantial improvement to the overall reliability of the rail system with the level of cancellations falling to 1.3 per cent of scheduled services during 1990-91. However, the audit analysis found that cancellations due to equipment faults in trains remained a serious problem for the Corporation with 69 per cent of total cancellations, representing over 2 100 scheduled services, attributable to such faults.

3.23.104 In addition, the high levels of equipment faults and delays in performing effective preventative maintenance have substantially increased the costs of unscheduled repairs to the Corporation. Audit has identified that in excess of 60 per cent of total expenditure incurred on maintenance of the rail fleet during 1990-91 was in connection with unscheduled repairs of equipment faults, with the high levels of repairs forcing planned preventative maintenance to fall further into arrears.

3.23.105 The financial impact of deficiencies in maintenance practices for the State rail fleet cannot be quantified. However, the resultant costs to the State are likely to be substantial.

3.23.106 The Corporation needs to resolve the current problems, particularly the level and quality of the rail workshops' maintenance output, if it is to achieve sustained improvement in the reliability of the rail transport system.

RESPONSE provided by Director-General, Ministry of Transport

This audit finding is not balanced and fails to acknowledge that the PTC is in a transition period from reactive to planned maintenance.

Audit is correct to say workshops failed to meet the customers' specified targets but 1990-91's output represented a significant leap from the previous years' output and it is expected that 1991-92 output will be greater than the 1990-91 output, and achieved with less staff.

Audit's comments on the quality of maintenance are incorrect in acknowledging only limited improvement in the quality of work performed by rail workshops. In recent years there has been a marked decrease in the severity of quality failures while simultaneously extending the operational life of componentry. This is substantially due to the development of quality systems within the workshops, e.g. Ballarat is now an accredited AS 1822 - AS 3902 manufacturer.

Following manufacturer's recommendations blindly, without drawing on the cost experience in an operating environment, is unwise. The maintenance targets for components are based on the number of items required having regard to manufacturer's recommendations, kilometres run, time in service and maintenance practice in the railway environment.

It is true that the targets for major components have not been achieved, and that consequently a "maintenance debt" has been created. This debt is being addressed currently with maintenance component overhaul and exchange, at an increased rate above the steady state level.

Quality problems have and do exist, with some componentry. However, processes are in place to check quality and improve the componentry.

Inspections of the suburban rail fleet in the range 13-16 per week are necessary to ensure that the primary objective of maintaining all units within set distances is achieved. The Comeng fleet target is 30 000 kilometres maximum between inspections and 40 000 kilometres for the Hitachi fleet. Depending on the distance run by the fleet per period which varies considerably with 3 car and 6 car operation, special traffic and the like, so the number of inspections required per week varies.

Failures of components, particularly traction motors, has led to the resources in the passenger services division being diverted to keeping trains in running, at the expense of inspections. The requirement to provide trains for the weekday peak periods is also a major constraint to planned maintenance (inspections) being performed, when the number of trains out of service for repairs exceeds the allocated number. In protecting services on a day-to-day basis, inspections are deferred to return repaired trains into operation.

"Equipment manufacturer's recommendations" at 4 times the rate undertaken by the PTC is a difficult concept to accept without further explanation. The scope of works in the inspection would need to be explained. However, the audit may not be aware of the range of works, including inspections, that apply to the suburban train fleet. These are briefly:

- *daily preparation by drivers prior to running daily attention to any reported faults;*
- *brake blocking and running/breaking gear inspection within a 10 day cycle; and*
- *inspection within the 30 000 kilometres or 40 000 kilometres as appropriate.*

The following table reflects the improved service quality of the suburban railway system.

Period	*Cancellations*
1989-90	*6.3% of services*
1990-91	*1.3% of services*

This significant increase in train availability is acknowledged by audit.

The audit does not address the country passenger fleet at all, yet significant resources within passenger services and workshops division are dedicated to the maintenance of this fleet.

This audit report fails to give recognition to the following:

- *Productivity improvements in workshops are being addressed by workshops' management with results now evident;*
- *A maintenance analysis program is on-going addressing the components which are causing unreliability. The issue is the appropriate maintenance for items to achieve the maximum reliability;*
- *Inspection targets are secondary targets to distance targets and are regarded as such;*
- *The Annual Maintenance Plan establishes clearly the range of activities to be performed by workshops. Generally, workshops are to provide quality components of the rotables type, and undertake project works on carriages. The passenger services division is to perform all first level maintenance and repairs, and unit exchange of major components; and*
- *Passenger services division also holds a first level capability to repair some componentry where the scope of work is limited to that which will quickly release a train back to service.*

Tram maintenance

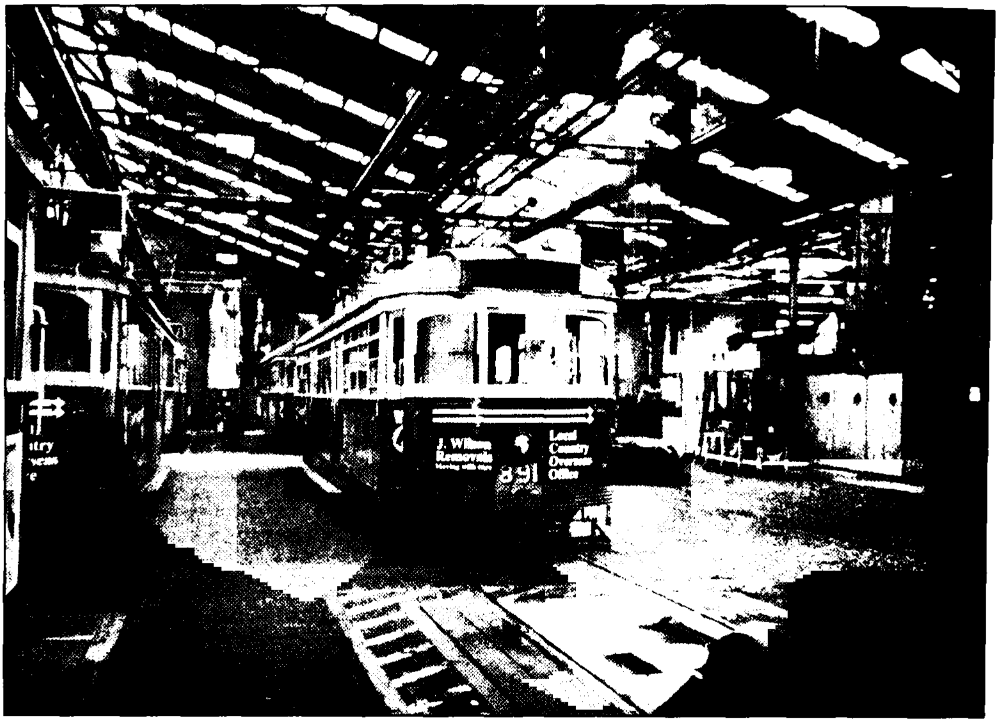
3.23.107 The composition of the Corporation's tram fleet, which consisted of a total of 687 trams at 31 December 1991, is summarised in Table 3.23I.

TABLE 3.23I
COMPOSITION OF TRAM FLEET, AT 31 DECEMBER 1991

Class of tram	*Years commissioned*	*Number of trams*
W	1908-1956	317
Z1	1975-1978	100
Z2	1978-1979	13
Z3	1979-1984	116
A1	1984-1985	28
A2	1985-1987	42
B1	1984-1985	2
B2	1988-1990	69
Total fleet		**687**

3.23.108 As shown in Table 3.23I nearly half the tram fleet (317) are W class trams commissioned between 1908 and 1956. In addition, 245 W class trams have been in operation for substantially longer than their estimated useful lives of 35 years.

3.23.109 Outlays by the Corporation at the Preston tram workshop for repairs and maintenance of trams totalled $11.6 million in 1990-91.



W Class trams awaiting maintenance at Preston workshop.

Inadequate maintenance procedures for major tram overhauls

3.23.110 The Corporation's standards for the maintenance of trams require major overhauls to be undertaken at the Preston tram workshops at 3, 6 and 12 year intervals, with varying levels of inspections and maintenance undertaken at each interval. These major overhauls are supplemented by minor inspections and service at 120 hour intervals for W-class trams and 10 000 kilometre intervals for other vehicles.

3.23.111 The audit review revealed that, notwithstanding the existence of standards for overhauls, programs were not in place for the carrying out of major maintenance in line with these standards. **In fact, limited safety checks and inspections were the only tram maintenance functions undertaken on a regular basis. Major maintenance functions only occurred when tram parts or components were in need of urgent repair following breakdown or damage**. Specifically, audit found that:

- The majority of tram overhauls undertaken at Preston workshop related to the older W class trams because of the greater frequency of breakdown and faults with that class. The Corporation has estimated that approximately 70 per cent of Preston maintenance resources were absorbed on W class trams in 1990-91 at a cost of $8 million, even though the class represented only 43 per cent of the total tram fleet;

- Up to 200 W class trams were in such poor condition that the Corporation considered they should be immediately retired from service in the absence of major maintenance to bring their condition up to an acceptable standard. Notwithstanding this serious situation, the majority of these trams remain in service; and
- Despite the fact that the Preston workshop is the only Corporation facility for extensive maintenance of trams, the workshop has not completed any major tram overhauls in the last 2 years and the level of other maintenance activities has fallen dramatically. Table 3.23J illustrates the sharp decline in output at the Preston workshop since 1985.

TABLE 3.23J
DECLINE IN TRAM OVERHAULS AT PRESTON WORKSHOP

	No. of trams overhauled		
Type of overhaul	*1985*	*1990*	1991
Major	7	0	**0**
Medium	3	8	**0**
Minor	59	25	**21**
Total	**69**	**33**	21
Percentage of total tram fleet	11.5	4.7	**3**

A significant factor contributing to the declining output has been the increased level of resources required to attend to greater numbers of urgent faults and repairs with trams. For example, between 1 July and 19 November 1991, 378 urgent faults on 329 trams (almost half the total fleet) had been repaired at Preston.

- At 31 December 1991, 62 per cent of the Corporation's Z1 class trams had not received overhauls in line with recommendations by the manufacturer of these trams or the standards established by the Corporation.

3.23.112 In audit opinion, the above shortcomings in the Corporation's procedures for the maintenance of trams have resulted in:

- An increased number of faults in trams requiring urgent attention;
- The withdrawal from service of a sizeable number of trams with consequential adverse impact on the backlog of trams needing maintenance. By way of illustration, 140 trams or 20 per cent of the total fleet, were not in operation due to mechanical and electrical faults at 13 December 1991; and
- The tieing up of scarce resources in repairs to the older W Class trams which has led to insufficient attention to systematic major overhauls of the entire tram fleet.

3.23.113 Because of the sizeable number of trams in need of repair and out of service at any one time, the Corporation must have available a reserve of trams to replace those withdrawn from service. For example, during 1990-91, daily operation of the tram network required 460 to 480 trams with about 230 other trams or 34 per cent of the total fleet comprising reserve vehicles. Audit considers that this number of the Corporation's reserve trams could be reduced substantially over time if more effective preventative maintenance procedures were in place. **A more structured approach to major maintenance overhauls of trams should lead to a lower occurrence of emergency repairs and breakdowns and a reduced level of emergency withdrawal of trams from service.**

3.23.114 It is relevant to point out that despite the large number of reserve trams available to supplement the tram system, there was a decline in the overall reliability of tram services in 1990-91 with the level of peak services running to schedule falling to 92 per cent from 96 per cent in 1989-90.

3.23.115 The combination of an ageing tram fleet and deficiencies in preventative overhaul maintenance for trams has serious implications in terms of the operations of the tram network. Without a radical change to current management strategies for maintenance of trams, the future reliability of the tram network is uncertain.

Deficiencies in maintenance procedures for bus fleet

3.23.116 The Corporation operates a fleet of 340 buses within the Melbourne metropolitan area.

3.23.117 Although the manufacturers of the Corporation's buses recommend major maintenance overhauls after approximately 8 years, the Corporation has determined not to conduct preventative maintenance of this nature. Its maintenance procedures comprise safety checks and minor maintenance tasks at intervals of 6 to 7 weeks.

3.23.118 The decision of the Corporation not to undertake major preventative maintenance of buses stemmed from a wider organisational strategy introduced in the early 1980s which aimed to improve the cost performance of the bus fleet by:

- implementing a limited preventative maintenance program;
- disposing of buses after 10 years instead of their estimated useful life of 14 to 15 years; and
- running buses on shorter routes in the last 2 years of their operation to limit maintenance and repairs.

3.23.119 Audit was advised that, because of funding factors, the Corporation has not been in a position to follow its intended program of disposal of buses after 10 years. **At 31 December 1991, 227 buses or 68 per cent of the bus fleet has been in use for a period in excess of 10 years.**

3.23.120 Although the Corporation is now retaining buses beyond the planned 10 year period, it has not amended its policy of restricting preventative maintenance of buses to periodic safety checks and minor maintenance tasks. As a consequence, few major overhauls are undertaken to improve the mechanical and operating performance of the bus fleet and a high percentage of resources at the Northcote workshop is absorbed on emergency repairs arising from breakdowns.

3.23.121 Continuation of the Corporation's restricted maintenance strategies for buses will have an adverse impact on the long-term reliability of the bus system.

3.23.122 The Corporation has recently advised audit it has initiated action to:

- establish preventative maintenance plans for buses consistent with manufacturers' recommendations; and
- ensure adequate resources are allocated to successfully implement preventative maintenance programs.

Scope for more efficient inventory management

3.23.123 Each workshop within the workshops division maintains significant levels of stock for use in workshop operations. At 30 June 1991, aggregate stock of the division had an historical cost value of $9.8 million (30 June 1990, $12.5 million) which was approximately 33 per cent of the total stocks held by the Corporation.

3.23.124 A significant proportion of the stock held and used by both workshops and other divisions of the Corporation is either manufactured by workshops or produced by the reconditioning of existing components by workshops.

3.23.125 The audit review of the cost-efficiency of inventory practices within workshops revealed that:

- The strategy of reconditioning rather than the direct purchase of components resulted in substantial additional cost to the Corporation. Examples were identified by audit where the cost incurred by workshops in reconditioning existing components exceeded the purchase price of comparable components from external suppliers by up to 39 per cent;
- Significant levels of obsolete stock were held at stores within the various workshops. At 30 June 1991, the value of stock items which had not been used for up to 2, 3 and over 3 years was $1.3 million, $850 000 and $1.2 million, respectively; and
- The level of stock on hand at 30 June 1991 for around 3 000 items was below established re-order points. This position increased the risk of stock run-outs and exposure to having to pay cost premiums if emergency purchases became necessary.

3.23.126 The Corporation needs to re-assess the cost-efficiency and adequacy of its inventory management procedures for workshops.

RESPONSE provided by Director-General, Ministry of Transport

Audit's comment that substantial savings would be made by the Corporation if stock items were purchased externally is a simplification of reality. It only holds if the PTC does not effectively pay for the items twice i.e. the PTC does not pay external manufacturers to make the item, and also pay for the PTC labour to remain idle.

The audit does not give workshops credit for already actioning excessive reconditioned prices. It is workshops' practice that as excessive reconditioned prices are identified then either:

- *reconditioned prices are re-negotiated;*
- *reconditioning is carried out by outside organisations; or*
- *reconditioning does not take place and the new item is purchased.*

In effect, the suggestions offered by the Auditor General are already being carried out.

Workshops management does not accept audit's statements that because certain stock items had not moved for up to 3 years they were obsolete. Because of the long maintenance cycles, e.g. 5 to 7 years on rolling-stock and the necessity to hold insurance spares, many stock items would not move for up to 7 years.

Of 3 000 items below established re-order points, in the vicinity of 1 500 items have been marked for scrapping and that workshops has adopted a new inventory strategy known as Material Field Release (MFR).

This is a "just in time" inventory concept under which workshops plans to reduce the inventory level of a very significant number of stock items to zero. MFR was a workshops initiative that is subsequently being implemented throughout the PTC with forecast savings in the order of $1 million a year for the workshops division and $8 million a year for the PTC.

Deficiencies in annual expenditure budgets

3.23.127 The preparation of annual expenditure budgets is an important tool in the management of operations. Such plans enable progressive analysis of variances from budget so that cost overruns and inefficiencies can be swiftly identified and corrected.

3.23.128 The audit examination found that there were significant deficiencies in determining the budget estimates formulated by the Corporation for workshops. These deficiencies included:

- Estimated production hours incorporated in annual budgets were mainly based on previous experience and other factors without evaluation of whether these production times were the optimum attainable by workshops and were efficient in comparison with industry standards;
- Because of insufficient management information on components of the tram and bus maintenance processes, tram and bus production estimates were formulated on an aggregate basis rather than on the production costs of individual tasks;
- Apart from an arbitrary charge, corporate overheads, including rentals and depreciation of assets, were not allocated to workshops, which precluded accurate identification of overall costs for workshop operations;

- Indirect costs of workshops were not allocated to tram and bus maintenance;
- Expenditure budgets for commercial and manufacturing activities were largely based on the level of work desired to utilise surplus resources and did not realistically reflect the likely work levels in these areas; and
- The initial 1991-92 expenditure estimates for workshops were adjusted to allow for a reduction in the level of funding allocated to the Corporation by the Government. **These adjustments were incorporated in the workshops' recurrent budget, even though the budgets were considered by the Corporation to be effectively unachievable by in excess of $7 million.**

3.23.129 As a result of these deficiencies in the budgetary process, the Corporation's management of workshops has been severely impaired and it has not been in a sound position to effectively analyse budget overruns and determine inefficient and costly practices. **The significance of the inadequacies of the Corporation's budget processes are reinforced by the fact that to December 1991 expenditure on workshops was $4.2 million over budget with the total overrun for 1991-92 expected to exceed $8.5 million.**

3.23.130 The Corporation needs to ensure that current inconsistencies and deficiencies in the methods of preparing estimates are eliminated so that budgets provide an accurate tool for the planning and monitoring of workshop operations. As part of this process, comparisons of budget costings to industry standards should be made to ensure that budgets reflect optimal efficiency goals.

3.23.131 The weaknesses in the workshops' budget process place in doubt the accuracy of its overall expenditure estimates for workshops in 1991-92.

RESPONSE provided by Director-General, Ministry of Transport

The Report is wrong to state estimated production hours in annual budgets do not reflect the optimum obtainable.

Workshops' tram and bus estimating methodology were consistent with rolling stock maintenance budgeting elsewhere in the PTC. The workshops' 1992-93 tram and bus budget estimates are based on the production costs of individual tasks.

Workshops' treatment of corporate overheads is consistent with PTC policy.

It is wrong for the Report to imply that the division does not know the indirect cost of tram and bus maintenance. They are readily and easily identifiable from the division's general ledger.

The Report is wrong to state that expenditure budgets for commercial and manufacturing activities were largely based on the level of work desired. The vast majority of commercial and manufacturing expenditure budgets are based on detailed workloads as set out in documentation provided to the audit team. Like any enterprise involved in manufacturing it is not possible to predict in advance how you will sell/utilise 100 per cent of your available direct hours. The structure of workshops' commercial and manufacturing expenditure budgets is consistent with standard practices employed in the private sector.

The Report's finding that the Corporation is not in a sound position to effectively analyse budget overruns and determine inefficient and costly practices is not accepted. In the heavy vehicle workshops the workshops' management can identify how every individual's time has been booked. All jobs in turn have individual budgets against which their progression is monitored.

Every item of individual material booked to a job is monitored. All significant workshops' activities have physical performance targets and budget targets. All costs direct and indirect are monitored on an individual shop basis. Workshops monitors and controls in terms of 3 budgets:

- *dollar budgets;*
- *labour hour budgets; and*
- *physical output budgets.*

There are no inconsistencies and deficiencies in the preparation of expenditure estimates and the audit team has failed to produce any documentation supporting this claim.

In the case of the workshops division, issues such as required levels of physical output, productivity, anticipated level of non-recurrent activities etc. were also addressed in determining the Division's share of the overall expenditure and manpower targets set for the Corporation. The Division was expected to contribute to the PTC's overall workforce reduction target of 1 500 as well as achieve other savings. Audit's claim that workshops' recurrent budget was unachievable by in excess of $9 million at the outset is therefore inappropriate as it fails to recognise the budget parameters and assumptions that were established to achieve the division's, and the Corporation's, overall target for 1991-92.

It would also appear that audit did not establish the basis and parameters embodied in the Corporation's 1991-92 budgets as negotiated with the Government. In accordance with budget guidelines issued by the Ministry of Finance, the 1991-92 recurrent budgets do not include any provision for the costs of national wage rises - these costs are subject to separate funding outside the 1991-92 recurrent appropriations to the Corporation.

Audit's claim that the workshops' recurrent budget overrun for 1991-92 is expected to exceed $8.5 million is therefore misleading as it includes the costs of the $12 ex gratia payments and 2.5 per cent Accord Mark VI wage decisions which are not included in the Corporation's agreed expenditure targets with the Government.

Impact of the National Rail Corporation

3.23.132 The National Rail Corporation (NRC) was established in 1991 following an agreement between the Commonwealth and participating States. Under the agreement, the NRC is empowered to assume the freight responsibilities of State rail authorities and to operate a rail freight system on a national basis. In return for the transfer of these freight responsibilities, each State became equity participants in the NRC.

3.23.133 As the Corporation's interstate freight operations constitute a significant proportion of its total freight activities, the emergence of the new national system is likely to have a significant impact on the Corporation

3.23.134 Responsibility for the control and conduct of repair and maintenance functions under the national rail framework will be assumed by the NRC. Audit understands that the NRC currently intends to allocate repair and maintenance work on a contractual basis to either State authorities or the private sector based on cost-competitive assessments.

3.23.135 While the extent of this work and the method of allocation has yet to be decided, the audit review revealed that **costs currently incurred annually by the Corporation's workshops with respect to the repair and maintenance of freight trains are between 30 to 40 per cent greater than preliminary efficiency yardsticks announced by the NRC, which are based on international forecasts of best practices. This differential equates to costs in excess of the NRC's proposed benchmarks of approximately $8 million a year.**

3.23.136 This significant cost disparity means there is a real danger that the Corporation may not be allocated repair and maintenance work for interstate freight trains under the national freight system. Alternatively, in the absence of a substantial turn-around in efficiency levels, the Corporation's continued involvement in this area would require major subsidisation by the Government.

3.23.137 **The emerging implications from the NRC's national freight system highlight the need for urgent action by the Corporation to improve the efficiency and cost-effectiveness of its freight maintenance procedures.**

Quality of the Corporation's strategic management of workshops

3.23.138 Responsibility for the strategic management of workshops rests with the Corporation's Workshops Board.

3.23.139 The absolute importance of an effective strategic management structure for the workshops division is reinforced by the fact that functions undertaken by the division have a major impact on the efficient and effective performance of the total transport system.

3.23.140 Over recent years, under the direction of the Workshops Board, some improvement in the operations of workshops occurred as a result of the 1987 business strategy and other initiatives.

3.23.141 In relation to specific matters which have been commented on in the previous paragraphs of this Report, audit found little evidence of remedial action introduced by the Workshop Board to specifically address the various audit findings. In addition, throughout the period subject to review, audit found:

- the overall profitability of commercial activities has not improved;
- few qualitative performance measures had been developed;
- many aspects of the operations of the tram workshop are still not operating to the desired levels of efficiency; and
- while the Board monitored the overall productivity of workshops, there was little evidence of the formulation of policies to remedy identified problems.

3.23.142 **Audit concluded that many of the problems identified by audit during the review of workshops may have been avoided or their impact lessened if more effective oversight of workshop operations had been carried out by the Workshops Board.**

3.23.143 Following commencement of the audit review, the Corporation moved to improve the operations of its Workshops Board by increasing the level of consideration given to the overall profitability of commercial operations, the quality of workshop output, the operations of tram and bus workshops and documentation of action taken by workshop management at the request of the Board.

RESPONSE provided by Director-General, Ministry of Transport

Audit did not attend any Workshops Board meetings during the course of the audit.

The Workshops Board flatly refutes all of this Report's claimed deficiencies in the Board's direction and oversight. To the contrary, the Workshops Board meeting agenda papers clearly indicates the scope of Board meetings and the level of details at which issues are monitored, canvassed and decided upon by the Board.

On every Board agenda are issues concerning budgets, financial variances and level of physical output which are consequently discussed at length. Indeed many meetings have been protracted due to the intensity of the debate on these issues. Audit's failure to appreciate this is understandable if audit only examined Board minutes in the course of arriving at their conclusions. Board minutes are only a note of the discussions. They do not convey the detailed and robust nature of Board discussions.

Workshops' management also attests to the direction and discipline provided and imposed by the Board. Since the formation of the Board in early 1984 the Board has been instrumental in providing direction for the workshops division. For example, the Board has overseen:

- *upgrade of the Newport Foundry;*
- *upgrade of the Wheel Shop at Newport;*
- *establishment of modern electrical workshops at Spotswood;*
- *upgrade of heavy works machining capabilitles;*
- *establishment and implementation of the Workshops Business Strategy;*
- *the substantial downsizing of the workforce while substantially increasing output; and*
- *the arrangement of visits to private sector heavy engineering factories by Workshops employees and union delegates.*

The Board has also introduced many changes into the workshops, for example:

- *regular attendances by works managers to personally explain and discuss issues with the Board;*
- *regular visits by the entire Board to work sites;*
- *new data collection and monitoring systems; and*
- *measures to monitor and control safety issues and absenteeism.*

LEASE PROPERTY MANAGEMENT

Background

3.23.144 The Public Transport Corporation has responsibility for a large portfolio of land holdings consisting of land purchased by the Corporation and valued in excess of $32 million at 30 June 1991, and Crown land vested in the Corporation which has not been valued. Included in these holdings are around 7 000 property leases with annual rentals totalling over $14 million. Details of these leases for 1990-91, prepared from information provided by the Corporation, are set out in Table 3.23K.

TABLE 3.23K
LEASE PROFILE, 1990-91

Lease category	*Number of leases*	*Rental revenue*
		($'000)
Commercial	2 606	13 400
Community	1 549	406
Private	512	137
Cultivation and grazing	1 468	110
Grain Elevators Board	1 237	25
Total	**7 372**	**14 078**

3.23.145 Commercial leases, while representing only 35 per cent of all leases, generate 95 per cent of the total rent revenue.

3.23.146 In recent years, the Property Department of the Corporation has operated within a complex and changing environment impacted by government policy initiatives, amalgamation of the former transport agencies, and changes in administrative arrangements and responsibilities.

3.23.147 During 1991, the Ministry of Finance assumed responsibility for the disposal of surplus property identified by the Corporation. Audit was advised that the Ministry proposes to dispose of all properties held by the Corporation unless a financial commitment has been made for their future operational use. This proposal will have a major impact on the property management strategies of the Corporation.

Overall conclusions

3.23.148 An audit review conducted during 1991 concluded that **the Corporation had not managed its portfolio of more than 7 000 leases effectively.** Many of the deficiencies highlighted during the review, which were similar to those raised in the Auditor-General's *Special Report No. 9 - Land Utilisation* issued in November 1987, remain substantially unresolved, clearly indicating that the optimum return has not been obtained from the lease arrangements entered into by the Corporation.

3.23.149 Significant amounts of revenue continue to be forgone due to the substantial backlog of rent reviews, disputes over unpaid rent and the arrangement of many leases at well below the minimum annual rental of $150 established by the Corporation. Audit is of the view that there is an urgent need to introduce sound risk-based management strategies to effectively address these matters.

3.23.150 Since the 1987 audit review, significant progress has been made in the computerisation of property details. Although capable of producing a variety of reports, audit found that the property information system now in place has not been fully utilised, especially for management purposes. Certain details recorded on the system were also found to be incomplete and inaccurate. These deficiencies, together with a lack of current and uniform policies and procedures for the management of lease properties, have inhibited the efficient management of the portfolio.

3.23.151 The Corporation is in the initial phase of investigating the potential for contracting the management of the lease property portfolio to private estate agents. To support the final decision, it is essential that a structured analysis be undertaken to determine the net costs and benefits of the available options.

Management of rental revenue

3.23.152 Comment on the key factors which have contributed to the failure of the Corporation to achieve the optimum return on its lease portfolio follows.

Significant delays in rent reviews

3.23.153 As a consequence of the amalgamation in 1989 of the former State Transport Authority and Metropolitan Transit Authority, the Corporation inherited varying practices for the management and review of rent on leases.

3.23.154 Formal lease agreement details are recorded on the Corporation's property information system which is capable of providing details of all rent reviews due within a particular period. However, audit was advised that this facility is rarely used as a means of prompting cyclical reviews.

3.23.155 Audit analysis of information maintained on the Corporation's system, at 30 September 1991, indicated that the failure to conduct systematic rent reviews has resulted in a significant backlog, with 2 158 rent reviews (30 per cent) **overdue at that date**. Overdue reviews, classified by lease type, are shown in Table 3.23L.

TABLE 3.23L
OVERDUE RENT REVIEWS, AT 30 SEPTEMBER 1991

Type of lease	*Number overdue*
Commercial	690
Community	676
Cultivation and grazing	792
Total	**2 158**

3.23.156 Details of the extent of the delay in rent reviews for commercial and community leases are set out in Table 3.23M. (There is minimal financial impact with cultivation and grazing leases.)

TABLE 3.23M
DELAYS IN RENT REVIEWS, AT 30 SEPTEMBER 1991

	Number of leases	
Year due	*Commercial*	*Community*
1991	314	94
1990	315	303
1989	22	62
1988	11	154
1987	7	28
1986	10	15
1985	7	7
1979-1984	4	13
Total	**690**	**676**

3.23.157 Audit found that overdue reviews were not restricted to low rental properties. Of the 690 commercial lease rent reviews overdue at 30 September 1991, 169 (24 per cent) related to properties with existing annual rentals in excess of $5 000.

3.23.158 Although the Corporation adopts the practice of backdating rental adjustments to the due date, the substantial delays in the review process result in a loss of revenue to the Corporation in terms of the interest earnings forgone and the reduced likelihood of receiving the rental where disputes occur.

RESPONSE provided by Director-General, Ministry of Transport

Rent reviews can only occur within the period set down in the lease document. In the majority of cases rent reviews have commenced on a timely basis but completion of those reviews depends on factors that are outside the control of the Corporation.

Historically, the predecessors of the Corporation have entered into varying types of leases with rent review periods ranging from 2 to 5 years, by far the majority being 5 years. Current Corporation practice is for new leases to be drawn to provide for rent reviews every 2 years.

Corporation records show that at 30 September 1991 the actual number of lease rent reviews not finalised was considerably less than the number quoted in the audit report. Of the reviews outstanding, most had commenced but were still in negotiation at the time of audit. Legal and administrative requirements of these reviews are complex and can mean that they take considerable time to finalise.

In the present depressed property market there will be leases where rents will not increase and may even reduce. A decision not to increase rents in certain categories has been undertaken. The Corporation's decision to concentrate on those leases with potential for rent increases is considered to be prudent financial management. It is not considered prudent to devote resources to areas where no return will result.

During December 1991 the Corporation Valuer reviewed all outstanding rent reviews. The Corporation has engaged valuers to negotiate and finalise the reviews by April 1992. Reviews the Valuer considers should not be undertaken (where little or no revenue benefit will result) will be documented accordingly.

Deficiencies in management of minimum rents

3.23.159 The minimum annual rent applicable to all lease agreements, excluding community leases, was set by the Corporation at $140 in 1990-91 and $150 in 1991-92. The Corporation's policy also indicates that rentals are to conform, where appropriate, with similar rentals in the same location. **The Corporation was unable to provide audit with details of the basis on which the minimum rents were established or on whether the rent was sufficient to recoup all costs associated with the administration of such leases.**

3.23.160 Investigations conducted by the Corporation during the audit in September 1991 indicated that approximately 69 per cent of leases were below the recommended minimum rentals and included a significant number of peppercorn rentals. Further analysis undertaken by audit disclosed that **729 properties were leased rent-free and 188 properties were leased at an annual rental of only one cent**. These leases are predominantly community leases (refer to paragraphs 3.23.164 to 3.23.168).

3.23.161 Examples of properties represented in the 69 per cent of leases returning less than the minimum rent and inconsistencies in the rental charged on properties in the same area are provided in Tables 3.23N and 3.23O.

TABLE 3.23N
ANNUAL RENTALS BELOW MINIMUM LEVEL

Location	*Lot no.*	*Lease commencement date*	*Existing annual rental*
			($)
Amphitheatre	009	February 1945	2
	010	February 1982	25
	008	December 1984	52
	003/4	April 1989	120
Beechworth	023	May 1961	2
	015/16	June 1977	48
	018/19	August 1977	24
	010	April 1990	130

TABLE 3.23O
INCONSISTENCIES IN RENTAL VALUES

Location	*Lot no.*	*Area*	*Annual rent*
		(sq. feet)	($)
Werribee	152	306	85
	105	306	20
	073	445	26
	136	950	60
Hoppers Crossing	008	288	85
	081	306	20
	093	785	85

3.23.162 Audit was advised that external and administrative difficulties were associated with low rent tenants. For example, a number of the above properties leased in Werribee and Hoppers Crossing were used by residents for the purpose of extending residential backyards. An attempt to review rentals met with resistance from tenants' groups and finally external intervention. On the basis of legal advice, the Corporation subsequently decided not to pursue the latest rental increases.

3.23.163 It is of concern that such a large proportion of Corporation leases are set at or below the established minimum rental. As it is apparent that the annual return on many of these properties does not reflect market values or recoup the costs associated with holding and managing the properties, they represent a significant loss of revenue.

RESPONSE provided by Director-General, Ministry of Transport

The Corporation is aware of anomalies in the fixing of minimum rents. It has instigated an investigation into this issue. That investigation had commenced prior to the audit review and the review team has in fact drawn on some of the preliminary information that has been produced by the investigation.

Each lease needs to be considered on a case-by-case basis and it is not appropriate that there be only a simple statistical consideration of the lease portfolio. The Corporation is reviewing each lease on its merits as part of its investigation.

There will be many cases where legal, historical and other factors will mean that the rent which can (or cannot) be charged will be below the established "minimum" rent. For example, properties acquired from landowners for railway purposes many years ago may have included an agreement to the right to cultivation and grazing for no fee as part of the acquisition arrangements.

Until the investigations initiated by the Corporation are complete it is not considered possible or appropriate to assess that there has been a "significant loss of revenue".

The minimum rent was established for the lease of railway land for cultivation and grazing and backyard tenancies. The Corporation has set the fee at a level to recover basic administration costs. The Corporation is unaware of the basis for the audit review's conclusions regarding the basis for the minimum rent as the audit team failed to discuss this matter with the Corporation Valuer.

The assessment of rent is not based simply on the area of land occupied but takes into consideration a number of matters such as town planning requirements, services constraints to the use of the land and location. The rent charged under the minimum rent scheme is likely to be considered by the market place as the market rent. The Corporation will continue to negotiate all new leases for cultivation and grazing and backyard tenancies on the basis of the minimum rent.

It should also be noted that the rent for community leases is set at $104 a year in conformity with the charge for Crown leases set by the Minister for Conservation and Environment.

The Corporation has refrained from significantly increasing rental for cultivating and grazing and backyard tenancies. Experience has shown there is public resistance to such increases, as shown in the auditor's report and the cost in pursuing the higher rent has been greater than the potential return.

The PTC considers the minimum rent will not be increased in the current economic climate.

Community leases

3.23.164 Approximately 1 550 community leases are managed by the Corporation and are provided at rentals below market value. Properties classified by the Corporation as *"community leases"* are generally provided to shires and councils; government agencies, clubs and associations, and religious organisations. As many of the leases involve community and welfare organisations, they could be described as community service obligations of the Corporation.

3.23.165 In February 1991, the Minister for Transport directed all transport agencies to adopt the Community Lease Rental Policy developed by the Minister for Conservation and Environment. In accordance with this policy, community leases are defined as leases granted to organisations which provide a social or recreational service to the community and any charges associated with providing the service are used to fund or maintain that service. Tenants whose primary source of revenue is members' subscriptions, grants or fundraising activities of a non-commercial nature are to pay a minimum rent of $104 a year. Where income includes amounts derived from the cash sale of goods or services, rentals are to be assessed by a registered valuer.

3.23.166 The policy indicated that all existing tenures were to be assessed prior to the next rent review to ascertain the appropriate rent appraisal method. The assessment was to include site inspection or examination of records.

3.23.167 Audit examination disclosed that:

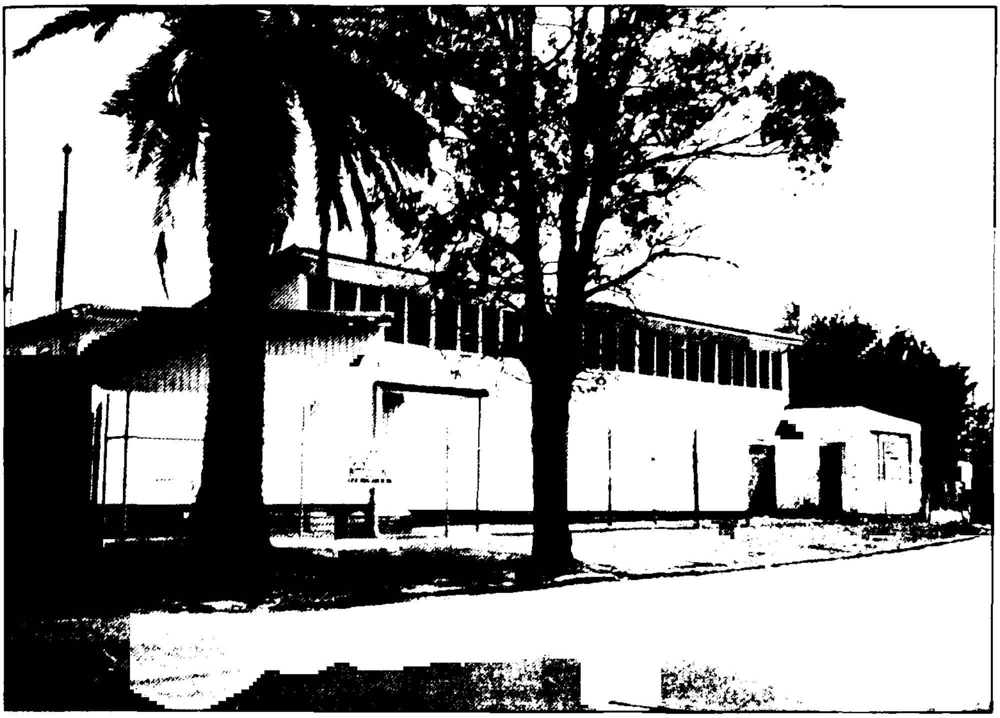
- Annual rental from the Corporation's community leases totalled around $400 000 which represents, on average, $260 a year on each lease. However, in many cases the rental charged was below the minimum of $104 per year;
- Opportunities to lease properties at commercial rates had been forgone with the decision in one case to enter into a community lease at a rental of $140 made as a result of a Ministerial direction. At the time, negotiations were in progress to lease the property for a potentially higher return; and
- Procedures were not in place for the systematic review of the eligibility for the subsidy provided through community leases or for the regular inspection of properties to verify their continuing use by community organisations. However, ad hoc reviews have detected instances of properties which had been erroneously classified. By way of example, a particular property leased to a private tennis club over a 57 year period was incorrectly classified as a community lease. The lease was subsequently reviewed and the rental raised by more than 400 per cent.

Site in Fitzroy leased for $26 per year.

3.23.168 There is a need for the Authority to maximise the return on these properties in line with the Community Lease Rental Policy. In cases where it is determined appropriate to regard leases as community service obligations, the subsidy provided by such arrangements should be identified and reported accordingly by the Authority.

RESPONSE provided by Director-General, Ministry of Transport

The Corporation will administer community leases in accordance with the policy direction.



Site in Footscray leased for $6 per year.

High level of rental debtors

3.23.169 An analysis of accounts rendered by the Corporation to 30 September 1991 indicated that some 2 000 lessees had outstanding rental balances totalling $5.2 million. **Approximately $2.7 million, owed by 770 debtors, had been in arrears for over 150 days representing a loss of interest over this period of $112 000.** Of the amounts not collected, 46 per cent related to commercial leases which were either in dispute or were subject to legal action.

3.23.170 An examination of disputed cases relating to major debtors and detailed discussions with Corporation staff revealed the following common points of contention:

- lessee disagreement with assessed rental at the time of the rent review;
- considerable delay on the part of the Corporation in effecting rent reviews, followed by back-dated rental to the lessee; and
- delays in advising the Valuer-General of the need for an independent rental determination and subsequent lessee disagreement with the Valuer-General's rent valuation.

3.23.171 Specific examples of these cases included:

- A proposed rental of around $50 000 for the period July 1988 to June 1991 was offered to one lessee in September 1988. The lessee disputed the valuation on the grounds that a valuer, privately engaged by the lessee, had estimated the rental at $30 000. In November 1989, the Valuer-General set the rental figure at $45 200 and the lessee decided to abandon the lease. The Corporation sued the lessee for a sum of $168 400, including an interest component of $30 200. The decision was in favour of the Corporation, however, the Corporation has advised that it is unlikely that the defendant will be able to pay the amount due;
- One lessee was advised in May 1989 and May 1990 of rental increases on 3 leased lots in respect of rent reviews which should have been performed in June 1986 and November 1987, respectively. The lessee refused to pay the increase, including the retrospective rental assessment, and currently owes the Corporation approximately $100 000. This matter is subject to legal action; and
- In December 1988, a lessee objected to the Corporation's proposed rental increase. The terms of the lease required a disputed rental figure to be referred to the Valuer-General for independent determination. Referral was overlooked until February 1991. In May 1991, the lessee was advised of the retrospective rental and currently owes $82 000.

3.23.172 The tardiness on the part of the Corporation in reviewing its commercial leases together with the subsequent disputations which have arisen with lessees have resulted in increased collection costs, including those arising from court proceedings, and significant revenue being forgone in terms of potential interest earnings. In addition, the relationship between the Corporation and its clients continues to be eroded.

RESPONSE provided by Director-General, Ministry of Transport

Non or late payment of rent by tenants is not uncommon in the current economic climate. Valuers have been engaged to assess and negotiate outstanding rent reviews. The Corporation has initiated a program to vigourously pursue and finalise disputed debts and to validate information on the Land Information System to minimise incorrect data. This program was in place at the time of the audit review.

The legal process for tenant eviction is complex and requires the Corporation to evidence compliance with all aspects of existing leasing arrangements. Tenants are well aware of the process and have used it as a means of deferring payments. Consequently, substantial time delays can occur.

It is considered that collectable debtors are well managed. Only some $626 000 of the $2.7 million is considered to be outstanding and collectable and this amount is in the hands of debt collectors. Some $2.1 million is in dispute and is being vigourously pursued by the Corporation through the complex and prolonged property law processes.

Further analysis of these debts on a time flow basis reveals that the situation ("snapshot") at 30/9/91 was abnormal. Rent reviews completed and Valuer-General determinations received during the period resulted in the creation and back-dating of debtor entries with consequential increases in debt levels. Obviously, transactions of this type severely distort the presentation of debtors. It should be noted that rent-reviews are not readily accepted by customers and generally result in a dispute.

During August and September 1991 a joint task force of Accounts Receivable and Property Department personnel was instituted to address property disputes and move the appropriate files to the solicitors for litigation. Other errant customers were placed on schemes of arrangement involving deferred payment terms. In both cases, customers were recorded as being in dispute. In addition, rentals due from other government departments were not received because of supply period funding problems.

Detailed discussions with Corporation management would have resulted in quite different conclusions to those reached during the review.

Justification for property holdings

3.23.173 In 1989 the Corporation established a separate section to review the use of all land with a view to identifying surplus and under-utilised properties for leasing or disposal.

3.23.174 However, the section's primary focus to date has been on achieving the Corporation's asset sales target through the investigation of properties identified for sale by the Ministry of Finance and properties of high rental value. As part of this process, properties currently returning an annual rental of around $3 million have been identified for sale in 1991-92. **The current priorities of the section have prevented the systematic examination of each property in the lease portfolio to establish the justification for its retention.**

RESPONSE provided by Director-General, Ministry of Transport

The Ministry does not agree that the Corporation has not assessed its need to retain lease properties for operational purposes.

In fact such assessments are ongoing and between 1984 and June 1991 approximately $200 million of surplus land was identified and sold. Between July 1990 and February 1991 further land to the value of $125 million has been identified and declared surplus for sale by the Ministry of Finance. The identification of some $325 million of surplus land would not have been possible without a concerted effort by the Corporation.

A further review commenced in November 1991 as part of the Government's Asset Renewal System. The Corporation has focused on identifying high value land located primarily in the metropolitan region. Under this process Directorates are required to provide well-articulated and detailed reasons for the retention of the land. The process assesses all land on the basis of financial impact and government policy priorities.

The Ministry of Finance is responsible for the disposal of Corporation property following the transfer of that function in July 1991. That Ministry currently has more than $125 million of surplus Corporation land to be administered under the Asset Renewal System.

Clearly, the Corporation has been active in declaring surplus those leased properties not required for operational purposes and is a major contributor to the Government's Assets Sales Program.

Alternative management of lease portfolio

3.23.175 During 1991, the Corporation commenced an assessment of the relative costs and benefits of contracting the management of its lease portfolio to the private sector, compared with retaining the function in-house. The expectation that estate agents would be engaged to manage the lease portfolio was one of the factors in downsizing the Corporation's property department from 108 to 49 staff.

3.23.176 Expressions of interest were sought in October 1991 from agents interested in the management of the portfolio. The Corporation is currently undertaking an analysis of the 22 submissions received and it expected to reach a decision by April 1992. Further analysis is to be undertaken by the Corporation prior to arriving at a final decision on future management arrangements.

3.23.177 Audit examination of the procedures followed and analysis undertaken to date of the options being considered revealed that a number of matters have not yet been adequately evaluated. In particular, audit found that:

- A detailed analysis of the optimum size of the department had not been undertaken prior to the decision to reduce staff numbers;
- A non-refundable fee of $2 000 required of agents on lodgement of expressions of interests was, according to the Corporation, initiated to cover costs involved in evaluating submissions. However, limited analysis had been undertaken by the Corporation to determine the appropriateness of the level of the fee or to evaluate the impact of the fee in terms of dissuading potential quality tenderers;
- The impact of the property sales program on the rental base, particularly in light of the Ministry of Finance's advice that it will be taking a more aggressive role in the identification and disposal of Corporation properties, had not been adequately evaluated;
- Problems associated with the current backlog of rent reviews, rental debtors in dispute and the inaccuracies of property details maintained on information systems have not been satisfactorily resolved;
- A detailed financial appraisal of costs and benefits of the options has not been undertaken, in particular the profitability or otherwise of contracting out the large number of peppercorn and community leases has not been assessed. Audit also found that many of the figures included in the preliminary analysis undertaken to date could not be adequately substantiated.

3.23.178 Unless all factors impacting on the future management of leases are accurately costed and carefully evaluated, the most cost-effective management structure may not be set in place by the Corporation.

RESPONSE provided by Director-General, Ministry of Transport

Audit was advised that the initial analysis of a proposal to externally contract lease property management services was of a preliminary nature based on judgement and experience pending a formal expression of interest process. The initial analysis has justified proceeding to the next stage of seeking public expressions of interest from real estate agents. The Corporation will be undertaking a detailed analysis along the lines suggested by audit once the tenders have been received and accurate data is available.

The real estate agents have been advised that there are outstanding issues in the portfolio, including the Asset Sales Program, which have the potential to influence future levels of leasing business. The agents have not seen this as a disincentive to tender for the function or undertake the work. All of these matters were also addressed during informal discussions with city and country-based real estate agents prior to the decision being made to seek expressions of interest.

The decision to charge the non-refundable deposit during the expression of interest process is based on previous experience at the Corporation. It is not an uncommon practice in both private and public sector organisations to charge such fees when seeking expressions of interest for the provision of goods and services. The changes are aimed at recovering the costs incurred in making this opportunity available to a wider market. The Corporation considers that tender charges help to ensure high quality of expressions of interest when seeking submissions for such a major proposal and that submissions are received only from those who have the capacity to handle such a large management task. The quality of submissions received from a range of real estate agents has certainly confirmed this decision.

Policies and procedures

3.23.179 Audit found a lack of consistent and relevant policies and procedures in respect to the administration of the Corporation's property portfolio.

3.23.180 An internal review undertaken by the Corporation in November 1990 recommended the development and corporate approval of consistent property policies and guidelines which supported the core activities and principal objectives of the Corporation. To date, such policies and guidelines have not been adopted.

3.23.181 The absence of clear and detailed policies and procedures inhibits the efficient and effective management of the lease property holdings.

RESPONSE provided by Director-General, Ministry of Transport

The Ministry disagrees that there was a lack of property management policies in place in the Corporation at the time of the audit review.

The business plan for the Property Department for 1991-92 was developed in April 1991 and is currently being reviewed for 1992-93. This plan sets out the Property Department mission statement, goals and objectives, and reviews the performance of the Department's progress in achieving its previous goals and objectives. Out of this process, a revised Leasing and Rent Review Policies and Procedures Manual was put in place prior to the audit review. Staff were working in accordance with the new arrangements at the time of the audit.

The focus of the Surplus Land Identification process was changed just prior to the audit to ensure that procedures and strategies were in accordance with the Government's Asset Sales Program. Under these processes Directorates are required to provide well-justified reasons for the retention of Corporation land or otherwise the land would be regarded as surplus. The audit review was of the previous process and did not consider the new arrangements.

Information systems and monitoring processes

3.23.182 Since the 1987 audit review of property management practices at the former transport bodies, significant improvement has been made to property information systems. Lease property details are maintained on a land information system which has a direct interface with the accounts receivable system. In addition, a records management facility has been established which tracks the location of property files.

3.23.183 However, the audit review of the property information systems and monitoring processes indicated the following deficiencies:

- Systems in place had not been effectively utilised for management reporting purposes;
- The overall profile of the portfolio is not regularly analysed and reviewed by management;
- Property values were rarely detailed on the system, even in cases where a valuation had been conducted. Consequently, it is not possible for Corporation management to determine the total value of the leasing portfolio or to evaluate whether the return on leased properties is satisfactory;
- Information recorded on the systems was not always accurate or complete;
- Minimal analysis had been performed of vacant or under-utilised properties. Consequently, most new leases result from an inquiry from a member of the public regarding a particular property. A number of properties listed as being vacant were also found, on audit inspection, to be occupied;
- The records management facility had not been effectively maintained. Many of the files required for audit review were either found in locations other than indicated on the system or not found at all; and
- Standards such as return on assets and acceptable time limits for periodic rent reviews had not been developed to assist management in the measurement and monitoring of the performance of the lease portfolio.

3.23.184 In the absence of accurate and reliable information systems, reporting mechanisms and performance measures, management is not in a position to:

- **ensure that the Corporation is obtaining an adequate return on lease properties;**
- **effectively monitor the utilisation of property holdings; or**
- **make the most appropriate decisions regarding future property management strategies.**

RESPONSE provided by Director-General, Ministry of Transport

The audit report's acknowledgement of the significant improvement in the Corporation property information systems is noted. The Land Information System (LIS) and its interface with other Corporation information systems is a major project which is being progressively developed and utilised as resources allow. These developments have been programmed over a number of years.

Audit has instanced a number of isolated inaccuracies in a large system covering more than 7 000 leased properties. It is not considered that these amount to an "absence of accurate and reliable information systems".

The second phase of developing the management reporting aspects of LIS was deferred pending the amalgamation of the 2 former department's systems. Priority has been directed to establishing a complete and accurate database. LIS is a valuable tool and will be enhanced to provide various property management reports. The Corporation proposes to begin that program in April 1992.

The Corporation is aware of errors which have occurred in the manual loading of property information on LIS. The Corporation strategy is to rectify these as they are detected and validated. The auditor's comments have been noted and subject to funding and resources the Corporation will establish a task force to review and validate all LIS entries.

The audit report's comments regarding the use of valuation information on LIS are noted. However, this proposal would require considerable property valuation resources to continually update the database when the priorities for the Property Department are currently in areas such as identifying surplus land for the Government's Asset Renewal System, completing outstanding rent reviews and minimising debtors. The Corporation accepts that valuation data should be recorded in the system and will take steps to record this data as it is obtained through rent reviews and other sources.

LOSSES, THEFTS AND IRREGULARITIES

3.23.185 The Corporation has advised audit of the following losses and thefts that occurred during 1991:

- theft of personal computers valued at $40 000 from the Corporation's Market Street building;
- damage to Yarraville railway station caused by a fire started by unknown persons which resulted in repair costs of between $15 000 to $20 000; and
- wilful damage and theft of tools valued at $5 000.

3.23.186 Apart from the above cases, no other incidence of actual or suspected losses, thefts and irregularities, during 1991 have been notified to audit by the Corporation.

3.23.187 Recently, audit became aware that suspected irregularities involving fraudulent use by a Corporation employee of a large stock of Met Tickets to a value of $100 000 and cash discrepancies in catering services, involving $4 000 to $5 000 a month, are under investigation by the Corporation.

3.23.188 With regard to the suspected misuse of Met Tickets, the Auditor-General's *Special Report No. 15*, issued in November 1990, emphasised the importance of the Corporation completing reconciliations of returned tickets with cash collected from its agencies to ensure appropriate accountability.

3.23.189 Although the Corporation has confirmed that the above investigations are in progress, it has determined not to provide details to audit until these investigations have been completed.

3.23.190 Such action by the Corporation is contrary to the Treasury Regulations under the Audit Act which require government organisations to notify the Auditor-General of all cases of suspected or actual theft of money and property.

ROADS CORPORATION

POTENTIAL ABUSE OF PENSIONER CONCESSIONS FOR TRANSPORT ACCIDENT AND MOTOR REGISTRATION CHARGES

3.23.191 The Roads Corporation collects transport accident charges and motor registration fees on behalf of the Transport Accident Commission and the Consolidated Fund, respectively. Annual collections for 1991-92 are estimated to be approximately $680 million in transport accident charges and $225 million in registration fees.

3.23.192 A major policy of the Government is to provide support to low income Victorians to ensure reasonable access to essential State health, education and transport services. Under this policy, eligible pensioners have been granted concessions comprising a 50 per cent reduction in the transport accident charge and full exemption from the motor registration fee. These concessions, which have an average current value of $185 a year, are granted on the following conditions:

- the applicant must be an eligible pensioner, i.e. a Pensioner Health Benefits card holder;
- the pensioner is the **owner** of the vehicle;
- the motor vehicle is not to be used except for social, domestic or pleasure purposes; and
- only one vehicle attracts a concession.

3.23.193 At February 1992, 233 000 pensioners were receiving vehicle concessions at a cost of $43 million a year to the State.

3.23.194 For the minority of pensioners who are *"totally and permanently incapacitated"*, their eligibility is confirmed by the Commonwealth Department of Veterans' Affairs at the time of application. The Corporation presently requires all other pensioners to provide their pension number when first applying for the concession. However, no confirmation of the eligibility of this latter group of pensioners for concessional rates is undertaken.

3.23.195 An audit review was carried out during the year to determine whether only eligible pensioners were benefiting from concessions for accident and registration charges. During the review, the Corporation was unable to produce approximately 25 per cent of pensioner application forms requested by audit. In addition, numerous forms were found to be incomplete with respect to pensioner details. Although these factors hampered the review, audit was able to carry out limited verification of pensioner eligibility.

3.23.196 Audit found that in 3 per cent of examined cases the recipients of concessions were not eligible pensioners. Because of confidentiality factors, audit was not able to pursue its findings with the relevant pension organisation. However, **if the 3 per cent audit finding applied across the total pensioner population in receipt of concessions the revenue forgone could be in the vicinity of $1.3 million a year.**

3.23.197 The audit also encompassed a review of the Corporation's vehicle registration and driver licence database. This part of the exercise identified 11 000 cases where vehicles have been registered in the name of pensioners but the pensioners did not hold drivers' licences. **The cost to the State of providing concessions in respect of both transport accident charges and registration fees for these cases was approximately $2 million.**

3.23.198 Audit accepts that in exceptional circumstances there may be genuine cases where unlicensed pensioners own vehicles. On the other hand, the possibility exists that abuse of the system is currently occurring and that vehicles attracting the concession rates are solely used by individuals such as pensioners' friends or relatives who would not have any entitlement to the concession under government policy.

3.23.199 The current regulations do not specifically prohibit individuals benefiting from concessional arrangements in the manner described above. Given that it is a major aim of the Government to ensure that the concession system provides assistance to the most needy in the community, it would seem highly desirable that a review of the regulations be undertaken.

3.23.200 The audit examination also revealed that approximately 400 pensioners were receiving fee concessions for 2 vehicles. This is contrary to the regulations which stipulate that only one vehicle is eligible for concession. In addition, 60 registrations recorded in the names of companies resulted in the companies receiving pensioner concessions.

3.23.201 In audit opinion, the above scenario highlights fundamental weaknesses in the Corporation's management of government policy relating to pensioner concessions. The level of potential abuse identified by audit warrants urgent remedial action.

RESPONSE provided by the Director-General, Ministry of Transport

The administration of pensioner concessions is complex and has become more complicated by recent extensions to the range of concessions available. A project team of 7 Vic Roads officers has for some time been positively addressing all concession administration issues.

The Auditor-General's summary of concession management is inaccurate in several areas. The conclusions he has drawn are speculative. The sampling methods employed were flawed.

Vic Roads, together with other State agencies, has pressed the Department of Community Services (CSV) and Department of Social Security (DSS) to address the issues of multiple concession cards, rates of concession and confirmation of eligibility, without success. In particular Vic Roads approached DSS to use its pension validation service, which would have assisted concession administration considerably, but this was refused on the grounds of privacy of information and the non-usage of DSS application forms.

Vic Roads has continued to negotiate with DSS and CSV to enable fully pre-verified billing and is considering other options to tighten administration including proof of eligibility at the point of payment and the development of a voucher system to replace all concessions.

The State Premiers and the Federal Government are discussing concession payments at the imminent Special Premiers Conference. The outcome may well affect the method of administering concessions.

The simple extrapolations of sample data into the financial level estimated by the Auditor-General reflects an unsatisfactory understanding of the structure of the sampled records and means that his claims of ineligibility cannot be accepted. Clearly, the 3 per cent non-conformance found in a sample of 175 taken from a population of 150 000 did not represent a significant finding. Further, the structure of the sample was biased and therefore could not legitimately be used to extrapolate, e.g. the confirmation of status was sampled using Veteran Affairs' numbers only. Finally, Vic Roads understands that the audit finding was that pensioner numbers were incorrect. This finding cannot be extrapolated to imply that applications were ineligible for the concession as almost certainly administrative and transcription errors would have occurred.

Current legislation enables concession holders to register a vehicle in their name without holding a Victorian drivers licence. Such recipients are believed to be generally acting in the spirit of this social justice concession scheme which supports the registrant's personal needs and helps provide access to community facilities.

The vehicle registration and drivers' licence records are held on separate computer systems. As the Auditor-General states there were cases in his review where the vehicle was registered in the name of the pensioner but the pensioner did not hold a drivers' licence. However, this characteristic accords with the general community pattern where the vehicle owner is not always a licensed driver. Notably the relevant legislation provides for this situation.

As part of the strengthened audit procedures computerised records are being reviewed to ensure no company renewals are paid at the concession rate. The majority of the companies involved are motor car dealers processing transfers.

The Auditor-General's claim of concessions being provided for 2 vehicles in respect of the one pensioner appears exaggerated and is being carefully examined. A vehicle in the process of being transferred may show as 2 concession records during the period of transition. Consequently, with 600 000 transfers being processed a year, the Auditor-General's claim of there being 400 multiple concessions is not a valid finding. To this end Vic Roads has established a special project team to identify the extent of this issue and to retrospectively invoice any multiple recipients.

Finally, the Ministry of Transport notes that the Auditor-General did not provide any constructive recommendations for cost-effective solutions.

TRANSPORT ACCIDENT COMMISSION

REHABILITATION MANAGEMENT PRACTICES

3.23.202 Under the *Transport Accident Act* 1986, the Transport Accident Commission has a responsibility to establish and promote, as far as possible, a program designed to secure early and effective medical and vocational rehabilitation of persons, eligible to receive compensation, who are injured as a result of traffic accidents.

3.23.203 To enable the Commission to meet its objectives and obligations under the Act, it operates a fully-equipped rehabilitation centre at Glen Waverley. The Commission also employs a network of rehabilitation co-ordinators to plan, supervise and co-ordinate comprehensive rehabilitation programs for accident victims covered under the transport accident compensation scheme. Each co-ordinator is assigned to at least one major hospital which cares for traffic accident victims.

Glen Waverley Rehabilitation Centre

3.23.204 In 1986, the Board of the Commission's predecessor body, the Motor Accidents Board, purchased a fully-equipped rehabilitation centre at Glen Waverley from the Commonwealth Government for $9.5 million.

3.23.205 The strategic objectives which have been established by the Commission for the Centre are to:

- develop and promote rehabilitation care;
- establish itself as a leader in rehabilitation medicine by:
  - developing rehabilitation programs; and
  - providing training support to the medical, paramedical and nursing professions.
- ensure no eligible person is disadvantaged by geographical location with respect to receipt of adequate rehabilitation care; and
- fill existing gaps in the provision of rehabilitation services currently available.

3.23.206 Although the Centre is operated by the Commission, it is treated as a separate cost centre in its financial records. With this status, the Centre invoices the Commission for services associated with the assessment, treatment and review of its clients. In addition, the Centre has generated additional revenue of $804 000 since its inception by providing professional services to clients referred by other organisations and from external hirings of the Centre's facilities.

Glen Waverley Rehabilitation Centre.

Consistently poor financial performance

3.23.207 The Commission anticipated, at the time of purchase, that the Centre would be self-funding within 2 years of operation. However, the audit review of the Centre's financial performance showed that this projection had not materialised even after more than 4 years of operation. **In this respect, the Centre has incurred deficits in each year since acquisition with the largest deficit, $7.3 million, occurring in 1990-91. At 30 June 1991, deficits had accumulated to $16.9 million.**

3.23.208 Table 3.23P shows the net deficits of the Centre for the period January 1987 to June 1991.

TABLE 3.23P
NET DEFICITS OF THE CENTRE, 1 JANUARY 1987 TO 30 JUNE 1991
($'000)

Item	*1987-88*	*1988-89*	*1989-90*	*1990-91*	*Overall total*
Income -					
Fees for services	482	1 947	3 025	4 662	**10 116**
Other income	111	195	277	221	**804**
Total income	593	2 142	3 302	4 883	**10 920**
Operating expenses -					
Cost of professional services	1 569	2 671	3 199	3 432	**10 871**
Administration costs	2 051	2 878	3 295	3 365	**11 589**
	3 620	5 549	6 494	6 797	**22 460**
Net operating cost	**3 027**	**3 407**	**3 192**	**1 914**	**11 540**
Devaluation of land and buildings*(a)*	-	-	-	5 434	**5 434**
Net deficit	**3 027**	**3 407**	**3 192**	**7 348**	**16 974**

(a) Represents the component charged to the 1990-91 profit and loss statement of directors' revaluation of the Commission's interest in the Centre's freehold land and buildings from a written-down value of $13 million to a market value of $3 million.

RESPONSE provided by the Board of the Transport Accident Commission

The decision to acquire the Centre was not made by the Commission, and the Commission cannot be accountable for financial projections made prior to purchase. Further, the Commission has prudently reflected the current economic conditions in its balance sheet by writing-down the value of land and buildings. This write-down of land and buildings by $5.4 million accounted for a large part of the deficit of $7.3 million in 1991. It should be noted that public sector health care facilities are all deficit funded by the responsible agency and are not operated as self-funding profit centres.

3.23.209 The audit analysis indicated that a major factor contributing to the Centre's poor financial performance was the high level of operating costs per patient. Table 3.23Q contrasts operating costs per patient at the Centre with a public rehabilitation hospital.

TABLE 3.23Q. COMPARISONS OF OPERATING COSTS PER PATIENT
($)

	Centre		*Public rehabilitation hospital*	
Item	*1989-90*	*1990-91*	*1989-90*	*1990-91*
Average cost per patient treated	15 572	13 121	4 721	4 732

3.23.210 The table shows that there has been some reduction in the costs per patient at the Centre in 1990-91. It should also be recognised that the public rehabilitation hospital has an unrestricted client base in contrast to the Commission's Centre which is limited to the provision of services to victims of traffic accidents. Furthermore, the Commission has indicated that the types of services provided by the Centre, e.g. paediatric services, are inherently more costly to operate.

3.23.211 Notwithstanding the above factors, the magnitude of the disparity in costs between the 2 bodies indicates the presence of significant problems with the net cost structure of the Commission's Centre. **This disparity is perhaps understandable when one considers the fact that the Centre operates with less than half the number of beds, but employs the equivalent of 23 more staff than the rehabilitation hospital.**

3.23.212 Despite the fact that the decision to acquire the Glen Waverley Rehabilitation Centre was made by the Commission's predecessor body, the Centre's financial performance to date, under the Commission's management, has been consistently poor.

RESPONSE provided by the Board of the Transport Accident Commission

The rehabilitation centres in question are not comparable and the figures produced are totally misleading. The Commission's Centre provides highly specialised services at significantly higher dependency levels than the other hospital. Audit makes no attempt to assess patient dependency levels or diagnostic-related group data which is essential before any meaningful comparisons are made.

Audit comment that the financial performance to date has been consistently poor is totally misleading, and the previous pages show the opposite trend. A new management team has been able to consistently improve performance and reduce the net operating costs of the Centre from $3.4 million in 1989 to an estimated $1.2 million this financial year.

What has been the Commission's response to the Centre's poor cost performance?

3.23.213 In 1989, 2 years after the Centre commenced operations, its Board of Management arranged for an external review of the Centre's objectives and organisational structure. This review was aimed at resolving problems associated with the Centre and assisting in the formulation of policy for its future direction and management.

3.23.214 The conclusions of the review panel, which were available to the Board of Management in September 1989, included:

- the responsibilities of the Board of Management were undefined and there was a lack of direction provided by the Commission to the Centre;
- given the Commission is essentially an insurance organisation, rehabilitation services would be more effectively provided from within the health system;

- standard functions of management such as planning, directing and controlling have not been performed in any credible way at the Centre; and
- the existing organisational structure was not conducive to achievement of the Centre's aims and objectives.

3.23.215 The review panel provided the Board of Management with a number of recommendations on the operations of the Centre and submitted the following 3 options for the Centre's future direction:

- closure and sale;
- retention of the Centre but adoption of all recommendations, including a broadening of client base; or
- transfer of the use of the site as a going concern to either the public or private sector.

3.23.216 The review panel recommended that the third option be forwarded to the Commission as the preferred course of action.

3.23.217 The Commission received the findings of the review panel in 1989, and, after lengthy consideration, determined in July 1990 that the Centre be leased or sold to either a public or private not-for-profit health care institution. **The finalisation of negotiations with interested parties was still in course at the time of audit, approximately 18 months after the resolution was made.**

3.23.218 In the interim, the Commission advised audit that it has implemented the majority of the review panel's recommendations for improving the overall operating performance of the Centre. In addition, since 1988 the Commission has requested approval from the Victorian Accident Rehabilitation Council for the Centre's registration as a rehabilitation provider under the Accident Compensation Act. This would widen the Centre's client base by enabling the Commission to treat WorkCare traffic accident victims. **However, the Commission has advised that, despite numerous requests, the Council has not responded to the application. Subsequent to the audit review, the Council advised the Commission to resubmit its application.**

RESPONSE provided by the Board of the Transport Accident Commission

The Commission took the view that the operating performance and value of the Centre would be enhanced if its patient load was increased with the Commission's journey accident patients.

These patients are currently administered by the Victorian Accident Rehabilitation Council. Negotiations are continuing to allow registration of the centre to handle these patients and the Ministry of Transport and the Transport Accident Commission are pressing for early registration.

Computerised milling and turning machines

3.23.219 In 1987, the Centre purchased 2 large computerised milling and turning machines, at a cost of $320 000. These machines were bought with a view to generating revenue for the Centre and to aid in the rehabilitation of clients. However, the machines were never fully utilised in either capacity.

3.23.220 In a submission to the Centre's Board of Management in May 1990, the machines were described as *"currently lying idle"*. Furthermore, in discussions with the Centre's management, audit was advised of the following operational problems:

- the machines were not practicable for rehabilitation purposes due to the limited computer knowledge of the majority of patients;
- injured workers derived limited rehabilitation value in simply *"pushing the machines' buttons"*; and
- there was a need for constant supervision of patients with head injuries while operating the machines.

3.23.221 During 1991, the Commission entered into negotiations for the sale of the machines which were subsequently sold for $120 000 in November 1991.

3.23.222 Because virtually no use was made of the machines at the Centre, the commission effectively incurred a loss on sale of $200 000.

RESPONSE provided by the Board of the Transport Accident Commission

Audit have made an incorrect accounting statement. The loss upon disposal was $20 600 not $200 000 suggested by audit.

Lack of standard management benchmarks

3.23.223 Rehabilitation co-ordinators play a key role in the Commission's rehabilitation strategy, particularly in helping to ensure that traffic accident victims receive a high standard of care and are rehabilitated in a cost-effective manner. At 30 June 1991, some 26 co-ordinators, on an effective full-time basis, were employed by the Commission, with aggregate salary outlays of around $960 000 a year.

3.23.224 In determining evaluative criteria for this segment of the review, audit considered that a soundly-based management review framework for monitoring the efficiency of services rendered by rehabilitation co-ordinators should ideally incorporate (subject to quality of life issues and medically managed treatment programs):

- structured approaches to identification of fundamental work tasks;
- standard profiles for particular injuries;
- a systematic assessment of workload levels; and
- a workload-based distribution of co-ordinators.

3.23.225 The review found that these characteristics were predominantly absent in the Commission's management procedures for this aspect of its operations.

3.23.226 In addition to the above deficiencies, audit found that there were significant disparities in the workloads of co-ordinators across the State. Table 3.23R illustrates these disparities.

TABLE 3.23R
VARIATIONS IN WORKLOAD OF CO-ORDINATORS, MAY 1991

Location	*Effective full-time co-ordinators*	*No. of cases handled*	*Average no. of cases per full-time co-ordinator*
Metropolitan area -			
Team 1	4.6	141	31
Team 2	4.0	134	33
Team 3	3.0	104	37
Team 4	4.0	83	21
Team 5	2.6	42	16
Country areas -			
Albury	0.7	16	23
Ballarat	0.6	16	27
Bendigo	0.8	29	36
East Gippsland	0.4	22	55
Geelong	0.7	46	65
Gippsland	0.9	35	39
Horsham	0.2	10	50
Mildura	0.6	11	18
Shepparton	0.8	35	43
Warrnambool	0.4	26	65

3.23.227 While factors such as hospitals' locations and number of traffic accident victims in each area may contribute to variations in co-ordinators' workloads, the abovementioned deficiencies in the Commission's management framework indicate that it cannot be confident that:

- **decisions on co-ordinators' staffing levels have been soundly based;**
- **variations in workloads are attributable to legitimate differences across cases;**
- **services of co-ordinators are provided with maximum efficiency; and**
- **there is a uniform quality of services provided by co-ordinators.**

3.23.228 It was against the above background that audit recommended to the Commission, during the course of the review, that it upgrade the quality of its monitoring of co-ordinators' output through the introduction of a workload management system which incorporates standard profiles for specified injury groups.

3.23.229 It is pleasing to report that the Commission has begun implementation of a new case management system to achieve a more effective overview of rehabilitation services.

UPDATE ON FUNDING OF THE TRANSPORT ACCIDENT SCHEME

3.23.230 The Transport Accident Commission commenced operations on 1 January 1987 with the responsibility of managing the Transport Accident Scheme as effectively and economically as possible. The Commission inherited $1.1 billion of accumulated losses from the previous Third Party Scheme.

3.23.231 In a major statement on the Scheme issued in 1986, the Government indicated that transport accident charges would be set at a level which would enable the Scheme to be fully-funded by 1997, i.e. it would have sufficient funds to fully cover all outstanding liabilities at the end of 10 years.

3.23.232 The Auditor-General's *Report on Ministerial Portfolios, April 1991* indicated that the Scheme became fully-funded during 1989-90 some 7 years ahead of the Government's target, and that, based on the actuarial projections, the Scheme would be 147 per cent funded by 1997. **Audit considered that, given the earlier than expected achievement of a fully-funded position, the future actuarial outlook should be taken into account when determining the level of future transport accident charges.**

3.23.233 During 1990-91, the Commission's financial position continued to improve with accumulated reserves increasing to $503 million at 30 June 1991 from $130 million at 30 June 1990. By December 1991, the level of reserves had further grown to $730 million.

3.23.234 In July 1991 the transport accident regulations were amended to increase the transport accident premium by 5 per cent from $267 to $281, effective from 1 August 1991. Consequently, the Commission estimated that additional revenue of approximately $24 million would be received during 1991-92 as a consequence of this increase and $26 million for the whole of 1992-93.

3.23.235 At 30 June 1991, the Commission's solvency level, i.e. reserves compared with outstanding claims, was 22 per cent, a substantial increase on the level of 6.4 per cent at 30 June 1990.

3.23.236 Audit has conservatively estimated that by 30 June 1992 the Commission's solvency level will have reached 36.5 per cent compared with a minimum solvency level of 15 per cent specified under Commonwealth legislation by the Insurance and Superannuation Commission.

3.23.237 The Commission is to be commended on its excellent performance which has led to a significant improvement in its financial position. Audit considers that the exceptionally strong financial position of the Commission should be reflected in the level of future transport accident charges to be levied on Victorian motorists.

RESPONSE provided by the Board of the Transport Accident Commission

The Transport Accident Commission appreciates the commendation from the Auditor-General on its excellent performance.

The Commission expects to reach its prudential financial targets at 30 June this year and accordingly motorists will benefit from the range of measures presently being prepared by the Commission for consideration by the Government. In assessing its future outlook, the Commission has always taken into account advice from independent consulting actuaries and will continue to do so.

The Commission has consistently taken the view that it is not prudent to operate at minimum solvency levels. The experience of government insurance organisations in Western Australia and South Australia clearly indicates that failure to operate at prudential reserve levels can result in the need to call upon taxpayers to inject funds via consolidated revenue.

The prudential reserve levels adopted by the Commission follow discussions with the Insurance and Superannuation Commissioner and are supported by professional advice as being consistent with the nature of the Scheme and accepted insurance industry practice.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced	
Public Transport Corporation		
Ministerial Portfolios, May 1990, pp. 297-300 *Ministerial Portfolios*, April 1991, pp. 427-8	The Corporation should introduce systems to monitor the adequacy of its vandalism and graffiti initiatives.	The Corporation has developed a more systematic approach to prevention and detection of vandalism and graffiti.
Ministerial Portfolios, May 1990, p. 300	The Corporation did not have suitable systems in place to: ▪ determine, analyse and report the total cost of MET bus services; ▪ adequately evaluate the cost-effectiveness of all options relating to the mix of services between MET and private operators; and ▪ analyse cost variances between individual operators to identify potential cost savings.	Costs models have been reviewed and updated to enable more thorough investigation of costs.
Ministerial Portfolios, May 1990, p. 305	The Corporation's internal audit function should be strengthened by the provision of additional resources.	The Corporation has strengthened the internal audit function by the provision of additional resources.
Ministerial Portfolios, May 1990, pp. 302-3 *Ministerial Portfolios*, April 1991, pp.425-6	Duplicated services and routes of private bus operations require rationalisation.	Rationalisation of private bus services was carried out during 1991-92.
Ministerial Portfolios, May 1989, p. 245	Need to establish a property register which reflects current holdings and valuations.	Property register still under development.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Ministerial Portfolios, April 1991, pp. 425-6	Under new private bus arrangements agreed to by the Government, any existing inefficiencies of operations will be carried by taxpayers.	The Corporation is working to increase efficiency in this area. The Ministry of Finance is reviewing efficiencies achieved by the Corporation in planning the 1992-93 Budget.
Roads Corporation		
Ministerial Portfolios, May 1990, pp. 309-10	The declared road network is rated as being in poor condition. Standards need to be developed to assess adequacy of road surface condition.	Minor improvement in condition of declared road network. Standards have been developed by the Corporation to assess the adequacy of road surface condition
Ministerial Portfolios, May 1990, pp. 306-8	The Roads Corporation needs to examine whether retention of properties acquired for road development (valued at $766 million) for substantial periods represents optimal resource development.	The Corporation is reviewing property available for disposal.
Ministerial Portfolios, May 1989, p. 251	Declared roads should be valued and recorded as an asset of the Corporation.	Significant work undertaken towards valuing the road network.
Ministerial Portfolios, April 1991, pp. 433-5	There were major deficiencies in the Roads Corporation's evaluation of suppliers' proposals for the acquisition of Computer equipment.	The Ministry of Finance is preparing revised guidelines for the evaluation of computer equipment for acquisition.
Ministerial Portfolios, April 1991, pp. 435-6	Borrowings of $8.3 million by the Roads Corporation were undertaken without legislative authority.	The Ministry of Finance is reviewing this matter with the Corporation and Victorian Government Solicitor.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
No action taken		
Transport portfolio		
Ministerial Portfolios, May 1989, p. 236	The adequacy and quality of disclosure within the financial reports of the transport authorities is inadequate because financing costs related to centralised debt are not included.	Position unchanged. Finance costs are disclosed in Treasurer's Program 726.
Ministerial Portfolios, May 1989, p. 238	Internal management reporting and oversight by central agencies of inner budget agencies (PTC, Roads Corporation) are based on cash data whereas year-end external reporting is based on accrual accounting principles.	Position unchanged. Monitoring of cash appropriated by the budget process is still regarded as an essential aspect of internal management control over funds available to inner budget agencies and is treated separately to accrual accounting procedures.
Ministerial Portfolios, May 1990, p. 294	The annual financial statements of the transport authorities do not adequately disclose the costs and revenues of major areas of service delivery or segments of business activity.	Position unchanged.
Ministerial Portfolios, May 1990, p. 295	Meaningful assessments of the total transport portfolio is hampered by the lack of consolidated financial information.	Position unchanged. However, full consolidation of the portfolio budget appropriation and revenue impacts is included in the annual report of the Ministry of Transport.
Public Transport Corporation		
Fourth Report, 1983-84, p. 95	Track and related infrastructure - in audit opinion the present accounting policies in relation to depreciation, maintenance and deferred maintenance require review.	Position unchanged.
Second Report, 1985-86, p.163	Lack of disclosure of operating expenses by mode of transport does not enable proper analysis of performance.	Position unchanged.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	No action taken - *continued*	
Second Report, 1985-86, p.166, p.178 *Ministerial Portfolios*, May 1989, p. 256 *Ministerial Portfolios*, May 1990, p. 304	Excessive accumulation of employee leave credits.	Position unchanged.
Ministerial Portfolios, April 1991, pp. 423-4	Borrowing by way of sale and lease-back arrangements have been incorrectly classified by the Corporation as operating leases.	Position unchanged.
Roads Corporation		
Ministerial Portfolios, April 1991, pp. 428-30	Reduction in level of direct funding for roads has resulted in the deferral of road construction projects.	Position unchanged.
Ministerial Portfolios, April 1991, pp. 431-3	As a direct consequence of budget transfers the Corporation was unable to pay all of its contractors and suppliers.	Position unchanged. Budget transfers totally $15.2 million occurred during 1990-91.
Transport Accident Commission		
Ministerial Portfolios, April 1991, pp. 437-8	The Transport Accident scheme is fully funded with further improvement expected, a position which should be taken into account when determining future transport accident changes.	Position unchanged. Transport accident changes were increased in July 1991. For further comments, refer to paragraphs 3.23.230 to 3.23.237 of this Report.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
Completed audits				
Ministry of Transport	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	31 October 1991	31 October 1991 *(a)*
Grain Elevators Board	30 Sept. 1991	31 December. *Annual Reporting Act* 1983, s.9.	12 December 1991	31 December 1991
Marine Board of Victoria	30 June 1991	30 September. *Marine Act* 1988, s.80. Minister Extension granted to 31 October 1991.	16 October 1991	18 October 1991
MTA Investments Pty Ltd	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	11 November 1991	29 November 1991
MTA Superannuation Fund	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	11 November 1991	29 November 1991
Public Transport Corporation	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 25 October 1991.	23 October 1991	23 October 1991 *(a)*
Roads Corporation	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 11 October 1991.	25 September 1991	9 October 1991 *(a)*
Transport Accident Commission	30 June 1991	30 September. *Transport Accident Act* 1986, s.31.	24 September 1991	30 September 1991

(a) Qualified audit report issued.

3.24

TREASURER

KEY FINDINGS

- Delays have continued to occur in the finalisation and release of monthly *Niemeyer Statements*, inhibiting the timely monitoring of interim Consolidated Fund results by the Parliament and the public.

  Paras 3.24.6 to 2.23.7

- For the 9 months to 31 March 1992, the overall deficit of the Consolidated Fund, which was funded from borrowings, was $2 billion.

  Paras 3.24.8 to 3.24.12

- Audit was unable to obtain access to information on budgeted cash flows and it was therefore not possible to undertake a comprehensive analysis of the interim results of the Consolidated Fund.

  Para. 3.24.11

- $9.7 billion of Public Account borrowings managed by VicFin will mature within the next 10 years, requiring repayment or refinancing.

  Paras 3.24.15 to 3.24.16

- Maturing borrowings have been refinanced rather than repaid, resulting in a continual deferral of borrowing repayments to future years.

  Paras 3.24.17 to 3.24.19

- Long-term targets have not been formulated in respect of the composition of the State's total debt portfolio.

  Paras 3.24.28 to 3.24.31

The Treasurer is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of the Treasury

Public bodies

Beave Pty Ltd (previously known as Knowledge Victoria Ltd) (in liquidation)
Capital Works Authority
Emergency Services Superannuation Board
Government Employee Housing Authority
Hospitals Superannuation Board
Local Authorities Superannuation Board
Rural Finance Corporation
SIO Services Pty Ltd
SIO Superannuation Pty Ltd
State Casual Employees Superannuation Board
State Employees Retirement Benefits Board
State Insurance Office
State Superannuation Board administering:

- Holmesglen Constructions Superannuation Plan
- Parliamentary Contributory Superannuation Fund
- Pensions Supplementation Fund
- State Superannuation Fund

Tattersall Sweep Consultation
Transport Superannuation Board
Victorian Building Societies Council
Victorian Debt Retirement Authority
Victorian Development Fund
Victorian Economic Development Corporation
Victorian Public Authorities Finance Agency

Comments on matters of significance arising from the audit of certain of the above entities are discussed below. Further comment on Public Sector Superannuation Schemes is also contained in Section 4.3 of this Report.

DEPARTMENT OF THE TREASURY

INTERIM REPORTING OF CONSOLIDATED FUND OPERATIONS

3.24.1 The broad framework for the financial accountability responsibilities of the Executive Government to the Parliament is set out in the *Constitution Act* 1975, *Audit Act* 1958 and *Public Account Act* 1958. Under this framework, the Consolidated Fund is used by the Parliament to control the financial operations of the Government and to facilitate accountability over these operations. The key legislative tools which provide for parliamentary financial control and accountability are the appropriations of Consolidated Fund moneys embodied in the Annual Appropriation Act and the requirement for the Government to annually report on the Consolidated Fund transactions via the *Finance Statement*.

3.24.2 To enable the interim monitoring of Consolidated Fund financial results by members of the Parliament and the public, the Government in past years produced monthly *Niemeyer Statements* which provided a summary of Consolidated Fund transactions, along with explanatory comments. **For the period July 1991 to November 1991, the content and format of the Statements had, however, been revised by the Government with the resulting effect that it was no longer possible for the Parliament and the public to progressively monitor and assess the interim financial position of the Consolidated Fund.**

3.24.3 The *Niemeyer Statements* for the months of July 1991 to November 1991 were presented in the national accounting format. This format is used for the presentation of financial information in various government budget papers and extends the reporting of financial transactions beyond those of the Consolidated Fund to also encompass transactions of budget sector organisations, e.g. the Public Transport Corporation, Roads Corporation and Public Hospitals. While monthly Statements prepared under the revised format provided additional information, they did not separately disclose transactions specifically relating to the Consolidated Fund, or the interim financial position of the Fund.

3.24.4 The Estimates Committee, a sub-committee of the Parliamentary Economic and Budget Review Committee, in its November 1991 Report, commented on the revised content and format of the monthly *Niemeyer Statements*. The Committee considered that the benefits arising from the new format introduced in July 1991 were outweighed by a number of accountability disadvantages which impeded monitoring throughout the year. These disadvantages included the inability to monitor the Consolidated Fund recurrent deficit and the appropriation performance of individual Ministries.

3.24.5 It is pleasing to report that, following the comments of the sub-committee and subsequent discussions with audit, the Government from December 1991 varied the form of presentation of the monthly Niemeyer Statements to separately disclose specific information on the Consolidated Fund.

3.24.6 In my *Report on Ministerial Portfolios, April 1991* I commented that while the *Finance Statement* enabled the Parliament to be informed annually of the financial transactions and position of the Consolidated Fund, there was no legislative requirement for the reporting of Consolidated Fund transactions during the course of the year. The Report commented that the Government's monthly *Niemeyer Statements* provided a progressive summary of Consolidated Fund transactions, however, the publication of these *Statements* was often significantly delayed. Audit considered that, given the increasing focus in the private sector on the need for more frequent reporting to shareholders, it was desirable that the Parliament be progressively informed throughout each financial year of the financial transactions and position of the Consolidated Fund.

3.24.7 An audit review during the current year disclosed that delays had continued to occur in the release of monthly Niemeyer Statements.

Position of the Consolidated Fund at 31 March 1992

3.24.8 The *Public Account Act* 1958 defines the scope of the Consolidated Fund. The Act requires that payments made from the Fund cannot exceed the amounts received by it in the year. However, this requirement does not preclude the Government running a deficit in any particular year as borrowings can be used to ensure sufficient moneys are standing to the credit of the Fund.

3.24.9 At the date of preparation of this Report, the most recent Niemeyer Statement issued by the Department of the Treasury related to March 1992. Based on information recorded in this Statement, audit has determined that the Consolidated Fund had an overall deficit of $2 billion at 31 March 1992 ($1.8 billion at 31 March 1991) which was funded from borrowings, including temporary financing.

3.24.10 Table 3.24A details the position of the Consolidated Fund at 31 March 1992, **as determined by audit, after eliminating borrowings.**

TABLE 3.24A. CONSOLIDATED FUND POSITION AT 31 MARCH 1992
($million)

Item	*Actual at 31 March -* (a) *1991*	*1992*
Recurrent -		
Receipts	7 952	**8 505**
Payments	8 944	**9 587**
Recurrent (deficit)	(992)	**(1 082)**
Works and services -		
Receipts	593	**604**
Payments	1 361	**1 560**
Works and services (deficit)	(768)	**(956)**
Consolidated Fund (deficit) funded from borrowings*(b)(c)*	(1 760)	**(2 038)**

(a) Receipts and payments exclude all transactions relating to the sale of State Bank of Victoria of $2 017 million recorded by the Government within the Consolidated Fund.

(b) Proceeds from sale and lease-back arrangements and other borrowings totalling $945 million in 1991-92 ($768 million in 1990-91) have been excluded from Consolidated Fund receipts by audit when determining the deficit.

(c) The difference between the Consolidated Fund deficit and total budget sector financing transactions determined on the national accounting format, of $1 737 million, as disclosed in the March 1992 *Niemeyer Statement*, arises due to differences in the classification of transactions between the 2 formats and the inclusion of budget sector statutory authority transactions in the national accounting format.

3.24.11 Audit was again not able to obtain access to any information held within the Department of the Treasury and the Ministry of Finance on budgeted cash flows. Without such information, it was not possible to undertake a comprehensive analysis of the Consolidated Fund result up to 31 March 1992. However, Table 3.24B discloses the main reasons for the increased receipts and payments at 31 March 1992 compared with the position at the same time in the previous year.

TABLE 3.24B. MAJOR COMPONENTS OF INCREASED CONSOLIDATED FUND RECEIPTS AND PAYMENTS AS AT 31 MARCH 1992 AS COMPARED WITH 31 MARCH 1991

Item	*Increase*	*Key reasons for increase*
		RECEIPTS
Commonwealth Grants (recurrent)	$145 million	Reflects increased Hospitals grant in 1991-92, a $36 million receipt for debt redemption assistance and the impact of once-off $45 million receipt from Commonwealth as compensation for shortfalls in State revenue resulting from the introduction of a resources rent tax.
Public Authorities	$96 million	Higher dividends paid by Public Authorities in the current year and changed timing for the payment of State Insurance Office dividend.
Road Safety Act fees	$74 million	Introduction of a $70 motor vehicle registration fee for certain motorists from September 1991.
Debits tax	$68 million	Responsibility for collection of this revenue was transferred to the State from the Commonwealth in January 1991.
Payroll tax	$54 million	Reflects higher collections throughout 1991-92, resulting from a payroll tax increase from 6 to 7 per cent in November 1990.
Financial Institutions Duty	$27 million	Reflects higher collections throughout 1991-92, resulting from the doubling of the rate payable from November 1990.
Commonwealth Grants (Works and Services)	$26 million	Earlier receipt of Commonwealth Grants in current year.
Petroleum Franchise fees	$23 million	Reflects higher collections throughout 1991-92, resulting from a rate increase from 7.8 to 11 per cent in November 1990, to assist in the financing of the Government's commitment to Pyramid depositors.
		PAYMENTS *(a)*
Debt charges	$326 million	Changed timing of payment of debt charges relating to the State's debt to the Commonwealth, financial support in the current year to Tricontinental and transfer of 1990-91 Pyramid petrol levy collections to Trust Fund.
Education and Training (recurrent)	$172 million	Changed timing of payment of grants to non-government schools and impact of wage and salary increases.
Enhanced Resignation Package	$164 million	Introduction of the Package in current year.
Community Services	$85 million	Changed timing of municipal rate concession rebates and impact of wage and salary increases.
Pensions	$71 million	Higher lump-sum and pension payments in current year.

(a) Increased payments in 1991-92 were partly due to expenditure deferred in 1990-91. For further information, refer to paragraphs 1.20 to 1.50 of the *Report of the Auditor-General on the Finance Statement, October 1991*.

3.24.12 Given that the principal purpose of the Government's interim reporting is to enable the progressive assessment, by the Parliament and the public, of the Consolidated Fund financial position against budget, and of budget sector transactions, audit considers that **the inclusion within the monthly Niemeyer Statements of information on anticipated cash flows would considerably enhance the usefulness of these statements for such assessments.**

RESPONSE provided jointly by Director-General, Department of the Treasury, and Director-General, Ministry of Finance

The interim position of the Consolidated Fund is the subject of regular public reporting arrangements. It should be noted that the Treasurer has given an undertaking that the monthly Niemeyer Statements and related documents will be published within 4 weeks after the end of the previous month.

PUBLIC ACCOUNT DEBT MANAGEMENT

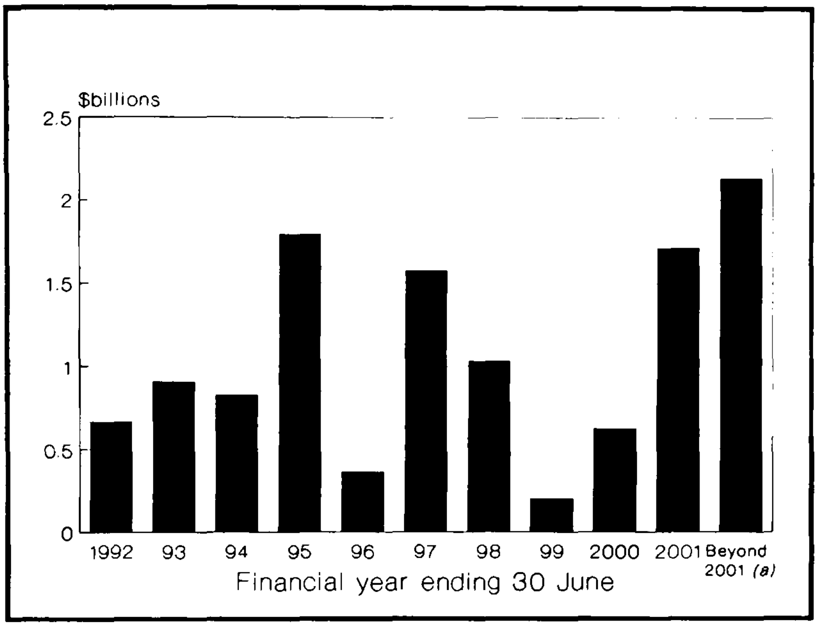
3.24.13 A key element of the Government's 1991-92 Budget, and its 3 year financial management plan for the State outlined in the Premier's June 1991 Economic Statement, is a long-term debt management strategy. The principal aims of the strategy are to reduce the level of budget sector debt and to manage debt in a manner which minimises financing costs.

3.24.14 Given the significant impact of budget sector debt on Victorian taxpayers and the operations of the Consolidated Fund, audit carried out an analysis of Public Account borrowings raised and managed by the Victorian Public Authorities Finance Agency (VicFin) on behalf of the Consolidated Fund. These borrowings account for around 82 per cent of total gross budget sector borrowings and are the principal source for funding annual Consolidated Fund deficits.

Debt maturity profile

3.24.15 The Department of the Treasury records show that the value of Public Account borrowings managed by VicFin at 31 December 1991, excluding short-term advances, was $13.4 billion. Chart 3.24C outlines the maturity profile of these borrowings at that date.

CHART 3.24C. MATURITY PROFILE OF DEBT, AT 31 DECEMBER 1991

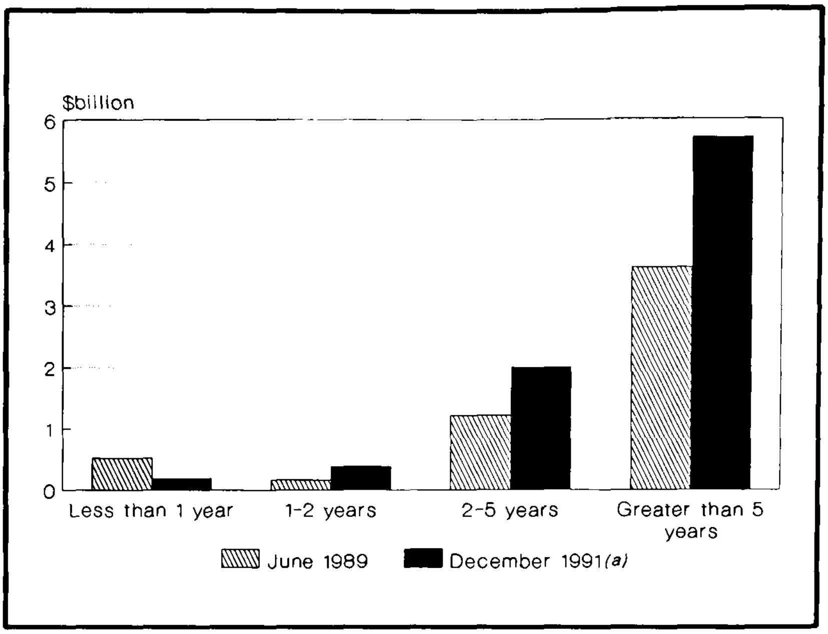


(a) Excludes $1.6 billion of State debt to the Commonwealth under Financial and Housing Agreements, which matures between 2002 and 2042.

3.24.16 The chart illustrates that borrowings will mature progressively over future years, with approximately $9.7 billion or 72 per cent maturing and requiring repayment or refinancing within the next 10 years.

3.24.17 Governments in Victoria have incurred Consolidated Fund deficits which have been funded from borrowings. With this practice, **maturing borrowings have been refinanced rather than repaid, resulting in a continual deferral of borrowing repayments to future years.** Chart 3.24D illustrates the impact of this practice, and the raising of additional borrowings to partly finance annual deficits, on the level and maturity profile of borrowings over the period June 1989 to December 1991.

CHART 3.24D
IMPACT OF DEBT REPAYMENT DEFERRALS AND CONTINUING DEFICITS ON DEBT MATURITY PROFILE OVER THE PERIOD 30 JUNE 1989 TO 31 DECEMBER 1991



(a) Excludes all State debt to the Commonwealth under Financial and Housing Agreements.

3.24.18 The chart shows that at June 1989, borrowings due for repayment in excess of 5 years totalled $3.6 billion whereas the equivalent situation at December 1991 was $5.7 billion, an overall increase of $2.1 billion in only 3½ years.

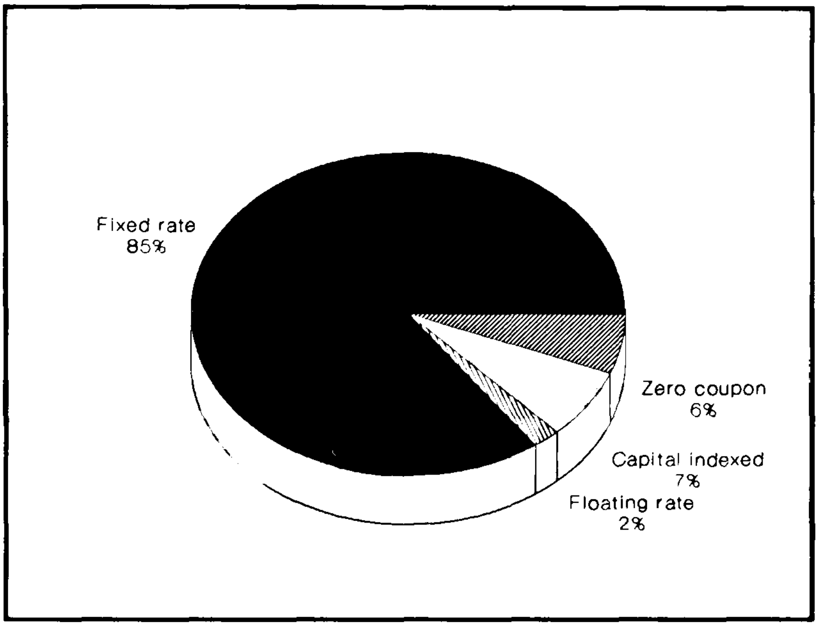
3.24.19 The extent to which the Consolidated Fund, in future, will be in a position to retire maturing debt, without recourse to refinancing, will be significantly influenced by the success of current government debt management initiatives and other strategies embodied within the Government's June 1991 Economic Statement.

Composition of debt

3.24.20 The borrowings mix profile established by the Government is a significant determinant of the level of financing costs incurred by the State, and of the State's exposure to financial loss due to adverse movements in interest rates. In order to minimise overall financing costs, the State undertakes borrowings in various forms commonly referred to as fixed rate, floating rate, capital indexed and zero coupon. These forms of borrowing are complemented from time to time by the use of debt management instruments known in financial markets as swaps, switches and options with the aim of minimising the State's interest costs.

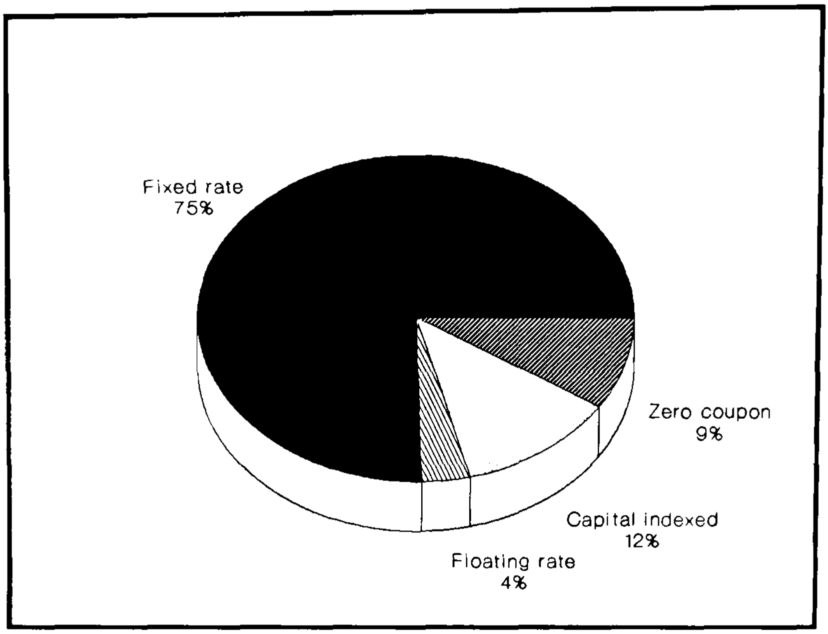
3.24.21 Chart 3.24E shows the composition of Public Account borrowings totalling $13.4 billion, managed by VicFin at 31 December 1991.

CHART 3.24E
COMPOSITION OF PUBLIC ACCOUNT BORROWINGS MANAGED BY VICFIN AT 31 DECEMBER 1991



3.24.22 A major factor influencing the composition of borrowings is the State's debt to the Commonwealth under the Financial and Housing Agreements, all of which has been raised at fixed rates of interest. Chart 3.24F outlines the mix of borrowings at 31 December 1991 when this Commonwealth debt, valued at $5.2 billion, is excluded.

CHART 3.24F. COMPOSITION OF PUBLIC ACCOUNT BORROWINGS MANAGED BY VICFIN EXCLUDING BORROWINGS FROM THE COMMONWEALTH AT 31 DECEMBER 1991



3.24.23 The 2 charts illustrate that a considerable portion of Public Account borrowings managed by VicFin have been raised at fixed rates. The predominance of fixed interest instruments within the debt portfolio is largely attributable to the following factors:

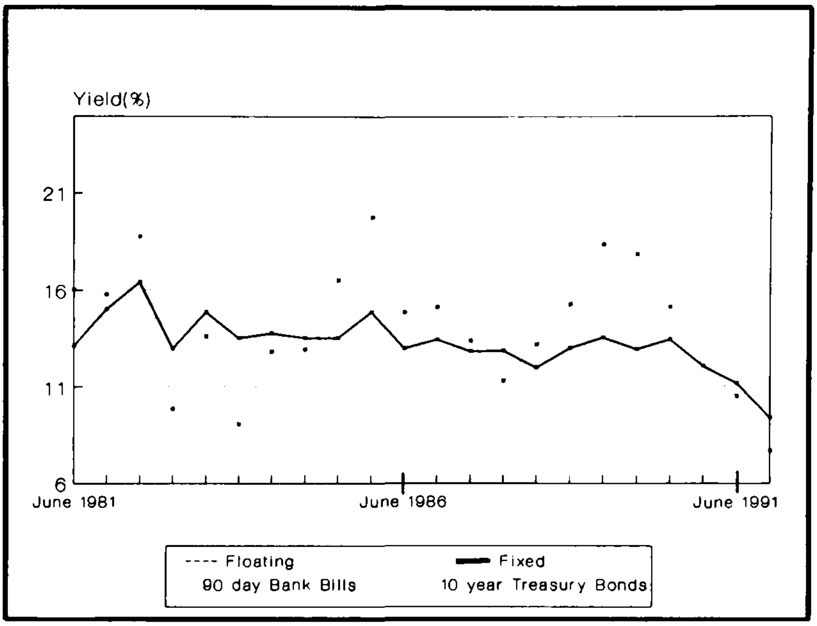
- governments have traditionally borrowed through fixed interest instruments due to the ready availability of such instruments and the predictability of future outlays;
- floating interest rates between 1985 and 1990 have generally been higher than fixed rates; and
- the need to minimise the State's exposure to volatility in financing costs.

3.24.24 A review of interest costs associated with servicing the fixed rate borrowings portfolio revealed that the **average interest rate payable was 11.1 per cent at 31 December 1991.** This comprised an average interest rate of 6.2 per cent for borrowings at concessional rates from the Commonwealth and 12.6 per cent for borrowings raised directly by the State.

3.24.25 While fixed interest borrowings insulate the State from the impact of volatile and escalating interest rates, they also increase exposure to higher long-term financing costs in times of reducing interest rates.

3.24.26 Chart 3.24G indicates the level of fixed and floating interest rates over the past decade.

CHART 3.24G. INTEREST RATE MOVEMENTS, 1981 TO 1991



- 90 day Bank Bill rates are indicative of floating rates in financial markets.
- 10 year Treasury bond rates are indicative of fixed rates in financial markets.

Source: Reserve Bank of Australia Bulletin.

3.24.27 Given the changing relationship and gap between fixed and floating interest rates, the achievement of long-term optimum interest costs on borrowings is dependent upon the maintenance of a diversified borrowings portfolio which is effectively managed.

Government initiatives to diversify the borrowings portfolio

3.24.28 In September 1991 the Government introduced a 3 year strategic plan setting out various goals and targets relating to Public Account borrowings managed by VicFin. Table 3.24H shows the targeted mix of borrowings to be raised via VicFin over the period 1991-92 to 1993-94.

TABLE 3.24H. TARGETED MIX OF BORROWINGS OVER NEXT 3 YEARS
(per cent)

Form of borrowing	*Target*
Fixed rate	60
Capital indexed	15
Zero coupon	15
Floating rate	10

3.24.29 While the strategic plan outlines the targets in relation to borrowings to be raised over the next 3 years, **long-term targets have not been formulated by the Government in respect of the State's total debt portfolio.**

3.24.30 Audit considers that long-term targets for the entire debt portfolio need to be established to complement the recent initiatives, such as the establishment of a central borrowing authority, and to facilitate achievement of maximum efficiency in the management of the State's debt.

3.24.31 It is my intention to undertake a more detailed analysis of budget-sector borrowings and associated financing costs, including an assessment of progress made in achieving the targets included in the Government's Strategic Plan, as part of the audit of the *1991-92 Finance Statement*.

RESPONSE provided by Director-General, Department of the Treasury

Para 3.24.29. The Government has established an explicit mix in its current borrowing activities which is designed to alter the structure of the debt portfolio over time. It is intended to formalise this approach into the Capital Works Authority's strategic plan approved by the Treasurer when the Treasury Corporation of Victoria is fully established and managing the portfolio.

TATTERSALL SWEEP CONSULTATION

ABSENCE OF LINE OF ACCOUNTABILITY TO THE PARLIAMENT

3.24.32 The functions and powers of Tattersall Sweep Consultation are embodied in the *Tattersall Consultations Act* 1958 and within a licence agreement entered into with the Trustees of the Estate of the late George Adams to promote and conduct consultations.

3.24.33 Tattersall Sweep Consultation operates through a network of retail outlets offering a range of lottery services including Tattslotto, Instant Lottery and Keno. For the year ended 30 June 1991, the financial statements of the Consultation reported lottery sales of $903 million with prizes paid to winning patrons of $541 million and lottery tax of $321 million paid to the Consolidated Fund.

3.24.34 The Consultation is required to make further payments to the Government from its operating profit by way of contributions to both the Consolidated Fund and the Trust (Lotteries Development) Fund, a trust fund within the Public Account. The balance of profit each year is distributed to the Estate of the late George Adams, with the return to the Estate limited, under the legislation, to either 1.5 per cent of lottery sales or 65 per cent of the net operating profit.

3.24.35 Although the lottery activities of the Consultation generate a substantial return to the Consolidated Fund, the Tattersall Consultations Act makes no provision for an annual report (including audited financial statements) on lottery operations of the Consultation to be provided to the Parliament.

3.24.36 In July 1991, audit communicated with the Minister for Gaming on the accountability status of Tattersalls in the context of its proposed role as a gaming operator under the Gaming Machine Control Bill, which was then before the Parliament. Audit conveyed to the Minister the view that the public accountability framework for Tattersalls in respect of its gaming operations should equate with that of the other gaming operator, namely the Totalizator Agency Board. Audit encouraged action which would bring about this position.

3.24.37 Agreement was later reached with the Minister on amendments to the Gaming Machine Control Bill which would ensure an appropriate line of accountability from Tattersalls to Parliament with regard to gaming machine operations. The amendments were subsequently passed by the Parliament.

3.24.38 At that time, audit also communicated with the then Treasurer on the public accountability of Tattersalls and expressed the view that similar action with regard to its lottery activities should be initiated. In addition, audit held discussions on the subject with representatives of the Department of the Treasury and the General Manager of the Consultation. Discussions also took place between officers of that Department and the Consultation.

3.24.39 In January 1992, the then Treasurer advised the Auditor-General by letter of his concurrence with the audit view, that Tattersalls' accounts should be tabled in the Parliament. The Treasurer indicated that he would propose legislation to require the tabling of these accounts.

3.24.40 Given the direct financial relationship between Tattersall Sweep Consultation and the Consolidated Fund, audit commends the action proposed by the Government to have audited financial information dealing with the lottery operations of Tattersalls available, on an annual basis, for the scrutiny of the Parliament.

3.24.41 It is stressed that the audit suggestion for introducing a regular flow of audited information on Tattersalls to the Parliament should not be construed as representing criticism of the discharge by Tattersalls of its lottery responsibilities under the current licensing agreement with the Government.

RESPONSE provided by General Manager, Tattersall Sweep Consultation

The issue of Tattersall's accountability has been addressed by audit in prior years and we have provided our views on that matter. We re-state our position which was put to the Treasurer in October 1991 as follows:

> *"As required by the Act and the Licence under which we operate, Tattersall provides both the Auditor-General and yourself with accounts for the Sweeps business, in a format which has been discussed and agreed to by the Auditor-General. Additionally, full access to Tattersall's records and documentation is provided and any other information and explanations are provided on request.*

"The Auditor-General makes various observations concerning Tattersall's accounts and discusses these observations with us during the conduct of their audit. Insofar as we are in agreement with their comments, we amend our accounts or make further disclosures, as considered appropriate.

"There are and will always be matters on which the Auditor-General and Tattersall take a different view. These matters are discussed in detail with the Auditor-General and we provide them with appropriate and relevant documentation, explanation and evidence to support and substantiate Tattersall's view and opinion.

"The Auditor-General's inquiries have always been satisfied by us to the extent that the Auditor-General has always issued unqualified audit reports on Tattersall's accounts.

"I believe that Tattersall have always complied to the fullest extent possible, with all the reporting requirements.

"I now understand that the Auditor-General is proposing to report to Parliament in early 1992, that in their opinion, Tattersall's accountability is inadequate and that Tattersall should be required to report in an agreed format to Parliament, to ensure proper accountability.

"Thus far, I have been unable to obtain specifics as to where Tattersall is deficient in its reporting requirements and I am surprised that a view has been taken by the Auditor-General that Tattersall is not accountable. I am a bit concerned that the Auditor-General is going beyond the reporting requirements and is making political comment about the Tattersall arrangements, which I believe is beyond their scope or authority.

"I am very familiar with Tattersall reporting requirements and always ensure that Tattersall comply to the fullest extent with all reporting and other Licence and Act provisions. Accordingly, I do not believe there to be any shortcomings in our reporting.

"Your views on any shortcomings, insofar as Tattersall's reporting or accountability is concerned, would be appreciated.

"I would also appreciate it if Treasury could again take up this matter with the Auditor-General to determine what perceived inconsistencies exist in the reporting requirements and to provide the Auditor-General with Treasury assurances as to Tattersall's continued compliance. Our numerous meetings with the Auditor-General have not been able to solve the insistence by them, that Tattersall should be subject to further reporting requirements, notwithstanding our co-operation and agreement with the requests by the Auditor-General, for further disclosures.

"If the Auditor-General reports to Parliament, inadequacies in Tattersall's accountability as perceived by him, I would hope that it would also be made quite clear to Parliament that Tattersall has always complied with all the requirements for reporting and access and that the Auditor-General's comments represents his attitude to the legislation applicable to Tattersall and not to any deficiencies in Tattersall's reporting or accountability."

We reject any comment that Tattersall's reporting should equate that of the TAB. The TAB is fully accountable, in that it is owned by the people of Victoria and is funded by the people of Victoria, whereas Tattersall's is not a government authority, does not rely on government funding and complies with all reporting requirements imposed on us by the Act and our licence.

We believe that Tattersall's fully complies with all its accountability requirements that those requirements, as agreed and as imposed on us by the Act and the licence are appropriate.

However, we fail to understand audit's continued criticism of Tattersall's without suitable justification or authority.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced

Department of the Treasury

Report	*Subject*	*Status at date of preparation of this Report*
Supplementary Report, 1980-81, p. 54 *Ministerial Portfolios,* April 1991, p. 217	Amounts owed by departments to Government Printing and Publishing Services not paid within 30 days.	The level of sundry debtors has now reduced from $5.4 million at 30 June 1990 to $1.7 million at 31 December 1991.
Second Report, 1987-88, p. 305	The State Taxation Office did not have a formal disaster recovery plan for its computer operations.	A disaster recovery plan has still not been developed for the Office's current computer systems. However, a plan is to be developed in relation to a new revenue collection system which is planned for implementation in 1993-94.
Second Report, 1982-83, pp. 87-8 *Ministerial Portfolios,* May 1989, p. 213	A range of environmental control weaknesses exist at the Victorian Government Computing Service.	The Department has prioritised and costed all environmental risks, with $30 000 spent in 1990-91 in improving environmental controls and a further $120 000 expenditure planned for 1991-92.
Ministerial Portfolios, May 1990, pp. 327-8	Some entities were maintaining dual insurance cover.	The Department has now established adequate monitoring procedures to eliminate duplication.
Ministerial Portfolios, April 1991, pp. 212-14	The Government's Printing and Publishing Services to 30 June 1990 had incurred accumulated losses totalling $7.2 million. The performance and financial position of the Services need to be closely monitored.	Action has been taken to improve the performance of the Services and to improve the monitoring by the Department. In 1990-91, the Services incurred a loss on operations of $2.5 million, compared with a loss of $3.3 million in 1989-90.
Ministerial Portfolios, April 1991, pp. 214-15	Capital contributions from government of around $10 million are required for upgrading of the Government Printing and Publishing Services' equipment and premises.	Funding required has been reduced to $1.4 million over 2 years, principally due to the acquisition of existing systems and equipment from the Public Transport Corporation, a re-assessment of needs and the sharing of equipment within the Services.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Matters resolved or action commenced - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolios, April 1991, pp. 215-17	A turnaround in the Government Printing and Publishing Services performance is dependent upon the success of its 4 separate business units.	Business plans have been put into operation to ensure the profitability of the business units, with all 4 units anticipating to either break-even or make an operating profit in 1991-92 and 1992-93.
Ministerial Portfolios, April 1991, p. 218	To improve the accountability of the Government's Printing and Publishing Services unit, there is a need for this unit to be brought under the ambit of the Annual Reporting Act.	A Bill has been introduced to establish the Victorian Supply Service, which provides for the incorporation of the printing operations. The Service, once established, will be subject to the Annual Reporting Act.
Ministerial Portfolios, April 1991, pp. 447-8	There is a need for more frequent formal reporting to the Parliament of the financial transactions and position of the Consolidated Fund.	For further comments, refer to paragraphs 3.24.1 to 3.24.12 of this Report.
Emergency Services Superannuation Board		
Ministerial Portfolios, April 1991, p. 450	At 30 June 1990 an amount of $220 million, on account of employer contributions, was due from the Consolidated Fund to the Emergency Services Superannuation Scheme.	A financial plan has been put in place to extinguish the debt of the Consolidated Fund by the year 2000. The debt at 30 June 1991 stood at $218 million.
State Superannuation Board		
Ministerial Portfolios, April 1991, p. 452	The Consolidated Fund debt at 30 June to the State Superannuation Fund, for unreimbursed lump sum payments to members of the Revised Scheme, was $1.1 billion, representing 45 per cent of the Fund's net assets.	The Government in its June 1991 Economic Statement and *1991-92 Budget Papers* announced an intention to change reimbursement procedures so that, over the next decade, the proportion of unreimbursed lump sum payments will not exceed 50 per cent of the Fund's assets, and will gradually reduce. The value of unreimbursed lump sum payments at 30 June 1991 was $1.2 billion, representing 48 per cent of the Fund's net assets.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Matters resolved or action commenced - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolios, April 1991, p. 452	In the absence of any change in current funding arrangements, the Fund's financial position may deteriorate and the Board's capacity to maximise the return on members' funds will be inhibited.	The Board in 1990-91 continued to earn a real rate of return of 6 per cent on the Consolidated Fund debt, however, the Superannuation Fund's funding ratio (i.e. the ratio of net assets, excluding Consolidated Fund debt, to total unfunded liabilities) had declined from 9.2 per cent at 30 June 1990 to 8.6 per cent at 30 June 1991.
Ministerial Portfolios, April 1991, pp. 453-4	Consideration needs to be given by the Trustees of the Parliamentary Contributory Superannuation Fund to diversifying the Fund's investments.	The Fund's Trustees in June 1991 adopted a 3 year investment strategy which provides for the diversification of investments.
Government Employee Housing Authority		
Ministerial Portfolios, April 1991, p. 221	The Authority had not completed a 3 to 5 year strategic plan.	A 3 year strategic plan was approved by the Authority's Board in December 1991.
Ministerial Portfolios, April 1991, pp. 222-3	The Authority is faced with substantial costs to upgrade properties due to its failure to assess their physical condition prior to purchase.	The Authority has recognised the need to ensure that, in future, all relevant costings are considered, as part of purchase negotiations.
Ministerial Portfolios, April 1991, pp. 222-4	The purchase of 460 Public Transport Corporation houses benefited the cash position of the Consolidated Fund.	No purchase of housing from budget sector organisations occurred during 1990-91.
Ministerial Portfolios, April 1991, pp. 225-7	The Authority needs to improve its monitoring of the utilisation of employee houses by participating agencies.	Steps have been introduced by the Authority to ensure utilisation of government housing facilities is maximised.
Ministerial Portfolios, April 1991, pp. 227-8	Extensive delays have been experienced in the disposal of properties located on Crown land, due to delays in the issue of Crown Grants.	Revised procedures have been implemented for obtaining survey certificates, however, delays continue to occur in the issue of Crown grants.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Ministerial Portfolios, April 1991, pp. 229-30	The Authority needs to ensure that improved procedures are in place for any future computer developments.	A consultant has been appointed to oversee the specification of information technology requirements, together with the development and implementation of appropriate computer systems.
Ministerial Portfolios, April 1991, pp. 230-1	The Authority had not adequately maintained the Government Housing Accommodation Register, as required by its enabling legislation.	The Register is now appropriately maintained.
Ministerial Portfolios, April 1991, p. 231	The Authority's review and advisory activities on public sector-wide employee housing have been limited.	The Authority now controls the majority of employee housing within the budget sector, therefore, the need for advisory activities to agencies is now minimal.
Beave Pty Ltd (previously known as Knowledge Victoria Limited)		
Ministerial Portfolios, April 1991, pp. 455-62	Beave Pty Ltd is in voluntary liquidation with operating losses of $1.5 million.	The company is still in liquidation and therefore no audit is required.
	No action taken	
Emergency Services Superannuation Board		
Ministerial Portfolios, April 1991, p. 451	Borrowings by the Emergency Services Superannuation Scheme of $220 million were considered by audit to be, in substance, borrowings of the Consolidated Fund.	The matter of whether the debt represents, in substance, borrowings of the Consolidated Fund remains the subject of disagreement between audit and the Department of the Treasury.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Department of the Treasury	30 June 1991	31 October. *Annual Reporting Act* 1983, s.8.	21 November 1991	22 November 1991 *(a)*
Capital Works Authority	30 June 1991	31 October. *Annual Reporting Act* 1983, s.9. Extension granted to 21 November 1991.	18 November 1991	19 November 1991 *(a)*
Emergency Services Superannuation Board	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 December 1991.	6 November 1991	28 November 1991
Government Employee Housing Authority	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	18 September 1991	30 September 1991
Holmesglen Constructions Superannuation Plan	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer.	29 October 1991	21 November 1991
Hospitals Superannuation Board	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 March 1992.	9 April 1992	15 April 1992 *(a)*
Knowledge Victoria Ltd	31 December 1989	No reporting requirements. Audit conducted at request of the Treasurer.	31 March 1991	16 April 1991
Metropolitan Fire Brigades Superannuation Board *(c)*	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 December 1991.	6 November 1991	27 November 1991
Local Authorities Superannuation Board	30 June 1991	30 September*(b)*. *Annual Reporting Act* 1983, s.9.	30 September 1991	31 October 1991
Parliamentary Contributory Superannuation Fund	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 December 1991.	26 November 1991	16 December 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Completed audits - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Pensions Supplementation Fund	30 June 1991	No reporting requirements. Audit conducted at request of the Treasurer.	25 November 1991	28 November 1991
Rural Finance Corporation	30 June 1991	30 September. *Rural Finance Act* 1988, s.28.	4 September 1991	13 September 1991
SIO Services Pty Ltd	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer.	24 September 1991	30 September 1991
SIO Superannuation Pty Ltd	30 June 1991	.. ..	24 September 1991	30 September 1991
State Employees Retirement Benefits Board	30 June 1991	30 September*(b)*. *Annual Reporting Act* 1983, s.9.	22 October 1991	25 November 1991
State Insurance Office	30 June 1991	30 September. *State Insurance Office Act* 1984, s.24.	24 September 1991	30 September 1991
State Superannuation Fund	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 December 1991	15 November 1991	22 November 1991
Tattersall Sweep Consultation	30 June 1990	No reporting requirements. *Tattersall Consultations Act* 1958, s.8A.	21 December 1990	2 May 1991
Tattersall Sweep Consultation	30 June 1991	No reporting requirements. *Tattersall Consultations Act* 1958, s.8A.	20 December 1991	1 April 1992*(a)*
Transport Superannuation Board	30 June 1991	30 September*(b)*. *Annual Reporting Act* 1983, s.9	22 October 1991	29 November 1991
Victorian Building Societies Council	30 June 1991	30 September. *Building Societies Act* 1986, s.24.	29 November 1991	29 November 1991

Schedule B. COMPLETED/INCOMPLETE AUDITS - *continued*

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits - *continued*				
Victorian Development Fund	30 June 1991	30 September. *Public Account Act* 1958, s.7G.	25 September 1991	30 September 1991
Victorian Economic Development Corporation	30 June 1991	31 December. *Victorian Economic Development Act* 1981, s.43.	4 September 1991	13 September 1991
Victorian Public Authorities Finance Agency	30 June 1991	30 September. *Victorian Public Authorities Finance Authorities Act* 1984, s.14.	27 September 1991	30 September 1991
Incomplete audits				
State Casual Employees Superannuation Board	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 March 1992.	Audit completed, however, awaiting final financial statements.	

(a) Qualified audit opinions provided.
(b) Extension granted to 30 November.
(c) Merged with Emergency Services Superannuation Fund on 1 January 1992.

3.25

WATER RESOURCES

KEY FINDINGS

- Over 265 000 additional rating properties came under the responsibility of the Melbourne and Metropolitan Board of Works (MMBW) during 1991 as a result of the absorption of a number of water authorities into the Board.
  Paras 3.25.1 to 3.25.5

- The continuing lack of legislative authority for the MMBW to charge interest on overdue accounts means that substantial annual revenue is forgone by the Board.
  Paras 3.25.6 to 3.25.8

- The MMBW has implemented several initiatives aimed at increasing its organisational efficiency.
  Paras 3.25.9 to 3.25.30

- The continued program of rationalisation of non-metropolitan water authorities has led to a reduction in the number of authorities from 171 to 144.
  Paras 3.25.37 to 3.25.41

- The withholding of the payment of 1990-91 rates by the farming community resulted in the Rural Water Commission (RWC) forgoing approximately $1.1 million in revenue.
  Paras 3.25.53 to 3.25.58

- Substantial changes are envisaged to the RWC structure following a major Government review of its future management.
  Paras 3.25.59 to 3.25.66

- The RWC does not recover substantial levels of costs from users of particular services.
  Paras 3.25.67 to 3.25.80

Following a re-arrangement of Ministerial responsibilities on 21 January 1992, the Minister for Water Resources became responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Water Resources (established 21 January 1992)

Public bodies

Melbourne and Metropolitan Board of Works
Melbourne and Metropolitan Board of Works Employees' Superannuation Fund
Non-metropolitan water authorities (144)
Rural Water Commission of Victoria

Up to January 1992, responsibility for water resources rested with the Minister for Conservation and Environment.

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

MELBOURNE AND METROPOLITAN BOARD OF WORKS

INCREASE IN BOARD'S AREA OF RESPONSIBILITY

3.25.1 During 1991, the Minister for Conservation and Environment abolished a number of water authorities and transferred their functions to the Melbourne and Metropolitan Board of Works.

3.25.2 This action resulted in the Board becoming responsible for the provision of water and sewerage services to a greatly expanded area of the Melbourne metropolitan area. Assets with a historical cost value of \$768 million and liabilities of \$398 million were transferred to the Board from the former authorities. Table 3.25A illustrates the level of assets, liabilities and equity transferred to the Board, together with the approximate number of additional properties to be serviced by the Board.

TABLE 3.25A. PARTICULARS OF WATER AUTHORITIES TRANSFERRED TO THE BOARD DURING 1991

Authority abolished	*Date of abolition during 1991*	*Assets*	*Liabilities*	*Equity*	*Additional rateable properties*
		($m)	*($m)*	*($m)*	*No.*
Dandenong-Springvale Water Board	June	80	16	64	59 000
Emerald District Water Board	June	12	7	5	5 800
Mornington Peninsula and District Water Board	August	508	348	160	197 000
Pakenham Water Board	August	16	3	13	3 000
Lang Lang Water Board	August	2	1	1	800
Dandenong Valley and Western Port Authority	November	150	23	127	*(a)*
Total		**768**	**398**	**370**	**265 600**

(a) The Dandenong Valley and Western Port Authority does not rate individual property owners but obtains its rating revenue by the levying of rates on municipal councils.

3.25.3 The Government regards the merging of the various authorities as a major step forward in its reform program for the water sector. It anticipates that the following major benefits will result from this initiative:

- better value-for-money for customers by removing duplication of services, and by co-ordinating the provision of water, sewerage and open space functions to the south-east sector of greater Melbourne;
- increased efficiency and better service delivery;
- significantly improved drinking water quality for Mornington-Peninsula residents; and
- reduction in rates for most customers of the small authorities.

3.25.4 As a consequence of the above merger, the Board has:

- an enlarged rating base which should result in increased annual profits; and
- access to additional cash resources (cash and investments transferred to the Board from the abolished authorities were in excess of $75 million).

3.25.5 The enhanced resource base and financial capability of the Board means that it is substantially better placed to finance its 1991-92 dividend obligations totalling $184.3 million due to the Consolidated Fund and the Victorian Equity Trust. This level of dividends represents an increase of $70.1 million, or 61 per cent, over the 1990-91 dividends, compared with an equivalent increase in the previous year of 24 per cent.

RESPONSE provided by General Manager, Melbourne and Metropolitan Board of Works

Audit comments are noted. The dividend payable to the Consolidated Fund and the Victorian Equity Trust was based on negotiations between the Board and the Victorian Government. The benefits of an increased resource base and financial capability should also be seen as the ability of providing a better service to customers and running a more efficient business and thus provide a capacity to pay higher dividends in the future.

CHARGING OF INTEREST ON OVERDUE ACCOUNTS

3.25.6 Previous Auditor-General's Reports have commented that the Board's enabling legislation does not confer on the Board an authority to charge interest on arrears of rates and charges. In contrast, other major rating bodies have the authority to levy interest on overdue amounts. **The Board's position on this issue has remained unchanged since 1986-87.**

3.25.7 The failure by the Board to obtain the necessary legislative authority to charge interest on overdue accounts has important cost implications for the Board. In this respect, those authorities which recently merged with the Board were formerly able to charge ratepayers interest on outstanding accounts in accordance with the provisions of the *Water Act* 1989. **In aggregate, the revenue obtained by the former authorities from this source in their latest full year of operation was in excess of $1.3 million.** In the current circumstances, the Board will lose access to this revenue source and the capacity to influence ratepayers of the former authorities to settle water accounts in a timely manner.

3.25.8 The Board needs to seek a speedy resolution to this long outstanding issue.

RESPONSE provided by General Manager, Melbourne and Metropolitan Board of Works

The authority to charge interest on arrears of rates and charges will be included in the legislation to establish Melbourne Water Corporation. It is therefore not considered appropriate at this time to seek amendments to existing legislation.

UPDATE ON STRATEGIES TAKEN BY THE BOARD TO INCREASE ITS EFFICIENCY

3.25.9 The *Auditor-General's Report on Ministerial Portfolios, April 1991* referred to a number of initiatives undertaken by the Board to increase its efficiency and provide an improved level of service to the community.

3.25.10 The initiatives included the downsizing of the Board's workforce, the establishment of a company to provide information technology services and the contracting to external parties of certain services previously provided with in-house resources.

3.25.11 Since the April 1991 Report, the Board has continued the process of reviewing its various areas of operations and implemented several additional initiatives to further improve its efficiency. These measures are estimated by the Board to generate savings in 1991-92 of $25.9 million. The Board is to be commended for the new range of measures it has embarked upon to provide assurance that the quality of its service delivery and resource management is continually reassessed and upgraded.

3.25.12 As mentioned in my April 1991 Report, the Board's positive strategies need to be complemented by systematic monitoring of efficiency gains actually achieved and the provision of relevant information to the Parliament.

3.25.13 Details of the initiatives undertaken since the April 1991 Report are set out below.

Continuation of downsizing of workforce

3.25.14 As part of a strategy aimed at achieving a significant reduction of its workforce, the Board, in 1991-92, continued to offer redundancy packages to its employees. **In the period July 1991 to February 1992 about 870 employees had accepted the redundancy packages at a cost of $16.5 million (July 1990 to March 1991, 1 200 employees at a cost of $25 million).** The Board estimates that **savings emanating from the latest redundancy program will be around $15.5 million in 1991-92** and in excess of $20 million in 1992-93.

Establishment of a tunnelling company

3.25.15 In July 1991, the Board's tunnelling group was registered as a company, Project Tunnelling Australia Pty Ltd, which is wholly-owned by the Board. Currently, the company's operations are conducted by 88 employees seconded from the Board.

3.25.16 The Board is in the process of considering the future of the company at the completion of its current tunnelling job, construction of the north-west sewer project. The Board has advised audit that 4 companies have registered an expression of interest in the purchase of the company.

Contracting of design services

3.25.17 In February 1992, the Board's design function was contracted to a private sector company for a period of 3 years. The divestment of the function arose mainly from a rapidly reducing workload and the fact that the required design services could be provided more efficiently by the private sector.

3.25.18 Savings from this initiative are estimated by the Board at $8 million a year.

Closure of Preston workshops

3.25.19 The Board's Preston workshops previously provided servicing facilities for motor vehicles, plant and equipment and the fabrication and manufacture of water meters.

3.25.20 Following a review of the operations of the workshops in 1991, the Board decided that, rather than maintaining this service at a significant cost, a better service could be provided from its regional centres and the private sector. Subsequently, the Preston workshops were closed in March 1991.

3.25.21 **Savings in excess of $1 million a year** are expected to accrue to the Board from the closure of the workshops.

Closure of Survey and Mapping, and Geotechnical Services groups

3.25.22 A consultancy review for the Board revealed that both groups were operating at a loss. In addition, a reduced demand for the groups' services had limited the career opportunities for staff which had led to the loss of key professional personnel.

3.25.23 The operations of the 2 groups ceased in January 1992 when the Board entered into contracts of 3 years duration with private sector companies for the provision of the required services.

3.25.24 The Board is confident that annual **savings in excess of $1 million a year** will result from the revised arrangements.

Contracting of cafeteria services

3.25.25 The operations of the Board's head office staff cafeteria were contracted to a private catering firm in April 1991.

3.25.26 The Board predicts that **savings of approximately $400 000 a year** and improved quality of service will occur from the revised arrangements.

Construction of water treatment plant

3.25.27 During 1991, the Board called for expressions of interest from private sector organisations to construct and operate a water treatment plant at its Yan Yean Reservoir at a cost of approximately $25 million.

3.25.28 A number of firms expressed interest in the project and the Board has requested 3 consortiums to submit detailed proposals by April 1992.

Development of Board's surplus land

3.25.29 The Board plans to develop 120 hectares of surplus land it owns at Braeside, in the south-eastern area of Melbourne. The project will entail the establishment of a joint venture between the Board and a private developer to construct and market an industrial estate over a 10 year timeframe.

3.25.30 A preferred developer has been selected by the Board and negotiations are currently in progress.

RESPONSE provided by General Manager, Melbourne and Metropolitan Board of Works

Gains resulting from initiatives undertaken are taken into account as part of the budget setting process for the following financial year.

Melbourne Water will consider recommendations to include details In its Annual Report of performance measures and gains arising from initiatives to improve efficiencies in its operations.

PROPOSED CORPORATISATION OF BOARD

3.25.31 As part of action aimed at corporatisation of the Board, the then Minister for Conservation and Environment introduced into the Parliament, in November 1991, the Melbourne Water Corporation Bill. The purpose of the new legislation, which mainly covers the organisational structure and management framework for the corporatised body, is to:

- protect the public ownership of the Corporation's assets and provide clear and non-conflicting objectives for the Corporation;
- clearly define the relationship between the Corporation, the Minister and the Parliament;
- ensure that the new Board of Directors has a clearly identified role and that its members are fully accountable for their performance; and
- establish an effective arrangement for monitoring the performance of the Corporation.

3.25.32 The Government expects to present to the Parliament, during the 1992 autumn session, a further bill dealing with the financial aspects (for example, dividend and taxation elements) of the corporatisation process.

3.25.33 As a prelude to the enactment of the above legislation and to better reflect the Board's widened responsibilities outlined in an earlier section of this Report, the Board adopted the trading name of *"Melbourne Water"* from 1 September 1991.

3.25.34 The new trading name was launched at a cost of approximately $460 000. This cost included the provision of new signs for the Board's properties, advertising expenses, publication of literature material and the provision of commemorative items for officers and staff of the Board.

3.25.35 At the date of preparation of this Report, the Melbourne Water Corporation Bill had not yet been passed by the Parliament.

RESPONSE provided by General Manager, Melbourne and Metropolitan Board of Works

Audit comments are noted. As indicated it is anticipated that the legislation to create Melbourne Water Corporation will be brought before the Parliament during the autumn session.

NON-METROPOLITAN WATER AUTHORITIES

3.25.36 The oversight of the State's 144 water authorities (comprising 119 water and sewerage authorities and 25 river management authorities) is the responsibility of the Department of Water Resources.

SUMMARY OF RATIONALISATION OF WATER AUTHORITIES DURING 1991

3.25.37 During 1991, the Government continued with its program of reform of non-metropolitan water authorities. As part of this process, further rationalisation of authorities occurred during the year with the number of authorities reducing from 171 at December 1990 to 144 at December 1991.

3.25.38 The rationalisation was achieved mainly by the establishment of regional water authorities to assume the responsibilities of smaller authorities. Table 3.25B provides details of the rationalisation program involving the establishment of regional water authorities.

TABLE 3.25B
ESTABLISHMENT OF REGIONAL WATER AUTHORITIES

Date of establishment	*Regional water authority*	*Authorities abolished*
December 1990	Mid-Goulburn Regional Water Board	Broadford Water Board Kilmore Shire *(a)* Seymour Water Board
May 1991	Latrobe Region Water Authority	Latrobe Valley Water and Sewerage Board. Mid-Gippsland Rivers Management Board Moe Water Board Morwell Water Board Narracan Shire *(a)* Rosedale District Water Board Sale City *(a)* Traralgon Water Board
July 1991	Kiewa Valley Water Authority	Upper Kiewa Water Board Yackandandah Water Board
November 1991	Macedon Region Water Authority	Sunbury Water Board Gisborne Water Board Macedon Water Board Riddells Creek Water Board Woodend Water Board

(a) Relates to water and sewerage functions only.

3.25.39 The above rationalisation was additional to the merging of 7 authorities into the Melbourne and Metropolitan Board of Works in 1991 which was commented on in an earlier section of this Report.

3.25.40 The major aim of the rationalisation process is to achieve improved efficiencies in the water sector. The Department expects that the achievement of such efficiencies will result in substantial benefits including:

- improved public accountability for service delivery by bringing the provision of water and sewerage services under a single body;
- an improvement in the level of technical, financial and administrative resources available to consumers;
- enabling smaller authorities to obtain greater access to finance to construct necessary infrastructure assets, such as water treatment plants; and
- significant savings to ratepayers in the form of reduced service charges.

3.25.41 It is important for the Department to ensure that adequate performance measures are in place to systematically monitor that the abovementioned benefits expected to arise from the rationalisation initiative are achieved. As part of its accountability obligations, the Department should progressively communicate to the Parliament on the achievements in this area.

RESPONSE provided by Acting Director-General, Department of Water Resources

The Department provides by way of its Annual Report various performance measures including financial performances, water quality and effluent discharge standards. A review is currently being undertaken to ensure these measures remain satisfactory.

FORGIVENESS OF WATER BOARDS' DEBT

3.25.42 During 1990, the Department identified a number of water authorities with a high level of debt, who would have had to rely on continued annual revenue subsidies from the Consolidated Fund to remain financially self-sufficient. The then Minister for Conservation and Environment subsequently advised these authorities that their entitlements to revenue subsidies would cease unless they agreed to enter into restructuring arrangements.

3.25.43 As an incentive to the authorities to restructure, Cabinet approved in January 1991, the forgiveness of debt amounting to $16 million owed by certain water authorities to the Consolidated Fund. Of this amount, the Treasurer had approved, to 31 December 1991, the specific forgiveness of debt totalling $11.4 million.

RECALL OF PUBLIC ACCOUNT ADVANCES

3.25.44 A large proportion of the capital infrastructure constructed by water authorities has been financed by way of advances from the Public Account. The advances, which totalled approximately $190 million at December 1990, were repayable by the authorities over a period of approximately 70 years at a variable interest rate (12.66 per cent at 31 December 1991).

3.25.45 In March 1991, water authorities were requested to repay their Public Account advances by 30 June 1992 by refinancing of the advances from private sources. **At December 1991, advances repaid by water authorities totalled $110.2 million.**

3.25.46 Overall, early repayment of the Public Account advances has not increased the cost of borrowings to the authorities as they have been able to obtain loans at interest rates comparable to those applicable to the Public Account advances. **However, there is potential for a detrimental effect on the financial arrangements of the authorities in that** secure long-term advances have been replaced by short-term loans, mainly 10 year loans with refinancing at 4 year intervals. **Individual authorities will need to ensure that their financial management strategies in the coming years recognise this factor.**

RESPONSE provided by Acting Director-General, Department of Water Resources

The request to repay Public Account advances was in line with government policy on enabling authorities to manage their own funds. Also, Treasury policy in the last few years has meant interest rates were struck higher than the prevailing 10 year government bond rate to maximise its return on these loans. Therefore, it is likely to be beneficial to authorities to convert these loans to private loans at lower interest rates.

CITY OF SALE - IMPACT OF SUPREME COURT INJUNCTION

3.25.47 One of the Government's more significant rationalisation steps in 1991 involved the merging of 8 water authorities in the Latrobe Region of the State into a newly established entity known as the Latrobe Region Water Authority.

3.25.48 The merger program incorporated the transfer of the water and sewerage functions of the City of Sale to the new Authority.

3.25.49 In June 1991, the City of Sale was granted a Supreme Court injunction restraining the Minister from taking any step to transfer works from the City, other than those vested in it under the *Water Act* 1989, until the matter comes before the Court. At the date of preparation of this Report, a date for the hearing had not been set.

3.25.50 Further developments concerning the City's water and sewerage functions occurred in September 1991, following the City's submission, in July 1991, of its 1991-92 business plan to the Minister. The Minister directed the City to refrain from taking any of the following actions without the approval of the then Director-General of the Department of Conservation and Environment:

- making any contribution from water and sewerage funds for the City's planned construction of new offices; and
- entering into any contract of sale or lease of the City's water and sewerage assets in excess of $5 000.

3.25.51 Until the matter subject to the legal injunction is resolved, the Government's aim of consolidating all water and sewerage activities in the Latrobe Region will not be fully achieved.

RURAL WATER COMMISSION OF VICTORIA

COMMISSION'S SELF-FUNDING STRATEGY

3.25.52 For many years, the organisational structure and delivery of water services to rural Victoria have undergone substantial scrutiny and change. A significant structural change occurred on 1 July 1984 with the abolition of the State Rivers and Water Supply Commission and the establishment of the Rural Water Commission of Victoria.

3.25.53 One of the first major initiatives of the new Commission was the development and implementation of a Financial Management Strategy covering the years 1985 to 1989. The main thrust of this strategy was the commencement of a process whereby, over a period of 20 years, the Commission would become less reliant on government subsidisation and progressively assume financial self-sufficiency. **To achieve this objective, the Commission's water charges were increased by 2 per cent in real terms for each of the years 1985 to 1989.**

3.25.54 In 1990, the Government approved the Commission's business plan covering the years 1990-91 to 1994-95. A key element of the plan was the reaffirmation of the Commission's self-sufficiency strategy to be achieved progressively over the remaining 15 year period. Over this period, annual real price increases of 2.8 per cent were proposed.

3.25.55 The announcement of the 2.8 per cent increase for 1990-91, combined with the depressed condition prevailing within the Victorian rural sector, led to strong protests by many of the Commission's customers and by organisations representing the farming community. A major element of the farmers' protests was the withholding of the payment of 1990-91 rates. **This action resulted in approximately $28 million of debts not being paid to the Commission by due dates, with around $16 million of this amount remaining outstanding in excess of 4 months.**

3.25.56 Following extensive negotiations between the parties, the dispute was progressively resolved with the farmers agreeing to settle outstanding accounts and the Government and the Commission agreeing to:

- waive penalty interest accrued on the overdue debts;
- grant farmers an extension of time for the payment of the debts;
- reduce rates, by an average of 4 per cent, in 2 regions of the State most severely affected by the depressed rural conditions; and
- the commissioning of a consultancy review of the future management of the Commission, involving the examination of its structure, operations and procedures.

3.25.57 During the resolution process, the Commission determined not to quantify the cost implications of the protest action taken by the farming community. **Audit estimated that the total financial impact on the Commission of the waiving of interest on overdue rates, the extension of time for the settlement of outstanding accounts and the reduction of rates in the 2 specified regions was approximately $1.1 million in revenue forgone by the Commission.**

RESPONSE by Director of Finance and Administration, Rural Water Commission

The Commission agrees that $28 million was not paid by due dates. However, it is contended that $10 million remained outstanding for 3 months and the cost of the protest to the Government's Consolidated Fund was $700 000.

REVIEW OF FUTURE MANAGEMENT OF THE COMMISSION

3.25.58 In April 1991, following the abovementioned agreement between the farming community and the Government, the Premier announced the review of the future management of the Commission.

3.25.59 The principal objective of the review was to develop a range of management options to improve the effectiveness and efficiency of rural water systems by:

- enhancing the role of customers in decision-making;
- adoption of modern business practices, including contracting or franchising of all or part of the service delivery; and
- determining the level of customer responsibility and accountability for levels of services provided, physical infrastructure maintenance and replacement, and prices for services which recover full costs.

3.25.60 The review team's examination of the Commission's structures, operations and procedures involved an extensive public consultation program covering the Commission's personnel and staff, customers, farming organisations and other government agencies.

3.25.61 Following this extensive consultation process, an options paper was developed in October 1991. This paper was discussed at numerous public meetings, workshops and seminars and culminated with the finalisation, in January 1992, of the *Final Report on the Future Management of the Rural Water Commission*.

What were the findings and recommendations of the review?

3.25.62 Overall, the findings of the review were:

- the delivery of rural water services in Victoria as presently structured is recognised as reliable and generally effective;
- the Commission is relatively efficient by comparison with agencies responsible for rural water services in other States; and
- the revenues of the Commission do not cover its total operating costs.

3.25.63 In reaching these findings the review team identified a number of areas within the Commission where costs could be reduced or additional revenue raised, namely:

- achievement of cost savings through restructuring;
- reduction of costs through conversion of debts to equity;
- increasing charges on existing customers; and
- generation of revenue from new sources.

3.25.64 The Report recommended a 2 phased approach for the restructuring of rural water services in Victoria. The first phase, to occur in the period July 1992 to June 1993, would include:

- redesignating the Rural Water Commission as a statutory authority outside the budget sector;
- employees of the new Authority to no longer be covered by the provisions of the Public Service Act; and
- reducing the number of regions of the Commission from 9 to 6.

3.25.65 The second phase of the Commission's restructuring, beginning in July 1993, would entail:

- The 6 regions to be run as business units. The units would be managed by local boards and be empowered to set prices, determine the levels of services to be provided and operate their own systems;
- The establishment of a small central authority to set policies and co-ordinate the State's rural water system and to drive the change process; and
- The formation of semi-independent service companies for the provision of specific services.

3.25.66 The review team presented its Report to the Minister in January 1992. The Commission has advised audit that the Report is presently before Cabinet for consideration.

SIGNIFICANT UNDER-RECOVERIES OF COSTS

3.25.67 A major feature of the Commission's current business plan, covering the period 1990-91 to 1994-95, is the adoption of certain commercial principles including progressive implementation of full recovery of costs of the Commission's services from the users.

3.25.68 Currently, there are some significant services provided by the Commission where substantial levels of costs are not recovered from recipients of services.

3.25.69 Until action to enable full cost recovery in these areas has been taken, the Commission will not be in a position to fully achieve its principal objective of attaining financial self-sufficiency within the next 15 years.

3.25.70 Some examples of instances where full costs are not recovered by the Commission are provided below.

Hydro-electric power generation

3.25.71 An agreement was entered into between the Commission's predecessor (the State Rivers and Water Supply Commission) and the State Electricity Commission of Victoria (SECV) in 1955, under which the SECV generates hydro-electric power using water from the Eildon Dam. The agreement provided for the SECV to pay the Commission a fixed monthly amount plus 0.04 cents per kilowatt hour of generated power.

3.25.72 The agreement has no escalation clause linking payments by the SECV to consumer price index increases and only minuscule adjustments to the monthly charge have occurred over the years.

3.25.73 The Commission is conscious of this unsatisfactory situation and in May 1990 terminated the agreement with the SECV. The 2 parties are currently negotiating a new agreement which is expected to be more favourable to the Commission.

3.25.74 Audit estimated that if the agreement had provided for increases in charges based on consumer price index movements, the Commission would have received an additional $15 million in revenue from the SECV up to December 1991.

RESPONSE provided by Director, Finance and Administration, Rural Water Commission

Points are factual and any future agreement will be favourable to the Commission.

Supply of water to water authorities

3.25.75 Currently, 33 water authorities obtain their water supply from rivers and irrigation systems down-stream from infrastructure works such as dams and weirs constructed by the Commission. Because these works provide regulated water flows, water authorities are able to enjoy certainty of water supply.

3.25.76 The *Water Act* 1989 does not empower the Commission to levy a charge on water authorities which obtain water down-stream from the Commission's infrastructure works. **The Commission has estimated that up to $900 000 in revenue may be forgone each year because of its inability to charge the authorities.**

3.25.77 In March 1991, the Commission briefed the Minister seeking an amendment to the Water Act to empower the Commission to charge those authorities that draw water down-stream from its infrastructure works. **To date, the matter remains unresolved.**

Provision of recreational facilities

3.25.78 The Commission provides a range of facilities such as boating, water sports and camping facilities at its water storages for the general use of the community.

3.25.79 Although certain user groups contribute to the costs associated with the provision of such facilities, e.g. licensing of houseboats and certain entry charges, scope exists to broaden the Commission's paying customer base, e.g. the licensing of speed boats, to increase the recovery of costs incurred in the maintenance of the facilities.

> *RESPONSE provided by Director, Finance and Administration, Rural Water Commission*
>
> *The Commission has been investigating options for broadening the paying customer base in respect of recreational facilities, in particular boating activities, for the past 2 years.*
>
> *A number of options have been identified, the most attractive of which would be some form of licence/fee on boat owners who use Commission's storages. A key difficulty is the collection of the fee which involves other government agencies.*

Other services

3.25.80 The Commission provides other services to certain customers for which it does not recover full costs, e.g. the provision of water testing facilities to water authorities. The Commission is aware of this situation and has under consideration conversion of those units providing such services into business units which will be required to levy commercially-based rates for their services.

> *RESPONSE provided by Director, Finance and Administration, Rural Water Commission*
>
> *The Commission has enacted an internal policy which will recover service costs on a commercial basis.*

THEFTS AND LOSSES

3.25.81 During the period 1 January 1991 to 31 December 1991 numerous losses of stores, plant and equipment occurred within the various entities in the Water Resources Portfolio. Details are summarised in Table 3.25C.

TABLE 3.25C
THEFTS AND LOSSES OF STORES, PLANT AND EQUIPMENT
($)

Entity	*Value of losses of stores, plant and equipment*
Melbourne and Metropolitan Board of Works	*(a)* 179 500
Non-Metropolitan Water Authorities	35 430
Rural Water Commission of Victoria	2 160
Total	**217 090**

(a) This amount includes a defalcation at the Board's Western Regional Office where cheques amounting to $78 383 were fraudulently negotiated by two Board employees. One employee has appeared before the courts and received a suspended jail sentence, the second employee is due to appear before a Magistrates Court in the near future.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced

Melbourne and Metropolitan Board of Works

Ministerial Portfolios, May 1990, pp. 340-1	The financial statements of the Board for 1988-89 and 1989-90 were qualified due to its failure to account for debt restructuring activities in accordance with Australian Accounting Standards.	During 1990-91, the Board changed its accounting treatment for debt restructuring activities and now complies with Australian Accounting Standards.
Ministerial Portfolios, April 1991, p. 74	The accumulated losses of the Waste Management Fund of $20.5 million at 31 December 1990 indicate that the Board needs to formulate a long-term strategy to overcome the financial viability problems of the Fund.	Accumulated losses of the Waste Management Fund increased to $22.6 million at 30 June 1991. The Board has indicated that it does not intend to trade its way out of the situation. The strategy it will adopt to overcome the Fund's financial difficulties will comprise an integral part of the Board's overall debt management strategy.
Ministerial Portfolios, April 1991, p. 75	A large number of trade waste inspections had fallen in arrears and the Board had not formulated a program for their elimination.	The Board has now developed a risk ranking system as a basis for monitoring and management of trade waste clients. The Board will, in the near future, progressively transfer responsibility for low risk clients to the regions thereby allowing the industrial waste division to concentrate on high risk clients.
Ministerial Portfolios, April 1991, p. 76	The Board's regulations governing trade waste agreements do not provide for the review and re-negotiation of agreements at specific intervals. Consequently, cases existed where agreements had not been reviewed for periods of between 6 and 20 years.	The Board is confident that the risk ranking system recently introduced will overcome the review and re-negotiation inadequacies identified by audit.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
	Matters resolved or action commenced - *continued*	
Ministerial Portfolios, April 1991, p. 79	There was an over-reliance on an extensive negotiation system, which in some instances involved lengthy discussions over extended periods without timely resolution of trade waste disputes.	The Board has now established a Trade Waste Acceptance Advisory Committee in addition to making a number of internal organisational changes. The Board is confident that these actions will result in the resolution of disputes on a more timely basis.
Ministerial Portfolios, April 1991, p. 80	The Board announced that a review would be undertaken into the adequacy of trade waste agreements in place with major chemical companies and paper manufacturers.	The review by the Board, of the largest 34 of these companies, was in progress at the date of preparation of this Report. The Board expects that this activity will result in an ongoing review of these companies due to the need to continuously monitor the trade waste discharges of the firms.
Non-metropolitan water authorities		
Second Report 1985-86, pp. 196-7 *Second Report* 1986-87, pp. 161-3 *Ministerial Portfolios,* May 1989, pp. 282-4 *Ministerial Portfolios,* May 1990, pp. 349-50 *Ministerial Portfolios*, April 1991, pp. 92-3	Failure of authorities to provide financial statements for audit in a timely manner.	Further improvement in the timing of presentation of financial statements continued during 1991. At the date of preparation of this Report, only 3 authorities had financial statements outstanding for more than 1 year.
Second Report 1985-86, p. 197 *Ministerial Portfolios*, May 1990, pp. 348-9	Inadequacies in the recording of fixed assets by water authorities.	Position substantially unchanged. The Department is in the process of developing guidelines covering all phases of asset management which will be distributed to water authorities in 1991-92.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Matters resolved or action commenced - *continued*

Report	*Subject*	*Status at date of preparation of this Report*
Ministerial Portfolios, May 1989, p. 285 *Ministerial Portfolios*, April 1991, pp. 94-5	Financial statements of the Woodend Water Board for the previous 4 years were disclaimed on the basis that material uncertainty existed as to the Board's liability for claims for damages arising from bushfires on 1 February 1983.	Matters were settled during 1991.
Ministerial Portfolios, May 1990, pp. 344-7 *Ministerial Portfolios*, April 1991, pp. 90-1	A major review by audit of financial management issues identified that a substantial number of authorities were likely to face short and long-term financial viability problems. The Department had taken several initiatives to overcome these problems.	For further comments refer to paragraphs 3.25.36 to 3.25.41 of this Report.
Ministerial Portfolios, May 1990, p. 350	Failure by authorities to submit annual reports of their operations to the Minister.	The Department has advised audit that the number of authorities that have failed to submit annual reports of operations to the Minister has continued to decrease. As at the date of the preparation of this Report, 64 per cent of authorities had submitted their reports of operations for 1990-91 to the Minister.
Ministerial Portfolios, April 1991, pp. 91-2	In many cases where water authorities are administered jointly with municipalities information was not available to substantiate charges levied by the municipalities for administrative services performed on behalf of the water authorities.	During 1991, the Department developed and distributed to water authorities guidelines dealing with the issue of cost allocations. The Department is confident that the adoption by the authorities of the guidelines will resolve the matter.
Ministerial Portfolios, April 1991, p. 94	Outstanding debt to the State of $1.3 million has been disputed by the Wonthaggi-Inverlock Water Board. Although the Department and the Board held substantial discussions and consultations the matter remained unresolved.	The parties have agreed to the terms of settlement and the matter is due to be finalised by 30 April 1992.

Schedule A. STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued*

Report	*Subject*	*Status at date of preparation of this Report*

Matters resolved or action commenced - *continued*

Rural Water Commission of Victoria

Ministerial Portfolios, April 1991, pp. 87-8	The Commission classified 230 of its houses in the *not required to occupy* category and commenced a program for the sale of the properties. The program has proceeded rather slowly and, at December 1990, 120 houses in this category were still retained by the Commission.	The Commission has accelerated its sales program for those houses in the category of *not required to occupy*. To February 1992, 55 of the 120 houses had been sold. In addition, the Commission has entered into negotiations with the Government Employees Housing Authority to explore the possibility of the sale of the remaining houses to the Authority.
Ministerial Portfolios, April 1991, p. 89	The State Electricity Commission of Victoria (SECV) has served a writ for breach of agreement and/or negligence on the Rural Water Commission of Victoria for the loss it suffered as a result of damage, estimated by SECV at $45 million, to the turbine of the Dartmouth power station.	The writ for damages served on the Rural Water Commission of Victoria is still in process. In the meantime, the Rural Water Commission has issued a counter claim for damages to its works. At the date of preparation of this Report, the matter remains under litigation.

No action taken

Melbourne and Metropolitan Board of Works

Second Report 1986-87, pp. 164-5 *Ministerial Portfolios*, May 1990, p. 343	The Board's enabling legislation does not confer on the Board the authority to charge interest on arrears of rates and charges. In contrast, the enabling legislation of other major rating bodies provides for the levying of interest on overdue amounts.	For further comments, refer to paragraphs 3.25.6 to 3.25.8 of this Report.

Non-metropolitan water authorities

Ministerial Portfolios, May 1990, pp. 347-8	Due to industrial action, publicly funded fluoridation assets to the value of $3.3 million remain idle at certain water authorities.	Position unchanged.

Schedule B. COMPLETED/INCOMPLETE AUDITS

Entity	*Financial year ended*	*Reporting to Parliament*	*Financial statements signed by entity*	*Auditor-General's report signed*
Completed audits				
Melbourne and Metropolitan Board of Works	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9.	16 September 1991	20 September 1991
Melbourne and Metropolitan Board of Works Employees' Superannuation Fund	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 30 November 1991.	28 November 1991	16 January 1992
Rural Water Commission of Victoria	30 June 1991	30 September. *Annual Reporting Act* 1983, s.9. Extension granted to 31 October 1991.	10 October 1991	29 October 1991 *(a)*

(a) Qualified audit report issued.

PART 4

BROAD SCOPE ISSUES

4.1

OVERSEAS TRAVEL BY PUBLIC SECTOR EMPLOYEES

KEY FINDINGS

- In some cases the Government's approved travel agent did not secure the cheapest airfares available for official travel undertaken by public sector employees.

  Paras 4.1.8 to 4.1.9

- Certain benefits enjoyed by non-budget sector employees such as subsidisation of spouse travel were not available to budget sector employees.

  Paras 4.1.12 to 4.1.13

Overall conclusions

4.1.1 The audit review found that in most cases the agencies subject to audit observed the principles laid down by the Department of the Premier and Cabinet for overseas travel. However, there was scope for more economic and efficient management of a number of aspects of overseas travel arrangements. In particular:

- instances were noted where the airfares charged by the Government's approved travel agent (a service provided by a subsidiary of a major private bank) were found to be higher than prices available elsewhere;
- benefits enjoyed by non-budget sector employees were in excess of those available to budget sector employees; and
- the need for guidelines to be developed in relation to acceptable accommodation costs.

OVERSEAS VISITS COMMITTEE GUIDELINES

4.1.2 Directives in the form of operational arrangements, instructions and guidelines for overseas travel were issued by the Department of the Premier and Cabinet in July 1989. Official overseas travel by State Government employees is subject to the approval of the Overseas Visits Committee which operates on authorisation from the Premier. While overseas travel undertaken by employees of a number of government agencies, for example the State Electricity Commission Victoria (SECV), does not require the approval of the Committee, the Premier has directed that the principles of these guidelines are to be observed by such agencies.

4.1.3 The Committee consists of representatives from the Department of the Premier and Cabinet, the Public Service Board and the Ministry of Finance. Agencies are required to exercise restraint in planning overseas visits and the Committee will approve only those visits which are considered essential for the requirements of specific work programs necessary for proper administration of government objectives.

COST OF OVERSEAS TRAVEL

4.1.4 During 1990-91, overseas airfares of approximately $1.7 million ($1.8 million, 1 August 1989 to 30 June 1990) were incurred by budget and non-budget agencies for international travel.

4.1.5 Table 4.1A lists the public sector agencies examined by audit, the number of overseas trips undertaken during 1990-91 and the total direct cost (includes expenditure on fares, allowances, conference fees and accommodation and excludes external funding of trips) met by each agency.

TABLE 4.1A. DIRECT COST OF OVERSEAS TRIPS, 1990-91

Agency	*Number of trips*	*Total direct cost*
		($)
State Electricity Commission of Victoria	65	540 000
Department of Manufacturing and Industry Development	16	152 000
Office of the Chief Commissioner of Police	*(a)*34	70 000
Department of Food and Agriculture	*(a)*11	35 000

(a) Includes a number of trips funded from external sources.

USE OF THE GOVERNMENT'S APPROVED TRAVEL AGENT

4.1.6 The Government arranged for all official overseas travel undertaken by public sector agencies during the period 1 August 1989 to 31 July 1992 to be booked through an approved travel agent, a subsidiary of a major private bank. **The Government directed that the use of other travel agents or direct contact with any airline was not permitted.** In return for this exclusive right to arrange all government overseas travel, the travel agent receives a set rate of commission from airlines in respect of flights booked and provides to government a 5 per cent discount on international airfares, a management information system providing monthly data and free delivery of tickets to all agencies. A number of issues of concern relating to these arrangements were highlighted during the audit.

4.1.7 Firstly, since the Government decision in April 1989 requiring the Victorian Tourism Commission to withdraw from arranging overseas travel for the Government and the subsequent replacement by the Government's approved travel agent, periodic reviews have not been undertaken by the Government to assess whether the service provided by the agent has been cost-effective.

4.1.8 Secondly, the contract between the Government and the approved travel agent does not require the travel agent to provide the government bodies with the cheapest fare available, even though one of the key elements of the Government's 1991-92 budget to reduce government outlays was to be through the use of cheaper airfares. The audit revealed instances where fares quoted by the Government's travel agent were found by one government agency to be up to 42 per cent higher than other travel agents. Audit was advised that when this situation was brought to the notice of the Government's travel agent by the agency, its quotes were reduced to match the lower quotes obtained elsewhere. A survey conducted by audit covering 7 overseas trips confirmed that in relation to all trips, a total of 24 quotes were found to be cheaper than the rates charged by the Government's approved travel agent (in these cases total savings of around $3 000 could have been achieved if the lowest rates had been paid by the government agencies).

4.1.9 This finding is disturbing as not all agencies examined by audit were pro-active in questioning the fares quoted and, as a consequence, the unnecessary payment of excessive airfares for overseas travel may be widespread through the public sector. The audit review did not extend to domestic airfares where substantial discounting has occurred in recent times.

4.1.10 Finally, the contract between the Government and its approved travel agent to formalise the arrangement which commenced on 1 August 1989 had not been signed by either party. As a consequence, the enforceability of the following obligations placed on the Government's travel agent under the contract is questionable:

- to use its best endeavours to provide innovative and cost-effective arrangements for travel services;
- to provide discounts for domestic and international travel; and
- to develop a high security, dedicated management information system in accordance with the specifications of the State.

4.1.11 In audit opinion, action should be taken to :

- **prepare a cost/benefit analysis in relation to the services provided by the travel agent, prior to any decision being made concerning renewal of the current arrangement which is due to expire on 31 July 1992;**
- **ensure that any future agreement requires the contractor to provide government agencies with the cheapest fares available; and**
- **arrange for the agreement between the Government and its travel agent to be signed by all parties.**

RESPONSE provided by the Secretary, Department of Premier and Cabinet

A cost/benefit evaluation would be impossible as the data maintained by the Victorian Tourism Commission prior to the hand-over to the Government's approved travel agent was extremely poor and did not allow government travel bookings to be split from general travel bookings. The travel review team to be established in the Department of the Treasury will be required to cost a range of travel booking options to ensure that the Government achieves full value and efficiency from future travel arrangements.

The contract does not specify a requirement for the Government's travel agent to necessarily provide the cheapest fare available to government agencies because to do so ignores the fact that the actual airfare cost is only one component of the total travel cost involved in either domestic or international travel.

It is not possible for government officers to always accept the cheapest airfare because of the additional time and/or flight scheduling constraints this may place on them. With respect to international travel, you would be aware that Government has a very strict time limitation on officers being absent from the country. To require officers to obtain the cheapest available airfare would mean this time limit could not be strictly enforced and the total cost of travel would likely be increased through paying additional accommodation or other travel allowances.

Guidelines were issued to agencies in October 1991 which places the onus on agencies to seek the cheapest practicable fare from the travel agent and a similar direction has been given to the agent.

In relation to the issue raised by audit whereby the Government's approved travel agent lowered its original quotes to match the quotes for fares obtained elsewhere by a government agency, the travel agent has been contacted and they advise that they have no record of this matter.

The issue of the unsigned contract between the approved travel agent and the Government was first raised by the Effectiveness Review Unit (ERU) following their review of domestic air travel arrangements in mid-1991. The contract had been negotiated by the Victorian Tourism Commission.

The ERU expressed particular concern at the proposed travel contract and sought the advice of the Victorian Government Solicitor (VGS) in relation to a range of issues surrounding the contract. The VGS advised that although the contract with the travel agent remains unsigned it is nonetheless an enforceable agreement and its conditions are enforceable by both parties. The VGS also advised that termination of the contract was not possible without damages being sought.

To resolve the long-term issues regarding government travel, the Department of the Treasury intends to establish an evaluation team by mid-April 1992 which will publicly call for expressions of interest with regard to travel arrangements to apply beyond 1 August 1992.

OVERSEAS TRAVEL ARRANGEMENTS FOR THE NON-BUDGET SECTOR

4.1.12 Certain benefits not permitted in the budget sector were provided to non-budget sector employees at the SECV, namely :

- In cases where an officer entitled to fly business class is accompanied overseas by a spouse at the officer's expense and both elect to travel economy class, conversion of the officer's entitlement of business class travel to economy **has resulted in a subsidy** (difference in retaining the entitlement of business class and the actual cost incurred for the economy fare) **towards the cost of spouse travel** which is in effect being met by the SECV consumer. In audit opinion there is no justification in such cases for the public purse to contribute towards the cost of spouse travel. If an officer elects to travel by a particular standard, audit questions the rationale for requiring the consumer to pay for any travel arrangement higher than that standard. **This view is also confirmed by the Overseas Visits Committee**;
- Travel by delegations of more than one officer to the same destination (for example, it was observed that 6 SECV officers attended the Conference on Electric Power Supply Industry held in Singapore during November 1990); and

- Extended recreation leave taken in conjunction with official travel could give the impression that official travel is being used to subsidise officers' private travel arrangements. In one instance cited by audit an officer was granted 17 days recreation leave in conjunction with an official overseas visit, whereas if the officer was employed in the budget sector the officer would have been entitled to only 3 days recreation leave or the overseas trip would have been regarded as private travel and consequently the airfare would have been met by the officer concerned.

4.1.13 As stated previously, it is the intention of the Government that all overseas travel by both budget and non-budget sector personnel should be in accordance with the Government's guidelines. It is apparent from the audit findings that some of the non-budget agencies need to be reminded that they are required to comply with the principles of the guidelines.

- *RESPONSE provided by the Chief General Manager, State Electricity Commission of Victoria*

  Having a thorough personal knowledge of the SEC approval processes, I believe that the principles underlying the Overseas Visits Committee guidelines of due economy and efficiency are properly met by the SEC.

  Spouse Travel

  Spouse travel arrangements have strictly followed the SEC's long standing approved policy and guidelines, involved only a small number of high level officers and are subject to review and approval at the Chief General Manager level. Consideration of the itinerary for such travel always formed an integral part of the approval process.

  One of the essential conditions for inclusion of a spouse was that there was no additional cost to the SEC.

  The relevant SEC policy in relation to spouse travel provides that:

  > *'Approval may be granted at General Management level for a spouse to accompany an officer on a visit; however, such requests will be given careful consideration before approval and will not be granted as a matter of course and must be shown not to conflict with Commission objectives of the visit in question.*
  >
  > *Where approval is granted, there must be no additional expense to the Commission and all expenses for all travel, additional accommodation, meals, etc, must be borne by the officer concerned.'*

  The SEC's commercial view is simply that the cost to the Commission of an officer travelling with spouse should be no more than if the officer travelled alone.

  The current wording of the SEC guidelines in relation to spouse travel was provided to the Overseas Visits Committee (OVC) in 1984. A memorandum from the then SEC Secretary recorded:

  > *'The Secretary, OVC, confirms that the guideline does not conflict with Government practices.'*

- *RESPONSE provided by the Secretary, Overseas Visits Committee in relation to spouse travel*

  The spirit of the Overseas Travel Guidelines is to maintain the cost of overseas travel, funded from any part of the public sector, at a minimum. This is reflected in many ways throughout the document. The guidelines also make it clear that any public sector funded travel should not assist or be seen to assist private travel arrangements. The interpretation applied by the SECV does not fully accord with these stated intentions.

  It appears there may have been some misunderstanding by the SECV regarding any variation to the Overseas Travel Guidelines that may have been sought. There is no record in the Overseas Visits Committee files of any concession of the nature stated by the SECV being given to any agency.

- *RESPONSE provided by the Chief General Manager, State Electricity Commission of Victoria*

  Delegations

  Proposals for all travel including circumstances where more than one officer may be required at a particular destination, are closely vetted by the Chief General Manager prior to approval. This high level approval process requires demonstration in all cases of the anticipated benefits from overseas missions which must also be consistent with the SEC's aims and requirements.

  By way of example, and in regard to the overseas mission audit cited where more than one officer attended, the Commission advises as follows:

  - *Attendance at CEPSI in Singapore was part of Victoria's push to enhance its relationships and reputation in South East Asia. It should be noted that the US Electric Power Research Institute has now chosen Melbourne as the base for its Asian office.*

  Official travel and recreation leave

  The SEC's overseas travel procedures and guidelines provide that "Leave taken must not give the impression that official travel is being used to subsidise the officer's private travel arrangements".

  It should also be noted that the guidelines provide that where an officer is approved to take leave while on an official visit there must be no additional expense to the Commission. In addition, if an officer Is ever recalled to duty while overseas, the guidelines provide for reimbursement of actual out-of-pocket expenses.

  The single instance of extended leave was unusual in that it related to an officer who had arranged to take recreation leave before the Chief General Manager had determined the composition of a SEC overseas delegation. The officer's official travel arrangements were subsequently finalised before departure as for any other officer and, in view of his financial commitment to the pre-existing private arrangements, the officer was permitted to take recreation leave as originally planned and at no additional cost to the SEC. The officer utilised 8 days recreation leave while overseas.

ACCOMMODATION STANDARDS FOR BUDGET AND NON-BUDGET SECTOR EMPLOYEES

4.1.14 The audit revealed that guidelines outlining reasonable room rates for hotel accommodation for overseas trips had not been developed by public sector agencies although standard rates had been set by the Government for meals and incidentals. Substantial variations in accommodation costs can be influenced by factors such as destination (city and country), availability and quality. As a consequence, variances of in excess of 100 per cent occurred in the prices paid by officers for rooms on a daily basis in the same countries, e.g. tariffs ranging from $150 to $400 were paid for a night's accommodation in London. Without proper standards, excessive or extravagant costs for accommodation may be incurred on overseas visits.

4.1.15 In view of such variances, consideration needs to be given to developing broad standards on the appropriate level of accommodation allowable, on a country and major city basis.

- *RESPONSE provided by the Director-General, Department of Manufacturing and Industry Development*

  I do have problems with your suggestion that our own internal guidelines be further developed, by which I understand you mean made more prescriptive, on a country and major city basis.

  This would be a formidable task given the volatility of accommodation costs and the enormous range of standards available within individual cities and areas. These constantly changing variables coupled with the number of potential destinations, the requirements for proximity, co-location and access within cities, the purpose and nature of the visit, who organises the accommodation (not always by Departmental Officers), the level of contacts being made and a host of other factors which can impact decisions on appropriate accommodation, make any greater precision in setting guidelines for accommodation costs virtually impossible.

  This Department does not have the resources or expertise to establish and keep current a series of guidelines on reasonable accommodation costs in overseas cities and countries. Indeed, the Federal authorities have been approached to establish if they set guidelines of this nature which we could use but they no longer attempt to do so because of the problems outlined above.

  I therefore intend to allow "trade-offs" within a total travel budget, for example, slightly more expensive but more conveniently located accommodation will be approved if it can be shown there is a saving in travel time and travel costs or the particulars of the trip (e.g. Conference accommodation blocked booked by organisers).

- *RESPONSE provided by the Deputy Commissioner (Administration), Office of the Chief Commissioner of Police*

  We intend to include in our guidelines broad standards for accommodation, but the variation in London is not surprising and such variations can be expected, depending on the time of year and location of accommodation.

- *RESPONSE provided by the Director-General, Department of Food and Agriculture*

  It would be more appropriate for central agencies to maintain information about standards of overseas accommodation.

- *RESPONSE provided by the Chief General Manager, State Electricity Commission of Victoria*

  The audit observation on costs is unsurprising. Differences in cost could be explainable by variations between costs of accommodation in a capital city and in a heavy industrial area (e.g. to facilitate acceptance testing by a SEC engineer).

  The SEC relies on the expertise of the Victorian Government's approved Travel Agent to place accommodation according to need and purpose. Nevertheless, the SEC will now establish guidelines in accordance with audit's recommendation.

4.2

ADMINISTRATION OF FLEXIBLE WORKING HOURS IN THE BUDGET SECTOR

KEY FINDINGS

- A post-implementation review to assess the effectiveness of the system of flexible working hours in terms of the original objectives set in 1977 has not been undertaken on a State-wide basis.

  Paras 4.2.7 to 4.2.12

- There is a need for a market survey to be undertaken to assess the needs of users of public services and the impact of flexi-time on service delivery.

  Para. 4.2.10

- There was substantial scope for administering flexi-time more efficiently and effectively, thereby reducing the potential for abuse.

  Para 4.2.3 and
  Paras 4.2.13 to 4.2.29

Overall conclusions

4.2.1 On the evidence found in the departments examined, audit concluded that the system of flexible working hours operating in the Victorian Public Service was, in some respects, poorly managed by departments.

4.2.2 Notwithstanding that the system has been operating for more than a decade, a post-implementation review to assess the effectiveness of the system in terms of the original objectives set in 1977 has not been undertaken on a State-wide basis. The absence of adequate measurement leaves unanswered questions as to whether the introduction of flexible working hours has in fact improved staff effectiveness, job satisfaction and staff morale. In addition, it has not been possible to determine whether there has been an expansion in the hours in which services have been delivered to the public.

4.2.3 The audit found that in some areas departments did not comply with their own policies relating to the operation of flexible working hours and there was substantial scope for administering the scheme more efficiently and effectively, thereby reducing the potential for abuse. Areas in which there was room for improvement centred around time recording and verification processes, follow-up procedures for outstanding returns, and the treatment of excessive flexi and time-in-lieu balances.

4.2.4 It was pleasing to note that the Public Service Board has agreed to arrange for an assessment of the operation of the system of flexible working hours to be undertaken on a State-wide basis.

BACKGROUND

4.2.5 The system of flexible working hours, known as *"flexi-time"*, was introduced into the Victorian Public Service in 1975 on a trial basis. A standard system for Service-wide application commenced in 1980 for all departments. Under flexi-time arrangements staff work variable hours within a daily range of 10 hours from 7.45 a.m. to 5.45 p.m., with mandatory or core hours covering the periods from 9.30 a.m. to 12.00 noon and 2.00 p.m. to 4.00 p.m. Within the parameters set by the Public Service Board, each Chief Administrator has the responsibility to determine the manner in which flexible hours should be applied in their respective departments.

4.2.6 The audit review covered the management practices involved in the administration of flexible working hours by 2 organisations. One organisation was a small department with centralised administrative functions and a manual time recording system, while the other was a large decentralised department which operated both manual and automated time recording systems.

CENTRAL MONITORING OF FLEXI-TIME ARRANGEMENTS IN BUDGET SECTOR AGENCIES

4.2.7 The original objectives of the flexible working hours scheme were to provide benefits to the public and staff by:

- expanding the hours in which services may be delivered to the public; and
- improving staff effectiveness, job satisfaction and staff morale.

4.2.8 In implementing the scheme, the role of the Public Service Board, which is the central agency responsible for public service personnel policy, was to monitor departmental flexi-time systems to ensure that each system was consistent with maximum efficiency and not causing inconvenience to the public. As part of its monitoring role, the Board was also to look at the way each system was being applied.

4.2.9 As the system of flexible working hours has operated in the budget sector for more than a decade and there has not been a formal post-implementation review of the efficiency and effectiveness of flexi-time since its inception, audit is of the view that the Public Service Board should arrange for a State-wide assessment of the scheme. Such an assessment would ensure that any benefits accruing to participating departments from the operation of the scheme are passed on to all budget sector agencies. In audit opinion, this review should include an evaluation of whether:

- it would be more cost-effective to replace the current manual time recording systems which operate in most agencies with a standardised service-wide mechanised or computerised system;
- agencies have implemented adequate safeguards against misuse or abuse of the system; and
- there is scope in certain agencies to expand the hours in which services could be provided more effectively to the public by, for example, providing additional times in which offices are open for business.

4.2.10 It is disturbing to find that with the introduction of such a major initiative into the budget sector, **a post-implementation review of the efficiency and effectiveness of the scheme in the context of its effect on productivity and inconvenience to the public had not been conducted on a State-wide basis**. It is also audit's view that it is important to recognise that flexi-time operates not only for the benefit of public service officers but also for the public. In order to assess the needs of users of public services and to evaluate the impact of flexi-time, if any, on the level of service provided to the public, **consideration should be given by the Government to conducting a market survey as part of a State-wide review.** In this context, audit notes that in another State a charter which focuses on the role of government in serving the public as customers of government services and the need to provide customer satisfaction is in the process of being developed for the Government. As part of this initiative procedures are being developed to enable the public to lodge complaints in relation to poor service delivery.

4.2.11 In addition, while not a primary objective for the introduction of flexi-time, reductions, if any, in absenteeism through sick leave and the deferral of recreation leave which may have developed over a period of time had not been evaluated. A State-wide review of flexible working hours should also address these issues.

4.2.12 Audit was advised by the Public Service Board that the original objectives would still be relevant although it may be difficult to test them now against conditions which existed prior to the scheme's introduction.

- *RESPONSE by Chairman, Public Service Board*

  At the time the system of flexible working hours, known as flexi-time, was introduced into the Victorian Public Service, personnel management was largely centralised in the Public Service Board, with much of the Board's staff still involved in personnel transactions affecting the various agencies in the Service. The role that the Public Service Board proposed for itself in the monitoring of flexi-time following its general introduction reflected the general centralised position on personnel management 12 years ago.

  Since that time there has been:

  - *a great emphasis on devolution of decision-making to public service agencies in line with the accountability requirements on the Chief Administrators of those agencies for effectiveness and efficiency in operations;*
  - *a substantial delegation of Public Service Board personnel management powers and functions to Chief Administrators and other relevant officers in agencies; and*
  - *the development of internal audit programs within agencies to examine financial, effectiveness and efficiency issues.*

  In the light of these changes, the Public Service Board considers that both the management of flexi-time arrangements and a review of the effectiveness of the arrangements and their operation are primarily a matter for each individual agency.

  However, as audit's short review of the administration of flexi-time raised concerns which led to audit proposing that the Public Service Board arrange for a State-wide assessment of the flexi-time scheme, the Board will undertake that task.

  For the reasons already outlined, the Public Service Board considers that the most appropriate course of action would be for the Board to request all agencies to include in their 1992-93 internal audit programs a review of the operation of flexi-time arrangements, with a subsequent report of findings to the Public Service Board for its further consideration.

  The Board's request to agencies will cover the particular matters proposed by audit for evaluation.

  As the Board has previously advised, a reduction in absenteeism through sick leave was not signalled as a primary objective of the introduction of flexi-time arrangements. However, as requested by audit, the Board will ask agencies to report on that aspect, and any changes in the deferral of recreation leave, as part of the internal audit review - to the extent that records have been and are being maintained on these aspects.

TIME RECORDING AND VERIFICATION PROCESSES

4.2.13 Whether officers work flexible hours or standard hours, each system is based to varying degrees on having confidence in the integrity of staff. Whichever form of attendance is chosen by an officer, it is important for management to develop appropriate systems and controls to ensure that officers actually work the hours for which they are paid.

4.2.14 The audit review disclosed that in many cases attendance records were incomplete and difficulties were identified in the departmental processes for verifying the accuracy of attendances. For example numerous instances were cited where supervisors (verifiers) had attested to the accuracy of attendance times of their staff while actually being on leave, away from the office or had arrived later or departed earlier than the staff concerned. In one case a branch administrative officer who only worked 3 days per week vouched the fortnightly attendance records of 21 staff.

4.2.15 Another situation arose where all of the 30 employees situated in a relatively remote location, who recorded their attendances by way of time recording clocks, each took lunch breaks of exactly 45 minutes duration over a period of 22 weeks examined by audit. Not one instance of an officer taking more or less than a standard lunch break over 3 300 individual lunch breaks is a most unlikely occurrence.

4.2.16 These shortcomings could result in employees being overpaid for hours not worked and attendance times in excess of the standard 38 hours per week (flexi-time credits) being overstated or debits being understated in relation to attendance times of less than 38 hours per week.

4.2.17 It was pleasing to note that where these shortcomings existed, the Departments involved indicated that as an overall management tool, mechanisms had been developed to measure outputs or productivity against attendance.

4.2.18 In view of the weaknesses in the time recording and verification processes and the possible abuse of the system of flexible working hours as well as the inefficient use of time in completing and verifying attendance records, departments should undertake a cost/benefit analysis under the guidance of the Public Service Board to determine whether manual systems should be replaced in certain branches with mechanised time recording systems. In the event of retaining the current manual systems, departments should investigate the possibility of designating a number of officers in each branch with authority to vouch attendance records in the absence of the supervisor.

- *RESPONSE provided by Director-General, Department A*

  It is agreed that the audit report has highlighted instances where administration of working hours recording and verification in the Department needs improvement.

  The Department does have clear policies on flexi-time and time-in-lieu, and procedures for processing leave applications that conform with Public Service Board requirements. However, they are not being followed consistently.

  The current flexi-time guidelines will be reviewed and updated to ensure supervisors sign time sheets and cover sheets. A formal direction will be issued to ensure adherence to the policy.

  Unsigned forms or cover sheets will be redirected to supervisors for signature. Staff should not be disadvantaged as a result of a supervisor's administrative oversight.

  It is requested that audit provide details of the analysis undertaken to determine that the amount of time taken to check and verify attendance records is inefficient. The Department rejects this statement until such time as evidence of such an analysis is provided.

  Operation of the attendance recording system in the Department has never been predicated on the immediate supervisor being present throughout the full spread of hours. Completing time records is a system based on staff integrity. This basis for operation was advised to, and accepted by, the Public Service Board when approval was given for introduction of flexi-time.

  Outputs are currently measured by managers in a number of ways, including quarterly objectives, Branch meetings, monthly reports, increment reports and client feedback. Thus, while vouching for output is an existing requirement, the assumption that a supervisor must be present at all times is not a requirement. Tasks are set by supervisors and checked on completion.

- *RESPONSE provided by Director-General, Department B*

  The Regional Administration Manager has been directed to amend procedures such that credits are not allowed until attendance records have been completed.

  Supervisors attest to the validity of attendance records by the use of "sampling," a technique used in attest-audit functions. It is not considered efficient to view every sign-on and sign-off attendance record.

  The undertaking of a cost/benefit analysis to determine whether some form of mechanised time recording system should be introduced would be a resource costly exercise of dubious benefit.

  In respect to the monitoring of officer output, the Department has adopted Work Performance Planning which ensures ongoing monitoring and feedback on work performance. This approach has proved to be a highly successful method of ensuring officer productivity against attendance, whereby supervisors regularly monitor and measure performance and productivity against set goals. In addition, tasks are set to be performed in the supervisor's absence and checked on return.

  This is particularly necessary in a Department comprising a diversity of work locations where staff are frequently required to participate in research projects over weekends and public holidays.

  Adherence by staff to the standard lunch break will be addressed by management at the remote location identified by audit, however, it should be noted that due to their remote location, it is anticipated that the standard lunch break of 45 minutes will continue to be the normal practice.

OUTSTANDING FLEXI-TIME RETURNS

4.2.19 Departmental policies require that flexi-time records be submitted in the week following a particular settlement period.

4.2.20 Audit found that flexi-time records were not completed in a timely manner with significant delays of at least 4 weeks being experienced by both departments. (For example, in an extreme case in one of the departments audit found that an officer had not submitted a flexi-time return for 14 months.) As a consequence, excessive flexi credits or debits may be carried over without appropriate approval and the verification process is made more difficult.

4.2.21 Departmental policies in relation to the prompt submission of flexi-time records should be complied with by all staff in order to enable proper control and management of the flexi-time scheme. In cases where exceptional delays occur in the completion of attendance records, measures should be taken by management to remove flexi-time privileges from offending officers.

- *RESPONSE provided by Director-General, Department A*

  A consistent procedure in relation to the prompt submission of flexi-time cover sheets will be followed across the Department. The Department's guidelines will be reviewed and include formal direction for completion and adherence to the policy.

- *RESPONSE provided by Director-General, Department B*

  The degree to which such a small sample represents a problem across the Department is questioned.

  While it is acknowledged that delays in forwarding attendance records to supervisors may in some cases mean the carrying-over of credits or debits without approval, all such records are verified and reconciled in the final pay, prior to an officer's cessation or when recreation leave is taken.

EXCESSIVE FLEXI AND TIME-IN-LIEU BALANCES

4.2.22 Departmental flexi-time policies allowed for a maximum carryover of either 7 hours 36 minutes debit or credit at the end of the fortnightly settlement period. An officer who works after 5.45 p.m. and is not paid overtime may be granted time-off in lieu of the additional hours (time-in-lieu). The maximum carry over limits for time-in-lieu ranged from 15 hours 12 minutes to 38 hours.

4.2.23 The audit revealed examples where the prescribed limits had been exceeded. As an illustration, in one branch over a 5 month period 12 employees had breached the flexi-time debit limit on a total of 27 settlement periods, and 2 of these officers had exceeded the limit in 6 and 7 settlement periods, respectively.

4.2.24 In another department **some staff were permitted to carry forward credit balances in excess of the allowable maximum limit while other staff within the same department forfeited their excess credits.**

4.2.25 It was also disturbing to note that situations arose where officers had exceeded the maximum credit limit without the required approval and had subsequently used these credits for leave purposes.

4.2.26 With regard to time-in-lieu, one officer was found to be carrying in excess of 150 hours credit and in another department some staff had negative balances as a consequence of using time-in-lieu as another form of flexi-time.

4.2.27 Other instances were noted where staff were carrying debt flexi balances as well as having credit time-in-lieu balances.

4.2.28 Examples of non-compliance with departmental policies regarding excessive balances highlight that flexi-time is not being administered effectively throughout departments. Excessive debit balances indicate the possibility of either insufficient duties to be performed in a particular area or specific duties not being performed.

4.2.29 Audit found that:

- **departments need to enforce their policies in respect of excessive balances uniformly across all branches;**
- **employees with flexi-time debit balances and credit time-in-lieu balances should use their excess time-in-lieu to cancel out any flexi-time debits; and**
- **negative time-in-lieu balances should be eliminated.**

- *RESPONSE provided by Director-General, Department A*

  The Department's guidelines in relation to excess debits and credits will be reviewed and enforced uniformly.

  Negative time-in-lieu balances cannot exist and will not occur again. Managers will be given clear direction on overtime and time-in-lieu approvals. Time-in-lieu cannot be taken until it has been worked.

  Flexi-time debits in excess of 7.6 hours will be eliminated in instances where time-in-lieu credits are available or alternatively these excesses will be recouped by way of recreation leave or leave without pay.

  Given excess flexi-credits should be a rarity rather than the norm, a standard form for approval can be designed and forwarded to staff. Unless there are very sound reasons, there should not be any need to carry over excess flexi-credits. It is a staff responsibility to ensure their flexi-time is managed in line with the guidelines.

- *RESPONSE provided by Director-General, Department B*

  Flexi-debits in excess of 7 hrs 36 mins are being regularly monitored. Exception reports will be generated and distributed to relevant supervisors showing employees who are in breach of 7 hrs 36 mins.

  Having consideration to the number of locations reviewed and the level of variation in work practices, a broad conclusion cannot be drawn on the performance of the Department as a whole.

General comments made by public sector agencies covered by the audit review

- *RESPONSE provided by Director-General, Department A*

  The Department believes that insufficient attention has been given in the audit report to the benefits of flexible working hours to the Department. These benefits are considerable, and must not be lost sight of when considering this report.

  They are:

  - *ability to service a diverse client base - as the Department's core responsibilities deal with the leisure activities of others, this requires work outside normal hours;*
  - *commitment to work which goes beyond task performance;*
  - *requirement to service boards and committees that meet outside working hours;*
  - *a highly motivated and multi-skilled workforce with strong commitment to the Department's core objectives; and*
  - *the effect of staff ceilings and unfilled positions being countered by individuals working excessive hours.*

  If the Department had to pay time-in-lieu and flexi-time as overtime, the activities of the agency would have to be severely curtailed, and there could even be difficulties in the Department satisfying its statutory responsibilities.

- *RESPONSE provided by Director-General, Department B*

  In general, the Department considers that the staff sample of some 69 staff out of nearly 2 000 who work flexible hours is too low to enable meaningful conclusions to be drawn about the Department's management of flexible working hours. It is questionable whether the work groups reviewed accurately reflect the practice in the remainder of the Department.

  The overall conclusion that the system of flexible working hours was, in general, poorly managed is disputed. The audit identified alleged problems primarily in a limited area of flexi-time - that of carryover balances. In addition, the 3 small areas of the Department reviewed cannot be seen to be representative of the whole Department.

4.3

PUBLIC SECTOR SUPERANNUATION SCHEMES

KEY FINDINGS

- Consideration needs to be given to identifying the potential for achieving economies of scale in the administrative functions of public sector superannuation schemes.

  Paras 4.3.13 to 4.3.16

- The increase of $1.5 billion in the State's unfunded superannuation liabilities has placed a greater burden on future taxpayers to pay for superannuation benefits attributable to periods of past employment.

  Paras 4.3.17 to 4.3.20

BACKGROUND

4.3.1 My previous *Report on Ministerial Portfolios, April 1991* commented on the operations and financial position of public sector superannuation schemes at 30 June 1990.

4.3.2 Since that Report, audit has undertaken a further evaluation of public sector superannuation schemes at 30 June 1991, with particular reference to:

- the type of investments held;
- the level of returns achieved;
- benefit levels;
- the costs of administration; and
- the level of unfunded liabilities.

4.3.3 There are 14 major public sector superannuation schemes operating in Victoria which provide lump sum payments, pensions and disability payments to employees of State Government departments and public bodies. Table 4.3A provides an overall profile of the financial activities of these schemes, as at 30 June 1991.

TABLE 4.3A. OVERALL FINANCIAL ACTIVITIES AT 30 JUNE
($million)

Item	*1990*	*1991*
Total investments	5 222	**5 497**
Total income on investments	542	**590**
Benefits paid	1 671	**1 511**
Administration expenses	33	**40**
Total contributions	1 466	**1 505**
Unfunded liabilities	16 365	**17 881**

INVESTMENT MIX AND PERFORMANCE OF SUPERANNUATION SCHEMES

4.3.4 Investments held by Victorian public sector superannuation schemes broadly comprise the following types of investments:

- short-term deposits;
- government fixed-interest securities;
- mortgages;
- real estate; and
- shares in listed and unlisted companies (Australian and overseas).

4.3.5 The inherent nature of superannuation schemes requires that they generally adopt long-term investment strategies to enable funding of future benefits. The investment strategies adopted will be largely influenced by prevailing economic conditions, which in turn will have a bearing on rates of return on various investments.

4.3.6 As indicated in Table 4.3B, the level of investment returns ranged from 4 to 17 per cent for 1990-91, which resulted in a weighted average rate of return across all schemes of 6.7 per cent for the year ended 30 June 1991 (9.9 per cent, 1989-90). Returns in 1990-91 were adversely affected by declining equities and property values. In addition, the level of returns in 1990-91 was higher for schemes investing in fixed interest investments and short-term deposits because of the high interest rates available at the time of entering into such arrangements.

TABLE 4.3B. INVESTMENT RETURNS
(per cent)

	Rate of return	
Scheme	*1989-90*	*1990-91*
City of Melbourne Superannuation Fund	8	**8**
Emergency Services Superannuation Scheme	7	**6**
Gas and Fuel Superannuation Fund	3	**7**
Hospital Superannuation Fund	9	**4**
Local Authorities Superannuation Board	11	**8**
Metropolitan Fire Brigades Superannuation Fund	13	*(a)***13**
MMBW Superannuation Fund	11	**9**
MTA Superannuation Fund	18	**15**
Parliamentary Contributory Superannuation Fund	15	**17**
SEC Superannuation Fund	9	**4**
State Casual Employees Superannuation Fund	17	**12**
State Employees Retirement Benefits Fund	11	**14**
State Superannuation Fund	12	**8**
Transport Superannuation Fund	14	**10**

(a) The Metropolitan Fire Brigades Fund was merged with the Emergency Services Superannuation Scheme on 1 January 1992.

4.3.7 Table 4.3C indicates how schemes invested their funds.

TABLE 4.3C. SUPERANNUATION SCHEME INVESTMENTS, 30 JUNE 1991

		Percentage of investments in -		
	Total investments	*Fixed-interest securities*	*Shares*	*Property*
	($million)	*(%)*	*(%)*	*(%)*
City of Melbourne Superannuation Fund	**69**	41	49	10
Emergency Services Superannuation Scheme	**440**	54	31	15
Gas and Fuel Superannuation Fund	**355**	29	42	29
Hospital Superannuation Fund	**436**	56	41	3
Local Authorities Superannuation Board	**1 032**	64	27	9
Metropolitan Fire Brigades Superannuation Fund	**29**	86	..	14
MMBW Superannuation Fund	**223**	27	62	11
MTA Superannuation Fund	**1**	100	..	..
Parliamentary Contributory Superannuation Fund	**64**	93	7	..
State Casual Employees Superannuation Fund	**10**	100	..	..
State Employees Retirement Benefits Fund	**107**	36	52	12
State Superannuation Fund	**1 395**	66	16	18
SEC Superannuation Fund	**1 267**	28	52	20
Transport Superannuation Fund	**69**	100	..	..

4.3.8 Schemes investing in property were adversely affected by a fall in capital city central business district property values of around 30 per cent during 1991 (*Source: Melbourne Property Market Report, May 1991. Baillieu & Knight Frank*). Yields of 8 to 12 per cent were obtained from these investments which were lower than in recent years but substantially above the overall ratio achieved by schemes in 1990-91 of an average of 6.7 per cent.

4.3.9 Schemes such as the MTA Superannuation Fund, State Casual Employees Superannuation Fund, Parliamentary Contributory Superannuation Fund and the Transport Superannuation Fund have favoured investment portfolios which are highly focused on fixed interest securities. These schemes have invested in medium-term fixed interest securities and have to generated sound returns in the current year, taking advantage of the high interest rates available on these investments at the time the securities were issued in previous years. However, in view of the marked fall in interest rates over the past 12 months, returns on new securities of this type will inevitably be lower in future years if present market conditions continue.

4.3.10 Given the long-term nature of superannuation schemes' investment strategies, the low investment returns for certain funds for the year ended 30 June 1991 are not necessarily an indication of poor performance. As investment returns are heavily affected by general economic conditions, it is critical that these returns be monitored over several years to ensure that investment strategies are effective in the long-term.

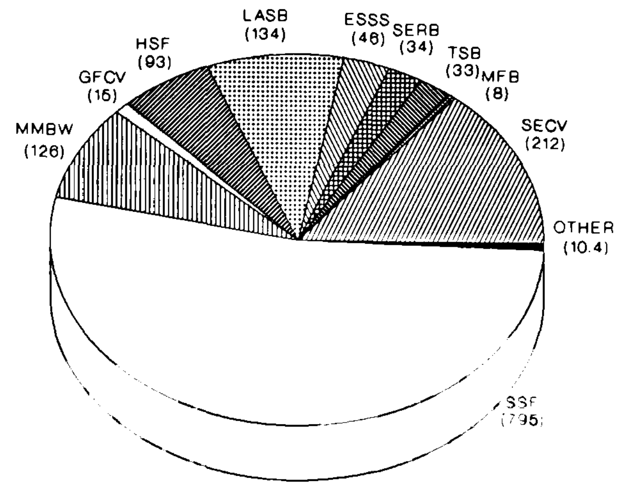
LEVEL OF BENEFITS

4.3.11 The schemes provided $1.5 billion in payments to members and beneficiaries resulting from the following events:

- retirement;
- death; and
- disability.

4.3.12 Total benefits paid to members and beneficiaries of the various public sector schemes for the year ended 30 June 1991 are depicted in Chart 4.3D.

CHART 4.3D
SUPERANNUATION SCHEMES BENEFITS, YEAR ENDED 30 JUNE 1991
($millions)



KEY:

ESSS	-	Emergency Services Superannuation Scheme	SERB	-	State Employees Retirement Benefits Fund
GFCV	-	Gas and Fuel Superannuation Fund	SSF	-	State Superannuation Fund
HSF	-	Hospital Superannuation Fund	SECV	-	SEC Superannuation Fund
LASB	-	Local Authorities Superannuation Fund	TSB	-	Transport Superannuation Fund
MFB	-	Metropolitan Fire Brigades Superannuation Fund	Other	-	Includes City of Melbourne (5), MTA Superannuation Fund (0.4), Parliamentary Contributory Superannuation Fund (3) and State Casual Employees Superannuation Fund (2).
MMBW	-	MMBW Superannuation Fund			

ADMINISTRATION COSTS OF SCHEMES

4.3.13 Table 4.3E indicates that administrative costs, which include salaries, actuarial fees and EDP costs, varied from $17 per member to $426 per member. The average cost of administration across all schemes was $92 per member.

TABLE 4.3E. ADMINISTRATION COSTS, 30 JUNE 1991

Scheme	*No. of members(a)*	*Total costs*	*Average cost per member*
		($'000)	*($)*
City of Melbourne Superannuation Fund	3 000	350	**117**
Emergency Services Superannuation Scheme	14 000	2 093	**150**
Gas and Fuel Superannuation Fund	6 000	1 214	**202**
Hospital Superannuation Fund	135 000	6 000	**44**
Local Authorities Superannuation Board	35 000	3 959	**113**
Metropolitan Fire Brigades Superannuation Fund	409	93	**227**
MMBW Superannuation Fund	6 000	1 220	**203**
MTA Superannuation Fund	1 000	120	**120**
Parliamentary Contributory Superannuation Fund	162	69	**426**
SEC Superannuation Fund	17 000	3 142	**185**
State Casual Employees Superannuation Fund	60 000	999	**17**
State Employees Retirement Benefits Fund	11 000	1 803	**164**
State Superannuation Fund	131 000	16 491	**126**
Transport Superannuation Fund	16 000	2 402	**150**

(a) Average for year.

4.3.14 When administrative costs are compared with interstate public sector schemes, audit observed substantial variances. For instance, the Western Australian Government Employees Superannuation Board, with a membership of 87 276 persons, had an average administration cost of $61 per member and the South Australia Superannuation Fund Investment Trust, with a membership of 31 437, had an average cost per member of $30.

4.3.15 Given the above information, it is appropriate for schemes to appraise the efficiency of their present administrative functions to determine whether scope exists for economies of scale to be achieved, possibly through sharing administrative functions or through the contracting of services to a professional administrator. Where a professional administrator is considered, factors such as the ability of the administrator to liaise effectively with the sponsoring employer and the attainment of the required quality of service for members should be taken into account.

4.3.16 In view of the wide disparities in administration costs per member across the public sector superannuation schemes, consideration needs to be given to identifying the potential for achieving economies of scale in administrative functions.

RESPONSE provided by Director-General, Department of the Treasury

Treasury is currently undertaking a major review of present administrative arrangements for the State's budget-funded public sector superannuation schemes and the key factors influencing their investment performance. The results of this review are expected to be known by 31 October 1992.

It should be noted that comparison of administrative costs per member between schemes is complicated by differences in the mix of pensioners and contributors and by different ranges of member services offered.

UNFUNDED LIABILITIES

4.3.17 At 30 June 1991 the total of the unfunded liabilities of the public sector superannuation schemes was $17.9 billion, representing an increase in the liability of 9 per cent in comparison with 30 June 1990 ($16.4 billion). Only one of the schemes is currently fully-funded, namely the Gas and Fuel Superannuation Fund.

4.3.18 Table 4.3F provides details of the superannuation liabilities and the unfunded component of each scheme.

TABLE 4.3F. SUPERANNUATION LIABILITIES, 30 JUNE 1991

Superannuation scheme	*Unfunded liabilities*	*Total super-annuation liabilities*	*Percentage of unfunded to total liabilities*
	($m)	*($m)*	*(%)*
City of Melbourne Superannuation Fund	21	88	24
Emergency Services Superannuation Scheme	778	1 113	70
Gas and Fuel Superannuation Fund	..	276	..
Hospitals Superannuation Fund	427	801	53
Local Authorities Superannuation Board	364	1 300	28
Metropolitan Fire Brigades Superannuation Fund	80	109	73
MMBW Superannuation Fund	80	291	27
MTA Superannuation Fund	3	5	60
Parliamentary Contributory Superannuation Fund	11	77	14
SEC Superannuation Fund	177	1 442	12
State Casual Employees Superannuation Fund	15	23	65
State Employees Retirement Benefits Fund	330	388	85
State Superannuation Fund	15 413	16 741	94
Transport Superannuation Fund	183	258	71
Total	**17 881**	**22 912**	**78**

4.3.19 Employer contributions from non-budget sector agencies ($18.3 million in 1990-91) on behalf of employees who are members of the State Superannuation Fund are paid into the Consolidated Fund. Despite the State Superannuation Fund having the largest unfunded liability of all the schemes, it does not receive these contributions from the Government until such time as the superannuation benefits are payable to employees.

4.3.20 During 1990-91, the State's unfunded superannuation liabilities have increased by the significant amount of $1.5 billion over the previous year. Clearly, this serves to place a greater burden on future taxpayers to pay for superannuation benefits attributable to periods of past employment, which were not funded by the Government at the time.

RESPONSE provided by Director-General, Department of the Treasury

In the June 1991 Economic Statement and the 1991-92 Budget Speech, the Government committed itself to reduce the rate of growth of unfunded superannuation liabilities. Treasury will be developing, in conjunction with the individual funds, plans that incorporate minimum investment performance standards and long-term funding programs to progressively improve the ratio of fund assets to accrued liabilities. The Government has already announced a higher contribution to the Hospitals Superannuation Fund to achieve a long-term target of full funding, has instituted a financial plan to extinguish the Emergency Services Superannuation Scheme debt from the Consolidated Fund by the year 2000 and has decided to change reimbursement procedures to the State Superannuation Fund so that, over the next decade, the portion of the Fund devoted to fund lump-sum payments will not exceed 50 per cent of fund assets and will progressively reduce.

4.4

COMPANIES, TRUSTS, JOINT VENTURE ARRANGEMENTS AND INCORPORATED ASSOCIATIONS

KEY FINDINGS

- Action, including the development of a comprehensive legislative framework, needs to be progressively undertaken by the Government to improve the accountability processes of companies in the public sector.
  Paras 4.4.18 to 4.4.22

- Consideration needs to be given to appointing the Auditor-General as auditor of all public sector companies, trusts and incorporated associated to improve accountability to Parliament.
  Paras 4.4.23 to 4.4.30

BACKGROUND

4.4.1 My *Report on the Finance Statement, 1990-91* provided an updated review of companies, trusts, joint ventures and incorporated associations in the public sector.

4.4.2 Audit reported that the growing practice of using such structures to conduct a widening range of activities on behalf of public bodies and government agencies has reduced the effectiveness of the traditional accountability framework to the Parliament and the taxpayer.

4.4.3 Audit also concluded that due to the deficiencies in the government guidelines which were issued by the former Department of Management and Budget (now the Ministry of Finance) in 1987, and the failure by agencies and public bodies to comply with those guidelines, the monitoring and control of the operations of public sector incorporated entities had not been effectively implemented.

4.4.4 The Ministry of Finance proposed the following actions in response to the audit review by:

- updating the central register monitoring such arrangements;
- undertaking to review the legislative framework and to develop legislation governing the area of government-established companies; and
- providing a revised policy framework for the formation and operation of government companies, trusts, joint ventures and incorporated associations.

4.4.5 The Ministry is currently in the early stages in implementing the above proposals. While the Ministry's actions were a positive initiative in providing for improved accountability of government companies, trusts and associations audit undertook a further review to ascertain whether additional improvements are warranted and to examine in greater depth the nature and operations of such entities.

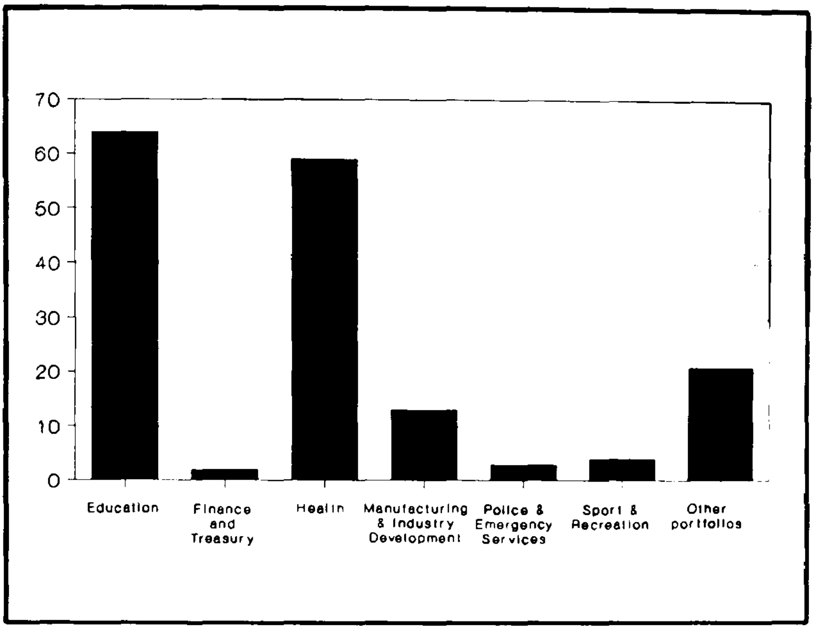
4.4.6 In this Report the word *"companies"* is used generically and includes companies, incorporated joint ventures, limited liability partnerships, and trusts and incorporated associations.

EXTENT OF PUBLIC SECTOR INVOLVEMENT

4.4.7 The number of public sector *companies*, as identified by audit at 31 December 1991, is shown in Chart 4.4A. The information shown is classified on a ministerial portfolio basis and indicates the extent of public sector involvement in companies. The entities identified comprised:

- 79 registered companies;
- 81 trusts;
- 4 joint ventures; and
- 5 incorporated associations.

CHART 4.4A
PUBLIC SECTOR COMPANIES BY MINISTERIAL PORTFOLIO, AT 31 DECEMBER 1991



4.4.8 The principal activities of the 169 companies were:

- fundraising for public hospitals;
- medical research and private practice arrangements;
- education and training;
- consultancy services; and
- overseas and domestic promotion of parent entity's products and services.

WHY HAVE THESE COMPANIES BEEN FORMED?

4.4.9 The majority of *companies* have been established in the following 3 sectors:

- In the Health sector a large number of trusts and foundations have been established by hospitals to provide funds for equipment and research through various fundraising activities. In addition, private practice trusts were established as a mechanism by which a share of income earned by salaried doctors from treating private patients in public hospitals could be directed towards the benefit of the hospitals. In total, 59 companies existed in this sector.

- In the Education sector a number of companies and trusts have been established by colleges and universities to provide various consultancy and specialised educational services. These include the provision of research grants and research activities for staff and students, marketing of consultancy services and intellectual property. In total, 64 companies existed in this sector.
- In the Manufacturing and Industry Development sector 13 companies have been established for the express purpose of promoting and developing Victorian-made products for interstate and overseas markets.

4.4.10 The establishment of such companies as separate legal entities, is seen by government as providing a number of benefits including:

- the ability to operate and obtain finance in a competitive environment without direct involvement of government and/or the controlling entity;
- relief from constraints which may at times impinge on the competitiveness of public sector entities, such as limits on the salary levels of executives and the need to comply with government regulations;
- the ability to raise external funds outside of the Parliamentary budgetary process; and
- the ability to actively promote products and services both domestically and overseas in a commercial environment.

THE ACCOUNTABILITY FRAMEWORK

Is it necessary to strengthen the existing accountability process?

4.4.11 Companies controlled by public sector bodies should have an ultimate line of accountability to the Parliament and the public for the management of public resources entrusted to their control.

4.4.12 One of the main mechanisms for achieving accountability in the private sector is the provision to shareholders by management of annual reports which include audited financial statements. Such reports assist shareholders in making decisions whether or not to maintain their investments. The same concepts should apply to public sector controlled companies. Both the Parliament and the public have a vested interest in the performance of these companies, given the public investment in these enterprises.

4.4.13 From a public accountability perspective, the framework adopted for creating subsidiary companies should include appropriate legislation, detailing the companies' major objectives, powers, responsibilities, and reporting and auditing requirements. Such entities should only be created if the parent bodies' legislation permits these structures and there are adequate grounds for such companies to be created.

4.4.14 The audit review highlighted 10 cases where companies were formed beyond the scope of the parent bodies' powers. Moreover, 21 companies had the ability to alter their memorandum and/or articles of association without appropriate ministerial approval, despite Ministers under the Westminster System being ultimately responsible for the activities of public bodies in receipt of public funds. There should not be potential for public funds to be used in an unauthorised manner without the knowledge of the relevant Minister or Parliament.

4.4.15 More attention needs to be given to monitoring and control of companies associated with government agencies and in particular to reinforce the requirement for the responsible Minister to keep Parliament informed of the acquisition of any companies along with the nature and changes of any interest in those companies.

RESPONSE provided by Director-General, Ministry of Finance

An inter-departmental committee is reviewing the legislative framework for the operation of government-owned companies. Audit recommendations will be appropriately considered.

Related party transactions

4.4.16 The existence of a related party relationship may expose an organisation to additional risks, or alternatively provide opportunities, which would not have existed in the absence of the relationship. Related party relationships may therefore have a material effect on the performance, financial position, financing and investing activities of a parent entity and companies it controls. As an example, a director of a public sector company may be in a position to influence that company into entering in transactions with another company in which the director has a beneficial interest. Transactions involving related parties cannot always be presumed to be carried out on an arm's-length basis, as the requisite conditions for competitive dealings may not exist.

4.4.17 Currently, the Australian Accounting Standard relating to the disclosure of related party transactions only applies to private sector reporting entities. In my opinion, a requirement for all public sector entities to disclose related party transactions needs to be prescribed by the Ministry of Finance.

RESPONSE provided by Director-General, Ministry of Finance

The Australian Accounting Standards Board has determined that this Standard applies only to private sector companies. The Ministry will review the applicability of this standard to the public sector.

Level of monitoring

4.4.18 Accountability processes can be enhanced through effective internal and external audit processes, the establishment of audit committees, timely presentation of financial information to the controlling entity and the use of performance indicators.

4.4.19 The associated benefits of establishing these processes include:

- strengthening the role of non-executive directors by providing them with timely financial decision-making data;
- focusing attention on the corporate risk profile of the entity by detailing performance against objectives on a timely basis;
- provision of detailed and timely information on the utilisation by companies of public resources; and
- providing the entity itself with an added degree of assurance over its financial operations.

4.4.20 The inattention by certain public sector parent entities to improving accountability processes was evidenced by the fact that of the 169 companies identified in the review:

- 73 did not have a separate internal audit function;
- 70 had not established an audit committee;
- 51 did not have performance indicators to gauge the effectiveness of operations; and
- 19 did not provide financial data to the establishing entity.

4.4.21 Audit also observed that relatively few *annual reports* of public sector agencies contained relevant details of all subsidiaries.

4.4.22 Action, which includes the development of a comprehensive legislative framework, needs to be progressively taken by the Government to improve the accountability processes of public sector companies.

RESPONSE provided by Director-General, Ministry of Finance

The inter-department committee is considering this issue and reviewing legislative requirements in other States and their application.

REPORTING REQUIREMENTS AND THE AUDITOR-GENERAL

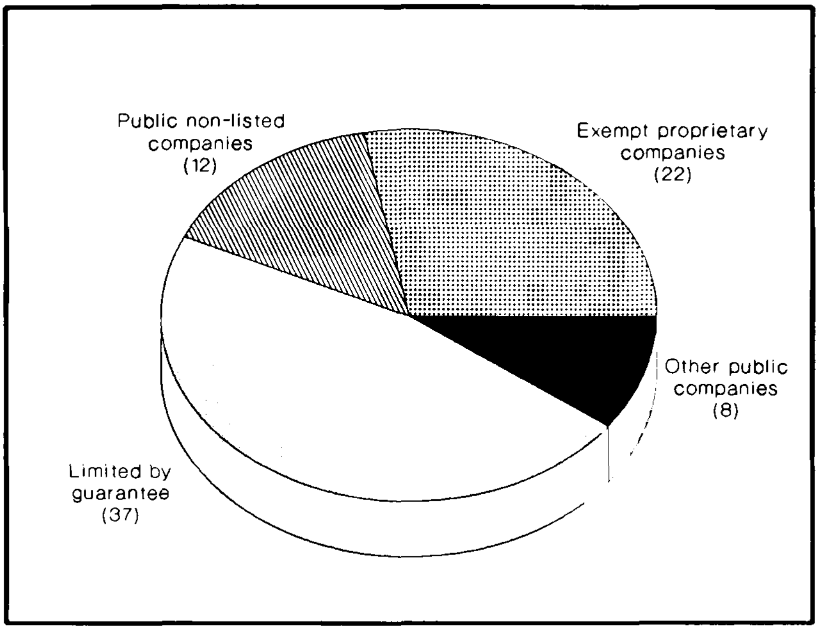
4.4.23 The audit review concentrated on the formation of companies, trusts, joint venture arrangements and incorporated associations. Company structures generally have extensive reporting requirements under the Corporations Law, while trusts and incorporated associations have limited reporting requirements under the various regulatory acts.

4.4.24 The auditing requirements vary between these structures with the following types of audit arrangements applying:

- The Auditor-General undertakes the audit as provided for in enabling legislation (i.e. such as for companies established by universities) or at the request of the Treasurer;
- A private sector auditor is appointed under the Corporations Law; or
- There are no formal audit requirements. This is normally the situation with trusts, joint venture arrangements and incorporated associations.

4.4.25 Chart 4.4B categorises the structures of the 79 registered companies which have formal auditing and financial reporting requirements.

CHART 4.4B
TYPES OF COMPANY STRUCTURES



4.4.26 Various types of reporting arrangements exist with the different company structures. Companies which are *limited by guarantee* need not lodge financial statements nor annual returns with the Australian Securities Commission. Furthermore, *exempt proprietary companies* are not obliged to submit their annual financial statements to the Commission if such statements have been audited. These types of company structures normally preclude the Auditor-General from being the auditor unless specifically requested by the Treasurer. **The Auditor-General was not the appointed auditor for 34 of the 79 public sector companies identified in the review.**

4.4.27 The appropriateness of the Auditor-General reporting to Parliament on the activities of all companies deemed to be subsidiaries of public bodies has been recognised by the Victorian Economic and Budget Review Committee on several occasions. Recently in its *31st Report to the Parliament*, the Committee recommended that certain trusts and other similar arrangements be should subject to audit by the Auditor-General wherever possible.

4.4.28 The Auditor-General also possesses a distinct advantage from a public accountability viewpoint, in that the mandate provided to the Auditor-General also enables the conduct of performance audits. As such, the operations of companies could be subject to scrutiny as to whether their affairs were conducted in the public interest with due regard to economy, efficiency and effectiveness.

4.4.29 The recent guidelines issued by the Ministry of Finance provide that where a company is wholly-owned by government, the *articles of association* should provide for auditing of the accounts by the Auditor-General. While this action can marginally improve the existing situation, the guidelines exclude the majority of companies which are not wholly owned by government, but would be deemed to be subsidiaries of public bodies by virtue that they are controlled by them.

4.4.30 Consideration needs to be given to appointing the Auditor-General as auditor of all public sector companies to improve accountability to Parliament.

RESPONSE provided by Director-General, Ministry of Finance

The Ministry notes the view of the Auditor-General. The Audit Act 1958 provides for the Auditor-General to audit relevant companies at the request of the Treasurer. Amendments to the Audit Act 1958, which are currently before the Parliament, would allow relevant companies to be "prescribed" for the purpose of audit by the Auditor-General.

4.5

QUALIFIED AUDIT OPINIONS, 1990-91

KEY FINDINGS

- The Ministry of Finance needs to take a more active role in addressing the continuing high incidence of audit qualifications and improving the standard of financial reporting in the Victorian public sector.

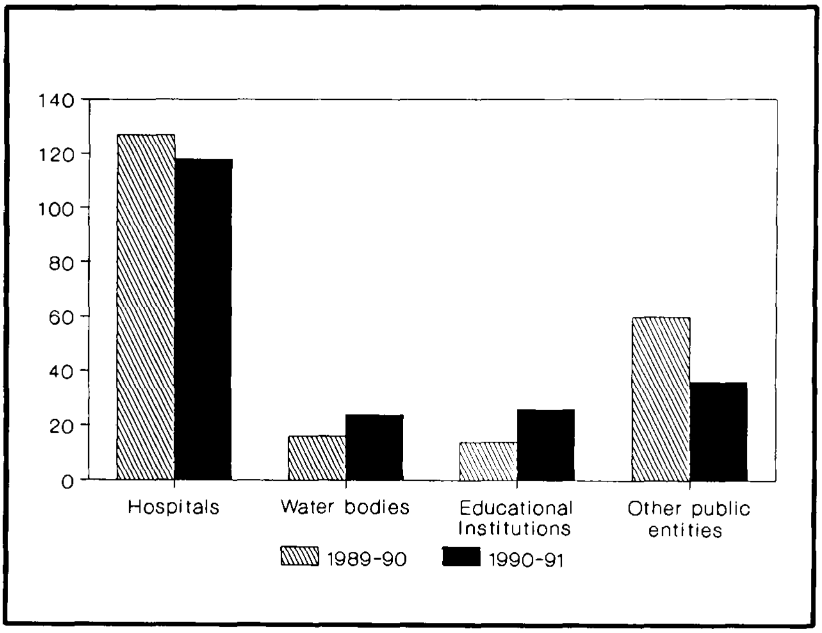
  Paras 4.5.1 to 4.5.18

DEVELOPMENTS OVER THE YEAR

4.5.1 For several years now, a section of this *Report on Ministerial Portfolios* has been devoted to examining the high incidence of qualified audit opinions expressed on the financial statements of public sector entities. **During 1990-91, the financial statements of 204 public bodies were qualified (217 in 1989-90). In view of the minimal decrease in audit qualifications there remains a continuing need for the Ministry of Finance (previously the Department of the Treasury) to assume a greater role in assisting management to eliminate the repetitive causes of audit qualifications.**

4.5.2 Chart 4.5A indicates the public sector entities whose financial statements were qualified over the last 2 years.

CHART 4.5A
AUDIT QUALIFICATIONS FOR PUBLIC SECTOR ENTITIES



4.5.3 The more significant issues which led to the qualifications during 1990-91 included:

- *Asset reporting and valuation*

  Major issues causing qualifications in respect of 168 public sector entities were:

  - the decision by these organisations to continue to inadequately value and disclose vested assets in their financial statements; and

- incomplete asset records to substantiate the value of assets disclosed in financial statements and associated depreciation charges.

▸ *Disclosure issues*

Audit also qualified 25 public sector entities for:

- inappropriate treatment of grant revenue; and
- inadequate disclosure of items which had a material effect on the revenue and expense statement.

4.5.4 The recurring nature of qualifications arising in the above areas has mainly resulted from the Ministry of Finance:

▸ Only applying Accounting Policy Statement APS4 *Recording and Reporting of Non-Current Physical Assets* to administrative units. As such, other government bodies were not bound to follow the prescribed policy guidelines involving the treatment of non-current assets; and

▸ Remaining reluctant to prescribe guidance on accounting for vested assets such as library collections, museum collections and other heritage assets.

RESPONSE provided by Director-General, Ministry of Finance

The Ministry continually monitors the level and nature of audit qualifications and notes that the current level of qualifications has decreased from the previous year. However, timely reporting by the Auditor-General is essential to facilitate follow-up of these matters and delays have occurred in the provision of annual audit reports on administrative units. This issue is of concern to the Ministry in that it makes follow-up action less timely and, therefore, less relevant.

Of the 204 qualifications referred to, a substantial number refer to qualifications in respect of asset reporting and valuation. The legislation governing these bodies provides for a 2 year period until 30 June 1992 to comply with the newly introduced regulations. The Auditor-General has chosen to qualify these statements. The longer time period permits agencies to value assets in a cost-effective and progressive manner.

In respect of the specific issues raised by audit, the extension of APS4 beyond administrative units to other public bodies is not required as the existing regulations already require the introduction of appropriate asset reporting arrangements by 30 June 1992.

In respect of the second issue raised, the Ministry notes that a Parliamentary Committee (EBRC, 28th Report, November 1990) has found that the Auditor-General's requirements "that the State Collection should be fully and comprehensively registered to ensure its effective management is an unrealistic, unachievable and potentially very costly objective". Accordingly, the Government's policy to focus on registering the high value collections is considered appropriate.

The Ministry also notes that action taken during 1990-91 has resulted in a large number of superannuation-related audit qualifications being removed.

EMERGING ISSUES

Financing transactions

4.5.5 In recent years, the nature and extent of complex financing arrangements in Victoria has increased. Audit recognises that it is management's prerogative to determine how financial costs are managed and to devise means of raising funds for the carrying out of operational activities. However, notwithstanding their complexity, the financing arrangements should be reported in terms of their financial reality and in accordance with Australian Accounting Standards.

4.5.6 Audit continued to find it necessary to issue qualified audit opinions in cases where, in audit opinion, financial arrangements had been reported in accordance with their strict legal form rather than the substance of the financial transactions.

RESPONSE provided by Director-General, Ministry of Finance

The Ministry enforces reporting regulations to ensure that agencies comply with legislation and relevant accounting standards.

Where there are differences of opinion in respect of the interpretation of accounting standards with audit, the Ministry requests agencies to seek professional opinions on appropriate accounting procedures. In some cases the professional accounting advice is not consistent with the view of the Auditor-General.

Non-consolidation

4.5.7 The non-consolidation of the financial statements of trusts and companies with those of public bodies which benefit from the activities of such entities remains a continuing problem, particularly in the health sector in terms of public disclosure of activities involving public funds.

4.5.8 Audit considers that the key criterion relevant when determining if an entity should be consolidated within a public body's financial statements is the extent of control and influence exerted by the reporting body over the affairs of the entity. If a public body controls and is benefiting from the activities of *subsidiary* entities, the public body has, from an in-substance viewpoint, an equitable interest in the entity. In such circumstances, consolidated financial statements should be prepared.

4.5.9 The audit approach on this matter has been vindicated by the recently issued Australian Accounting Standard AAS 24 *Consolidated Financial Reports.*

4.5.10 The Ministry of Finance needs to enforce the application of this accounting standard and to provide appropriate guidance to government agencies on its interpretation in order to avoid possible inconsistencies in financial reporting.

RESPONSE provided by Director-General, Ministry of Finance

The Ministry of Finance has acted to enforce the Accounting Standard on Consolidation (AAS24) prior to 30 June 1991 by incorporating it into the Annual Reporting regulations by reference.

The MOF also provides guidance to agencies on the interpretation of the Standards as required.

Recognition of unfunded superannuation liabilities

4.5.11 When accounting for superannuation in the financial statements of an employing entity it is necessary to recognise the full extent of the liability which accrues to the organisation irrespective of the level of employer contributions paid to a superannuation scheme in a particular year.

4.5.12 The need for reporting superannuation costs and liabilities within the body of the financial statements of employing entities, is in principle, no different to the need for an employer to account for similar costs and liabilities arising from other employee benefits such as annual leave and long service leave. In this regard, an employing entity's share of any *unfunded* superannuation liabilities in respect of its employees, represents the superannuation benefits which it is presently obliged to transfer to those employees via a superannuation scheme at a future period.

4.5.13 In 1991, upon recommendations made by the Department of the Treasury (now the Ministry of Finance), the Annual Reporting (Contributed Income Sector) Regulations and the Annual Reporting (Business Undertakings) Regulations were amended with effect from financial years ending on or after 30 June 1991. These amendments resulted in a statutory requirement for public bodies to include by way of note only, rather than in the statement of financial position, the notional unfunded superannuation liability attributable to them.

4.5.14 Audit disagrees with the stance recommended by the Ministry of Finance on this matter. The amendments to the Regulations posed a substantial dilemma to audit, as the Auditor-General was faced with the prospect of expressing a qualified audit opinion on the financial statements of virtually every public body subject to the Regulations.

4.5.15 Conceptually, there is strong support from the accounting profession for audit's preferred method of disclosure of superannuation obligations. The Australian accounting profession's exposure draft ED53 *Accounting for Employee Entitlements* recognises that employee entitlements in respect of superannuation, qualify as liabilities and should be included in the body of the financial statements.

4.5.16 In the absence of a specific accounting standard dealing with this issue, audit determined not to proceed with qualified audit opinions on this matter. This position will, however, need to be reviewed when ED53 is eventually released as a definitive Australian Accounting Standard.

RESPONSE provided by Director-General, Ministry of Finance

The Ministry will reconsider the method of disclosure when the Accounting Standard is promulgated.

CONCLUSION

4.5.17 The review of matters which have given rise to the issue of qualified audit opinions during 1990-91 has again highlighted that management has not always ensured that financial statements have been adequately presented in accordance with Australian Accounting Standards and relevant financial reporting legislation. For continuing improvement in the accountability of the public sector to occur, the Ministry of Finance needs to take a more active role in addressing the continuing high incidence of audit qualifications and improving the standard of financial reporting.

4.5.18 The function of improving financial management and accountability across government is the primary responsibility of the Comptroller-General. In view of the importance of this function to government a senior management position should be dedicated to this function and given an appropriate level of independence and authority.

RESPONSE provided by Director-General, Ministry of Finance

Management does act to ensure that financial statements are presented in accordance with Australian Accounting Standards and relevant financial reporting legislation. The issues referred to, include differences in interpretation based on professional judgements.

The Ministry has undertaken a substantive and increased role in improving the standard of financial reporting. The Ministry was formally congratulated by the Auditor-General in November 1991 for its "efforts to resolve issues raised in my Report to Parliament". The Ministry is of the view that the initiatives it has commenced will lead to an improved standard of financial reporting.

The Ministry notes the view of the Auditor-General and will consider the advice.