



Victorian Auditor-General's Office

REPORT ON

MINISTERIAL PORTFOLIOS

MAY 1993

Auditing in the Public Interest

VICTORIA

AUDITOR-GENERAL
OF VICTORIA

**REPORT ON
MINISTERIAL PORTFOLIOS,
MAY 1993**

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May 1993

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 my Report on Ministerial Portfolios. The Report also contains a section on the Parliament of Victoria and a follow-up review on the Alfred Hospital.

This Report completes the cycle of my auditing activities in relation to the 1991-92 financial year, and reflects ministerial portfolios and responsibilities operative at the end of March 1993.

Yours faithfully


C.A. BARAGWANATH
Auditor-General

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PART 1

Executive Summary

FOREWORD

In recent years there has been progress, albeit slow, in introducing measures throughout the public sector designed to ensure that Victoria's communal resources are used in the most economical, efficient and effective manner possible.

Over the past decade there have been repeated references in Reports of Auditors-General to inadequacies in management information systems, basic accounting records and internal control systems. There has been a prompt response to those audit recommendations where the potential for significant resource savings has been identified. However, many of the outcomes referred to in this present Report may not have arisen if government agencies had responded more positively and effectively in the past to audit representations, particularly those relating to inadequacies in information and control systems.

Clearly, it is the responsibility of an organisation's management to establish an appropriate internal control framework and to implement a monitoring system to ensure that the framework continues to provide the required checks and balances. From my experience, it would appear that management needs stimulus or encouragement to be more pro-active in establishing and monitoring key controls rather than merely reacting when control deficiencies produce adverse consequences of the type detailed in this Report.

A legislative requirement for public sector management to report publicly on the internal control framework operating within their organisations would provide the necessary stimulus and lead to a significant improvement in the quality of such controls. I believe that the discipline of reporting would not only improve public sector resource management, stewardship and accountability, but would ultimately lessen the incidence of critical audit comment.

I am sure that Parliament would prefer a situation to be reached where, in future, I could report that an adequate internal control framework was in existence in all government agencies, that management was closely monitoring the effectiveness of the framework, and that as a consequence there had been a significant improvement in resource management in the public sector.

EXECUTIVE SUMMARY

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

1.2.2 With the election of a new administration in October 1992, I have decided to temporarily suspend the practice of including a status report on matters raised in previous years. I have advised the current administration of my intention to resume this practice next year.

AGRICULTURE

Page 27

- ▶ Following over 2 years of operating losses by the Victorian Egg Marketing Board's products division, measures taken by the Board to improve its performance are steadily taking effect.

Paras 3.1.2 to 3.1.13

ARTS, SPORT AND TOURISM

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- ▶ Initiatives have been taken by the Racecourses Licences Board (Racing Division) to address the reduction in available development funds for racing following a levelling out of growth in totalizator commission since 1989-90.

Paras 3.2.26 to 3.2.28

- ▶ Prompt action is necessary to establish a satisfactory accountability framework for the Cranbourne training complex.

Paras 3.2.36 to 3.2.42

- ▶ After only 7 months of operations, electronic gaming machines have turned over \$1.2 billion and contributed more than \$45 million to the Consolidated Fund.

Paras 3.2.47 to 3.2.56

BUSINESS AND EMPLOYMENT

Page 53

- ▶ The processes established by the former Accident Compensation Commission to review the performance of its authorised agents in managing WorkCare (and now WorkCover) claims were not effective in assessing whether the subjective assessments and decisions made by agents were soundly based.

Paras 3.3.8 to 3.3.15

CONSERVATION AND NATURAL RESOURCES

Page 63

- ▶ Faced in 1990 with an urgent need to substantially upgrade its information technology capability, Melbourne Water took the initiative and entered into an outsourcing arrangement with its IT executives under a management buy-out.

Paras 3.4.33 to 3.4.39

- ▶ While Melbourne Water has achieved major benefits to date in terms of better quality and more efficient IT services, an absence of competitive forces and shortcomings in cost management have necessitated corrective action.

Paras 3.4.58 to 3.4.83

- ▶ Other public bodies contemplating or already pursuing placement of IT services with the private sector can derive benefit from Melbourne Water's outsourcing experiences.

Paras 3.4.92 to 3.4.98

- ▶ Three significant sewer collapses in suburban streets of Melbourne resulted in outlays of around \$13 million by Melbourne Water and caused major temporary pollution to the Maribyrnong River and bayside beaches.

Paras 3.4.99 to 3.4.113

- ▶ The delay and subsequent breakdown in negotiations on the Braeside Park joint venture project has precluded early disposal by Melbourne Water of 122 hectares of surplus land.

*Paras 3.4.123 to 3.4.129***EDUCATION**

Page 101

- ▶ A large proportion of asset registers in schools and administrative centres, controlling assets with a total value in excess of \$200 million, were found to be inadequate. Contributing factors included the level of information system support provided by the Department of Education and a lack of commitment by those responsible for maintaining asset registers in accordance with departmental directives.

Paras 3.5.9 to 3.5.13

- ▶ Internal review of integrated education for children with disabilities concurs with audit findings concerning the overall management of the Integration Program. The Department of Education is taking action to improve the management of the Program.

Paras 3.5.33 to 3.5.37

- ▶ While the former VicFleet Directorate had overall responsibility for the strategic management of the government vehicle fleet, it was not effective in discharging this role, which adversely impacted on the performance and costs associated with fleet operations.
Paras 3.7.14 to 3.7.18
- ▶ Around 30 per cent of vehicles controlled by agencies examined by audit were utilised less than the minimum benchmark established by VicFleet. Given current vehicle utilisation levels, scope exists for the rationalisation of the fleet.
Paras 3.7.35 to 3.7.37
- ▶ Until such time as the Government's current and future vehicle needs are actually determined, public funds will continue to be wasted due to the existence of excessive vehicles within the vehicle fleet.
Paras 3.7.40 to 3.7.45
- ▶ Based on vehicle changeover costs incurred by budget sector agencies during 1991-92, audit estimated that the cost to the State of not replacing existing fleet vehicles at the optimum interval stipulated by VicFleet was around \$15 million.
Paras 3.7.51 to 3.7.52
- ▶ A share of potential savings of around \$11 million is available to public sector bodies from the full utilisation of the State Supply Service. To ensure that these benefits are realised, action needs to be taken to increase the awareness of public sector bodies of the price competitiveness of the Service.
Paras 3.7.73 to 3.7.76

HEALTH AND COMMUNITY SERVICES

- ▶ Due to the failure of the Dental Health Service and the Department of Health and Community Services to adequately examine alternate service-wide delivery methods, such as outsourcing, taxpayers could not be assured that current school dental health services were provided in the most cost-efficient manner.
Paras 3.8.19 to 3.8.25
- ▶ Only 67 per cent of eligible school children had participated in the schools dental health program, which was the lowest of all Australian States and Territories except for New South Wales. This low rate of participation is likely to contribute to a poorer dental health outcome for the State.
Paras 3.8.36 to 3.8.44
- ▶ An increase in the level of teacher contact hours and revised work arrangements would enhance opportunities for improving the efficiency of kindergarten services in Victoria and could lead to substantial savings in government subsidies.
Paras 3.8.86 to 3.8.89

JUSTICE

Page 179

- ▶ The Estate Agents Board's ability to negotiate more favourable dealings with financial institutions so as to generate additional income is limited by legislation.
Paras 3.9.52 to 3.9.54
- ▶ Based on State Electoral Office estimates, cost savings of around \$2.3 million are available to the State for each 4 year election cycle, through the introduction of alternate State electoral roll maintenance processes. However, the Office needs to conclude negotiations with various parties, to confirm the attainment of such savings.
Paras 3.9.77 to 3.9.87
- ▶ The collection of electoral fines relating to the October 1992 State election will result in a net cost to the State of around \$670 000. Given this cost, there is a need to review related legislative provisions, with a view to improving the efficiency of current collection procedures and re-assessing the level of fines imposed.
Paras 3.9.88 to 3.9.92
- ▶ Notwithstanding the call for urgent action in 1989 by 2 external reviews to improve interest returns to the Residential Tenancies Fund, progress on negotiations has been slow and the major banks have been able to continue to maximise their profit margins on tenants' bond moneys, to the detriment of the Fund.
Paras 3.9.127 to 3.9.135
- ▶ Using the interest return on tenants' bonds paid to the Residential Tenancies Fund by the second tier banks as a benchmark, the delay in negotiations with major banks has resulted in interest forgone to the Fund of at least \$600 000 since July 1989.
Para. 3.9.136
- ▶ In 1991-92, the former Ministry of Consumer Affairs found that approximately \$9 million in tenants' bond moneys had been inadvertently overlooked by the banks in calculating interest payable to the Residential Tenancies Fund and, as a consequence, more than \$2 million in interest arrears was collected from the banks.
Paras 3.9.141 to 3.9.144
- ▶ A minimum of \$750 000 each year in interest is estimated to be lost to the Residential Tenancies Fund on tenants' bonds through non-lodgement of bond moneys, with the bulk of this amount likely to be the result of non-compliance by landlords.
Paras 3.9.150 to 3.9.157
- ▶ It was not possible to determine the total costs waived under the discretion not to charge for police services due to the inadequacies of the management information system.
Paras 3.9.176 to 3.9.179

PLANNING AND DEVELOPMENT

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- ▶ Due to the Department of Planning and Development's failure to adopt a pro-active approach to the provision of property maintenance, through the implementation of a preventative maintenance program, financial benefits in the form of reduced property costs have been forgone.
Paras 3.10.8 to 3.10.14
- ▶ Until such time as the Department of Planning and Development determines the physical condition of all its properties, which may take another 7 years, it will not have a sound basis for prioritising the allocation of its scarce maintenance funds, nor for determining its future funding requirements
Paras 3.10.15 to 3.10.20
- ▶ At September 1992, Victoria had the second highest overall public rental property vacancy rate, when compared with 3 other Australian States, proportionate to rental stock.
Paras 3.10.43 to 3.10.46
- ▶ Since the inception of the Home Opportunity Loans Scheme (HOLS), 166 loans have been discharged due to purchasers defaulting on loan repayments, resulting in losses of almost \$3.3 million. The increasing incidence of losses has the potential to become a significant factor impacting upon the level of State financial support that may be required in future years, to ensure the financial viability of the HOLs Scheme.
Paras 3.10.71 to 3.10.75

TRANSPORT

Page 249

- ▶ At 31 March 1993, the Public Transport Corporation held 63 light rail vehicles in excess of requirements. Since 1990, around \$126 million has been prematurely outlaid by the State to acquire vehicles in excess of the Corporation's immediate needs.
Paras 3.12.19 to 3.12.27
- ▶ The Public Transport Corporation could not account for or locate Met Ticket equipment with a value of \$508 500 purchased for the conversion to driver-only trams.
Paras 3.12.36 to 3.12.46
- ▶ The Port of Geelong Authority has taken positive measures to improve efficiency and provide an improved level of services to Port users.
Paras 3.12.56 to 3.12.63
- ▶ There is low utilisation of the Port of Geelong Authority's multi-purpose berths and the Authority should identify and decommission those berths no longer required for Port purposes.
Paras 3.12.68 3.12.73
- ▶ In the 4 year period to June 1992, there has been a reduction, in real terms, of over 20 per cent in funds allocated to road maintenance functions for roads under the direct control of the Roads Corporation. For the same period, there has been a noticeable deterioration in the overall condition of freeways and highways.
Paras 3.12.131 to 3.12.149
- ▶ The Roads Corporation's declining funding position for roads has been exacerbated by the assumption of new responsibilities and associated funding obligations from the Public Transport Corporation. In the 3 years since 1989-90, the total loss of funds to the Corporation has been approximately \$94 million in constant 1991-92 terms.
Paras 3.12.135 to 3.12.138
- ▶ Significant safety and funding implications could emerge if action is not taken to address the general deterioration in the condition of many bridges.
Paras 3.12.173 to 3.12.183
- ▶ The Roads Corporation has estimated that removal of the majority of restrictive work practices would result in savings in outlays on road activities of \$7.5 million per year, with a significant portion of this amount likely to relate to road maintenance operations.
Paras 3.12.184 to 3.12.186

TREASURER

Page 301

- ▶ Further strengthening of the Transport Accident Commission's financial position occurred during 1991-92.

Paras 3.13.6 to 3.13.9

- ▶ As a result of the transfer to the Transport Accident Commission of financial obligations relating to the Farrow Group, the Commission's solvency level declined from 43 per cent at 31 December 1992 to around 28 per cent at 15 January 1993.

*Paras 3.13.10 to 3.13.16***ALFRED HOSPITAL FOLLOW-UP REVIEW**

Page 311

- ▶ Prompt and positive action has been taken by management to address the issues raised by audit in the 1990 *Special Report* on the Alfred Hospital.

Para. 4.15

- ▶ Increased demand on hospital services has contributed in some areas to a worsening in the position in relation to:

- waiting lists

Paras 4.19 to 4.33

- access to the Emergency Department; and

Paras 4.37 to 4.56

- admittance to intensive care facilities.

Paras 4.57 to 4.66

- ▶ The Hospital still owns a number of surplus properties.

Paras 4.93 to 4.100

PART 2

Parliament of Victoria

KEY

FINDINGS

- ▶ The House Committee of the Parliament has yet to set a definitive strategy and time frame for the achievement of its objective of full cost recovery for the Parliamentary Refreshment Rooms.

Paras 2.1.2 to 2.1.5

- ▶ There has been a marked reduction in the extent of longer-term unpaid accounts by Members and other users of Refreshment Room facilities.

Paras 2.1.6 to 2.1.7

 **PARLIAMENT OF VICTORIA**

STATE PARLIAMENT REFRESHMENT ROOMS**Audit arrangements**

2.1.1 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 House Committee dated 2 September 1992.

Refreshment Rooms operating result

2.1.2 The House Committee currently operates under a policy of moving towards full recovery of the costs of operating the Refreshment Rooms without the need for a subsidy from the Consolidated Fund. This policy was set to enable the House Committee to achieve its mission for catering operations, which states in part, "*to defray as far as possible any costs which would otherwise represent a charge against the public purse*".

2.1.3 The operating result for the year ended 30 June 1992, excluding subsidies received from the Consolidated Fund, was a deficit of \$337 000 compared with a deficit of \$495 000 in the previous year. The decrease in the deficit was due to an increase in the trading profit, resulting from improved sales, and a reduction in operating expenses, through reduced staffing levels. After taking into account a subsidy from the Consolidated Fund of \$277 000 (1990-91, \$519 000) towards the cost of operating the Refreshment Rooms, the financial result for the year was a deficit of \$60 000 compared with a surplus of \$24 000 in the previous year.

2.1.4 The reported deficit does not include other expenses relating to the operation of the Refreshment Rooms met from the appropriation to Parliament during 1991-92, such as telephone, electricity and certain administrative overhead expenses.

2.1.5 While the operating deficit, excluding subsidies, has improved, the House Committee has yet to set a definitive strategy, and time frame, for the achievement of its objective of full cost recovery, including the level of subsidy that will be required during the implementation phase.

■ **RESPONSE** provided by Speaker, Chairman of House Committee

The State Parliament Refreshment Rooms are currently operating under the policy established by the House Committee as outlined in the paper "Mission Statement for Catering Operations at Parliament House", dated 7 November 1991.

Item 5 of the Mission Statement states:

"To defray as far as possible any costs which would otherwise represent a charge against the public purse".

The mission of the catering operations is to provide meals of good quality at reasonable cost for Members of Parliament and staff. The catering operations, therefore, continue to primarily serve the operations of the Parliament and are not in a position to trade on the open market against similar private sector businesses.

It is for that difference, that attention is again drawn to the need for the catering operations to receive direct financial assistance. Amounts provided to date have not been sufficient and an amount in the order of \$200 000 a year is regarded as the appropriate amount to support the cost of the operations. Strategies will continue to be developed to minimise the operational costs and to sustain long-term viability.

However, a downturn in peak trading periods due to the short Sittings of the Parliament and a long campaign for the State Election has had an impact on the trading results for 1992-93.

Unpaid accounts

2.1.6 Previous Auditor-General's Reports on Ministerial Portfolios have referred to unpaid private function accounts and unpaid meal accounts.

2.1.7 It is pleasing to report that there was a marked improvement in the level of longer-term unpaid accounts with \$8 100 outstanding for more than 30 days at 31 December 1992 (\$14 800, 31 December 1991).

Schedule A. 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 1992	No reporting requirements. Audit conducted under <i>Audit Act 1958</i> , s.31.	5 February 1993	28 February 1993
State Parliament Refreshment Rooms	30 June 1992	No reporting requirements. Audit conducted at request of House Committee.	19 February 1993	2 March 1993

PART 3

Audit of Ministerial Portfolios

KEY FINDINGS

3.1

AGRICULTURE

VICTORIAN EGG MARKETING BOARD

- ▶ Following over 2 years of operating losses by the Victorian Egg Marketing Board's products division, measures taken by the Board to improve its performance are steadily taking effect.

Paras 3.1.2 to 3.1.13

Details of ministerial responsibility within the Agriculture portfolio are provided in Table 3.1A. In addition to the Department of Agriculture, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.1A
MINISTERIAL RESPONSIBILITY WITHIN THE AGRICULTURE PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Agriculture	Daratech Pty Ltd Egg Industry Licensing Committee Grain Elevators Board Melbourne Wholesale Fruit and Vegetable Market Trust Murray Valley Citrus Marketing Board Northern Victorian Fresh Tomato Industry Development Committee Tobacco Leaf Marketing Board Victorian Dairy Industry Authority Victorian Dried Fruits Board Victorian Egg Marketing Board Victorian Strawberry Industry Development Committee

Comment on matters of significance arising from the audit of certain of the above entities is provided below.

VICTORIAN EGG MARKETING BOARD

PERFORMANCE OF THE EGG PRODUCTS DIVISION

Background

3.1.1 During the period March 1987 and June 1989, the Victorian Egg Marketing Board operated an egg products plant as part of a joint venture with the former New South Wales Egg Corporation. This plant was utilised to manufacture surplus eggs into pulp and powder products. In July 1989, following the deregulation of the egg industry in New South Wales, the Board sold its share in the joint venture and resumed management of plant and equipment for its own products division in order to continue to manufacture egg products and to maintain stability of pricing in the State's fresh egg market.

Poor initial operating performance of products division

3.1.2 In 1990-91, the first full year of operation of its egg products plant and equipment, the Board was under considerable pressure to retain market share for its products. This pressure arose as a consequence of the deregulation of the industry in New South Wales with sales of eggs from that State impacting on established markets in Victoria. The deregulation brought about aggressive pricing with considerable volatility in the marketplace. In this environment, fluctuations in the supply of and demand for eggs had a significant impact on the Board's products division which was dependent upon a steady and adequate supply of raw materials.

3.1.3 Other factors which affected the Victorian egg industry during 1990-91 included competition from private producers who were permitted to grade and distribute their own eggs, and from imports of significant quantities of inexpensive dried egg white powder from Europe.

3.1.4 The Board responded to these competitive pressures during the year by widening its sales nationally, but at reduced margins because of added transportation costs. The Board also explored export markets and achieved some sales to South Korea, New Zealand and Hong Kong. Further measures adopted by the Board included an expansion of the range of its specialty products, for example, the introduction of chicken powders, and the use of nation-wide advertising with an emphasis on product quality and technical support.

3.1.5 **Notwithstanding these initiatives, the Board experienced a loss on its products division operations of \$337 000 in 1990-91.**

Developments in 1991-92

3.1.6 The market conditions which prevailed in 1990-91 continued throughout 1991-92. **In the latter year, the Board incurred a further loss of \$476 000 in its products division.**

3.1.7 In June 1992, the Government acted to assist the industry by introducing amending legislation to allow permits for additional hens to be kept to provide eggs for manufactured products. During that month, the Board commissioned an external review of the future of its products plant which found that the products division could be viable subject to securing an adequate supply of raw materials. The main recommendations arising from the review included the development of an action-oriented business plan and the securing of a raw material supply source through contracts with the industry.

3.1.8 In September 1992, at the time of consideration of the audit opinion on the 1991-92 financial statements of the Board, the envisaged contracts had not been finalised. **In addition, the products division had experienced further losses totalling \$428 000 for the 2 month period to 31 August 1992.**

3.1.9 **Because of the uncertainty surrounding the future viability of the products division, audit determined to issue a qualified opinion on the 1991-92 financial statements of the Board.**

3.1.10 During September 1992, after considering a number of options on the future of its products division, the Board determined to continue negotiations to secure contracts for the supply of raw materials and to further focus on opportunities for overseas markets in specialty products. As a consequence of this approach, the Board has successfully negotiated 12 rolling 3 month contracts for raw material supply and net profits have been recorded for the division in most months to February 1993.

3.1.11 At the date of preparation of this Report, the Board's projected loss for its products division for 1992-93 had been revised to around \$188 000 in lieu of an earlier estimate of \$293 000. Audit has been advised by the Board that sales for March 1993 have been at a particularly healthy level.

3.1.12 Also, the Board has commenced supply of its chicken powder product to Indonesia. However, the manufacture of other meat and vegetable powder products is dependent upon amendments to the existing legislation.

3.1.13 The Board has initiated strategies aimed at stabilising raw material sources for egg products and securing further markets for its manufactured products in order to ensure the long-term financial viability of the products division.

Recent government moves to deregulate the Victorian egg industry

3.1.14 On 30 March 1993, the Minister for Agriculture announced that the current Government intended to deregulate the Victorian egg industry by 1 July 1993. Legislation is currently under preparation to facilitate this process by the intended date. The Minister stated that the decision to deregulate the industry has been made in response to the deregulation of the NSW egg industry in 1989 and the South Australian egg industry in 1992, developments which have placed considerable pressure on the State's shell egg and egg product markets.

3.1.15 Under the deregulation process, the assets of the Board, including the 10 acre site at Keysborough, will be transferred to a new co-operative to be called the Victorian Egg Industry Co-Operative Ltd.

Schedule A. COMPLETED/INCOMPLETE AUDITS

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
Completed audits				
AGRICULTURE				
Department of Agriculture	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8</i>	22 October 1992	23 October 1992
Daratech Pty Ltd	30 June 1992	No reporting requirements. Audit conducted at request of Treasurer	16 December 1992	17 December 1992(a)
Egg Industry Licensing Committee	30 June 1992	30 September. <i>Egg Industry Act 1989, s.48</i>	3 September 1992	17 September 1992
Grain Elevators Board	31 September 1992	31 December. <i>Annual Reporting Act 1983, s.9.</i>	7 December 1992	24 December 1992
Melbourne Wholesale Fruit and Vegetable Market Trust	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9</i>	19 October 1992	30 October 1992
Murray Valley Citrus Marketing Board	30 June 1992	31 October. <i>Murray Valley Citrus Marketing Act 1989, s.49</i>	29 October 1992	30 October 1992
Northern Victorian Fresh Tomato Industry Development Committee	Period 8 January 1992 to 30 June 1992	30 September. <i>Agricultural Industry Development Act 1990, s.49.</i>	30 October 1992	16 November 1992
Tobacco Leaf Marketing Board	31 March 1992	30 June. <i>Annual Reporting Act, s.9</i>	29 June 1992	30 June 1992
Victorian Dairy Industry Authority	30 June 1992	30 September. <i>Annual Reporting Act, s.9</i>	21 September 1992	30 September 1992
Victorian Dried Fruits Board	31 December 1991	31 March. <i>Annual Reporting Act, s.9</i>	17 March 1992	31 March 1992
Victorian Egg Marketing Board	30 June 1992	30 September. <i>Annual Reporting Act, s.9</i>	10 September 1992	30 September 1992(a)

(a) Qualified audit report issued.

KEY FINDINGS

3.2

ARTS, SPORT AND TOURISM

DEPARTMENT OF ARTS, SPORT AND TOURISM

- ▶ The 3 Boards responsible for authorising payments from development funds for capital development in the racing industry will need to closely monitor the impact of electronic gaming machines on the availability of funds for future capital projects.

Paras 3.2.23 to 3.2.25

- ▶ Initiatives have been taken by the Racecourses Licences Board (Racing Division) to address the reduction in available development funds for racing following a levelling out of growth in totalizator commission since 1989-90.

Paras 3.2.26 to 3.2.28

- ▶ Prompt action is necessary to establish a satisfactory accountability framework for the Cranbourne training complex.

Paras 3.2.36 to 3.2.42

VICTORIAN GAMING COMMISSION

- ▶ After only 7 months of operations, electronic gaming machines have turned over \$1.2 billion and contributed more than \$45 million to the Consolidated Fund.

Paras 3.2.47 to 3.2.56

Details of ministerial responsibility within the Arts, Sport and Tourism portfolio are provided in Table 3.2A. In addition to the Department of Arts, Sport and Tourism, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.2A
MINISTERIAL RESPONSIBILITY WITHIN THE
ARTS, SPORT AND TOURISM PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Arts	Council of the Museum 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 State Film Centre of Victoria Council Victorian Arts Centre Trust
Gaming	TAB - Gaming Operations Tattersalls - Gaming Operations Victorian Casino Control Authority Victorian Gaming Commission
Sport, Recreation and Racing	Greyhound Racing Control Board Harness Racing Board National Tennis Centre Trust Totalizator Agency Board Victorian Institute of Sport Ltd Victorian Institute of Sport Trust
Tourism	Emerald Tourist Railway Board Swan Hill Pioneer Settlement Authority Tourism Victoria

Comment on matters of significance arising from the audit of certain of the above entities is provided below.

DEPARTMENT OF ARTS, SPORT AND TOURISM

MANAGEMENT OF THE RACING INDUSTRY DEVELOPMENT FUNDS**Background**

3.2.1 Under the existing administrative structure of racing in Victoria, the Government has adopted a guiding and monitoring role, leaving the direct administration of the industry to the Victoria Racing Club, the Harness Racing Board and the Greyhound Racing Control Board.

3.2.2 A review entitled *The Contribution of the Racing Industry to the Economy of Victoria* issued in September 1992 by an external consulting firm on the Australian racing industry indicated that, in 1990-91, racing was responsible for the employment within Victoria of around 32 000 people and a contribution to the State's gross domestic product of \$590 million.

3.2.3 The Office of Racing within the Department of Arts, Sport and Tourism has responsibility for general racing administration, racecourse licensing and development, gambling regulation and control, research, the Racing Appeals Tribunal and bookmaker registration. These activities were previously carried out by the Racing and Gaming Division of the former Department of Sport and Recreation.

3.2.4 That Office provides direct administrative support to the Racecourses Licences Board (Racing Division), Racecourses Licences Board (Harness Racing Division) and the Greyhound Racing Grounds Development Board.

3.2.5 The 3 Boards are responsible for the Racecourses Development Fund (Racing and Harness Racing Divisions) and the Greyhound Racing Grounds Development Fund. These Development Funds form part of the Trust Fund within the Public Account, the balance of which is invested by the Department of the Treasury. The main source of income to the Funds comprises commission deducted from on-course and off-course totalizator turnover in proportions based on the various bet types.

3.2.6 Separately constituted under the *Racing Act 1958*, the Boards may, with the approval of the Minister, authorise payments from the Development Funds for capital purposes. There is provision also for the Minister, following consultation with the relevant controlling bodies, to approve racing industry initiatives including breeding incentive schemes, promotions, veterinary research, drug testing and analyses.

3.2.7 Audit conducted a review of the management framework in place for disbursement of development funds by the Department to meet the cost of capital projects undertaken by the racing industry.

Overall conclusion

3.2.8 At 28 February 1993, the 3 Development Funds held \$6.8 million while, at that date, approvals for capital projects up to 1998-99 totalled \$64.5 million. The Board has estimated that income to the Funds from totalizator commission for that period will exceed \$85 million.

3.2.9 Following an unexpected levelling out of growth in totalizator commission since 1989-90, the Racecourses Licences Board (Racing Division) took certain initiatives, with the agreement of the racing industry, to alleviate the financial position of the Racecourses Development Fund (Racing Division). These initiatives included the following deferrals:

- ▶ progressive payments of \$3.6 million to the Victoria Amateur Turf Club (VATC) in respect of the new grandstand at Caulfield racecourse, previously intended to be paid in total by 1994-95, to the next 3 years beyond that date;
- ▶ an amount of \$1 million due to the VATC in 1992-93 to be deferred until 1998-99. (The metropolitan racing clubs agreed to provide the VATC with an equivalent amount, repayable in 1998-99, from their 1991-92 TAB distribution); and
- ▶ agreement reached with the metropolitan clubs to reallocate \$1 million of their 1992-93 entitlement from the Fund, for other clubs, with provision for repayment of that amount to the metropolitan clubs in 1998-99.

3.2.10 Given the early stages of gaming development, it is not possible for the Boards to predict, at this time, the likely overall impact of the expansion of gaming on future totalizator revenue to the Funds. The Boards will need to closely monitor developments in this area.

3.2.11 Prompt action is necessary to establish a satisfactory accountability framework for the Cranbourne training complex. Funding of \$14 million for the construction of the complex was provided from the Racing Division's Development Fund and the complex receives significant annual operating subsidies (\$650 000 in 1991-92) from the racing industry.

Status of Development Funds

3.2.12 The continued development of the racing industry within Victoria is heavily dependent upon the capacity of the 3 Development Funds to meet existing commitments and to provide for future projects. **Over the last 5 years, the Office of Racing has overseen expenditure in excess of \$86.9 million in respect of capital improvements at racecourses and for racing industry initiatives.**

3.2.13 Major elements of this expenditure have included improvement of facilities at Flemington, construction of a new grandstand at Caulfield racecourse and the establishment of the Cranbourne training complex. Each of these projects was viewed by the Boards as an essential factor in securing the future of the racing industry within the State.

3.2.14 In assessing the continued ability of the Funds to service the capital needs of the racing industry, audit examined their current financial position in the context of projects approved by the Minister for which scheduled payments had yet to take place. **At 28 February 1993, the Funds held \$6.8 million while, at that date, approvals for capital projects up to 1998-99 totalled \$64.5 million. The Boards have estimated that income to the Funds from totalizator commissions for that period will exceed \$85 million.**

3.2.15 The Office of Racing maintains a computer database which provides to the Boards up-to-date information on outstanding commitments at any given time. Accordingly, the Boards are in a sound position to consider new capital development projects and to assess the degree to which payments may need to be deferred.

3.2.16 In addition to the approved projects, there are other high priority projects totalling \$5 million scheduled for consideration by the Boards from 1993-94 onwards. A further \$10 million in projects submitted by the industry are in the category of desirable, rather than urgent projects.

3.2.17 **It can be seen that an important responsibility of the Boards is to ensure the ongoing capacity of the Development Funds to meet scheduled payments for capital works approved by the Minister.**

■ *RESPONSE provided by Secretary, Department of Arts, Sport and Tourism*

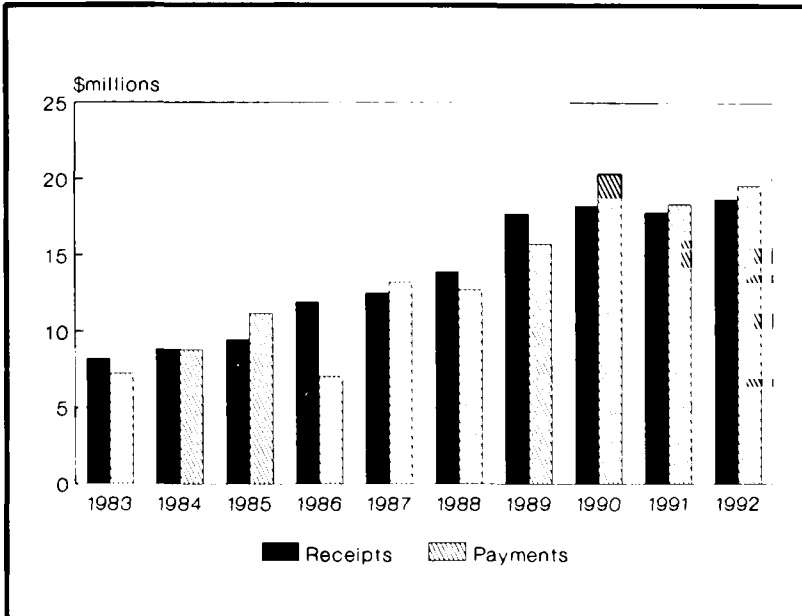
The Department agrees that the capacity of the Racecourses Development Fund (Racing Division) to meet scheduled payments and assist with new projects is a key issue. The level of future commitments of the Racecourses Development Fund (Harness Racing Division) and the Greyhound Racing Grounds Development Fund, however, do not represent a significant concern.

Volatile nature of revenue patterns

3.2.18 The major source of income to the Development Funds is the commission derived from totalizator turnover. Over the past 5 years, receipts to the Funds have totalled around \$86.4 million with totalizator commissions representing 95 per cent of this amount.

3.2.19 The annual level of receipts to and payments from the Development Funds has increased markedly over the decade to 30 June 1992, as indicated in Chart 3.2B.

**CHART 3.2B
DEVELOPMENT FUNDS
ANNUAL LEVEL OF RECEIPTS AND PAYMENTS**



3.2.20 The Office of Racing provides the Boards, on a regular basis, with information on the likely trend of income growth by monitoring actual collections of totalizator commissions and the impact of external economic influences affecting the industry. In developing scenarios on future income and demands on the Funds, the Boards have significantly changed the underlying assumptions for income growth from totalizator commissions following the levelling out of growth which has occurred since 1989-90.

3.2.21 By way of example, in August 1991, the Boards had assumed an annual increase in totalizator commission of 6 per cent over the first 2 years of a 10 year forecast period and 5 per cent for each of the remaining years. A year later, the projected rates were revised downwards to 3 per cent, for the first 2 years, with projections for *no growth* for each of the remaining years. **The overall impact on the Funds was that projected income was reduced by more than 25 per cent.**

3.2.22 The Boards' difficulty in predicting future revenue patterns is further illustrated by the fact that for the period August 1992 to late February 1993, the Funds have enjoyed a growth rate for totalizator commissions of 10 per cent compared with 1.5 per cent for the equivalent period in the 1991-92 racing year. Audit has been advised that the high growth rate of commissions in the current year may be attributed to a number of factors including additional race meetings, new totalizator facilities at Tabaret venues and the establishment of further pубtаbs.

3.2.23 Currently, the Office of Racing does not have a clear indication whether the introduction of electronic gaming machines, which started from July 1992, will impact significantly on the income to the Funds. **Given the early stages of gaming development, it is not possible for the Boards to predict, at this time, the likely overall impact of the expansion of gaming on future totalizator revenue to the Funds. The Boards will need to closely monitor developments in this area.**

3.2.24 The 3 metropolitan racing clubs have been licensed by the Victorian Gaming Commission, under the *Gaming Machine Control Act* 1991, as venue operators at Moonee Valley, Caulfield and Flemington racecourses using gaming machines supplied by the Totalizator Agency Board (TAB).

3.2.25 **Given the financial pressures on the Development Funds, the participation by the 3 major racing clubs in gaming operations has the capacity to provide a valuable additional source of funding for their capital needs and thus lessen their reliance on the central funds.**

- *RESPONSE provided by Secretary, Department of Arts, Sport and Tourism*

The Department concurs with the report's observations on the difficulties which have been created by the need of the Racecourses Licences Board and the Greyhound Racing Grounds Development Board to predict future totalizator turnover in a volatile gambling environment. The Department will continue to provide advice to the Boards to assist them formulate projections based on the latest available information.

Racing initiatives to address funding pressures

3.2.26 The Racecourses Licences Board (Racing Division) has, with the agreement of the racing industry, introduced certain initiatives in recent years to address the reduction in available funds arising from the levelling out of growth in totalizator commission since 1989-90. These initiatives have included:

- ▶ deferral of payments of \$3.6 million (initially intended for progressive allocation to the VATC up to 1994-95) in respect of the Caulfield racecourse grandstand to the 3 year period commencing July 1995, with the VATC assuming responsibility for the consequent bridging finance costs;
- ▶ augmenting the Racecourses Development Fund (Racing Division) for 1992-93 by \$2 million from the following sources:
 - deferral of an amount of \$1 million due to the VATC to 1998-99, with agreement from the metropolitan racing clubs to provide the VATC with an equivalent amount, repayable in 1998-99, from their share of the 1991-92 TAB distribution; and
 - agreement reached with the metropolitan racing clubs to reallocate \$1 million of their 1992-93 entitlement from the Fund, for other clubs, with provision for repayment of that amount to the metropolitan clubs in 1998-99.

3.2.27 Further, the Office of Racing and the Boards have formally sought provision to be made in legislation for an allocation to the racing industry from the surplus arising from TAB gaming operations.

3.2.28 The initiatives taken by the Office of Racing and the Racecourses Licences Board (Racing Division) constitute positive measures to alleviate the financial position facing the Development Fund for racing and to enable commitments for metropolitan and country racing clubs to be met.

- *RESPONSE provided by Secretary, Department of Arts, Sport and Tourism*

The Department notes the report's endorsement of the initiatives taken by the Office of Racing and the Racecourses Licences Board (Racing Division) to ensure existing commitments are met and finance is made available for new projects.

Specific comment on 2 major projects

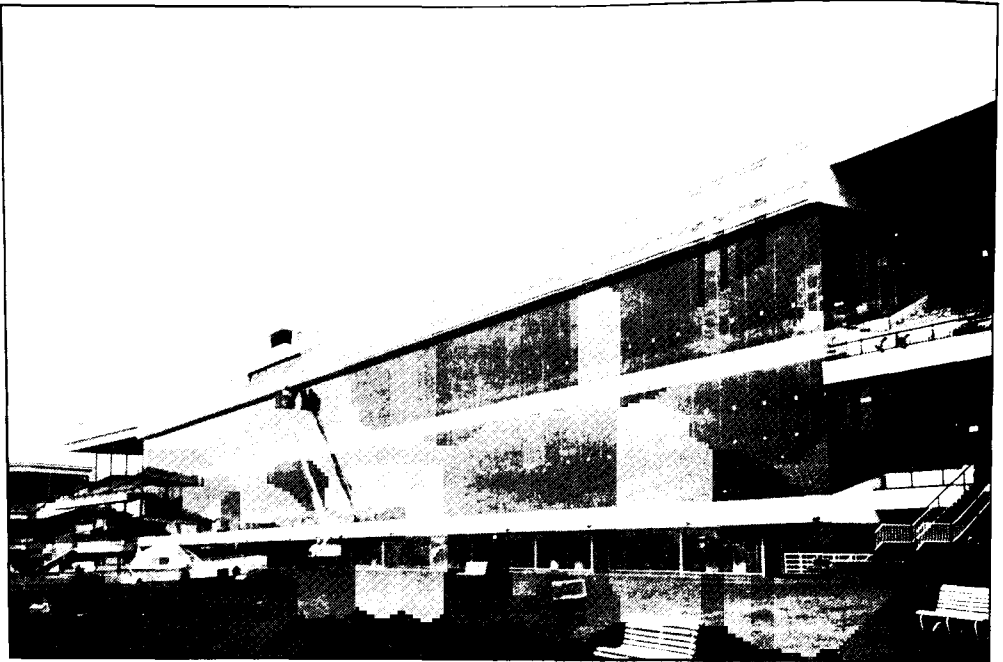
Caulfield racecourse grandstand

3.2.29 The most significant project approved for financing from the Development Funds in recent years has been the replacement of the Caulfield racecourse grandstand. This project was undertaken in 2 stages because of funding restrictions and to minimise disruption to scheduled race meetings at Caulfield.

3.2.30 The rationale for the replacement of the grandstand stemmed principally from its complex layout, and the fact that it constituted a major fire risk. The grandstand was also perceived as not meeting the expectations of the modern racing patron.

3.2.31 In August 1987, the Racecourses Licences Board (Racing Division) approved a contribution of \$20 million from the Racecourses Development Fund (Racing Division) for stage 1 of the project (members stand) with funding to be provided over 6 years to 1994-95. A further \$26 million was approved in October 1989 for stage 2 (public stand), with the provision of funding over 5 years to 1997-98.

3.2.32 Final construction of the new grandstand complex covering both stages was completed in October 1992 and has been financed from borrowings raised by the VATC.



New Caulfield racecourse grandstand.

3.2.33 Discussions between audit and VATC personnel indicated that the total cost of construction of the grandstand, including interest on borrowings, was in excess of \$60 million. The conditions for financial assistance from the Development Fund (Racing Division) stipulated that the VATC and the Trustees of the Caulfield Racecourse Reserve meet all the expenditure including financing costs in excess of the approved contribution of \$46 million. In other words, after taking into account the assistance from the Development Fund, the club's share of the cost of construction is around \$14 million.

3.2.34 As mentioned earlier, the VATC has recently established a gaming centre at the racecourse. The profit performance of this centre will obviously be of importance to the club in assisting it to meet its portion of the costs associated with the grandstand.

3.2.35 The magnitude of financial assistance provided for the Caulfield grandstand, coupled with reduced growth rates in totalizer turnover in recent years, has impacted significantly on the capacity of the Racecourses Development Fund (Racing Division) to meet its commitments.

■ *RESPONSE provided by Secretary, Department of Arts, Sport and Tourism*

The Department notes the report's conclusions in relation to the impact the funding of the Caulfield grandstand has had on the Racecourses Development Fund (Racing Division) as a result of Fund income growth not meeting projections made at the time of approval.

Cranbourne Training Complex

3.2.36 In the early 1980s, the Racecourses Licences Board (Racing Division) and the Victoria Racing Club identified a need to provide additional training facilities for the racing industry. Following consideration of a number of options, a location adjacent to the Cranbourne racecourse was chosen as the site for a new training complex, and stage 1 of this facility was officially opened in October 1990.

3.2.37 The complex currently caters for approximately 160 trainers and 700 racehorses. No action had been taken to date on the extension of the complex to cover stage 2. If this extension does eventuate, the capacity of the complex will more than double. Construction costs of stage 1 of the new complex totalled \$14 million and have been funded from the Racecourses Development Fund (Racing Division).

3.2.38 Since 1989, responsibility for management of the training complex has rested with a committee of management established under the *Crown Land (Reserves) Act 1978*. One of the committee's initial tasks was to prepare an agreement with the neighbouring Cranbourne Turf Club covering management of the day-to-day operations of the complex. A draft agreement was not finalised until late 1992 and, at the date of preparation of this Report, a final agreement had not been signed by the parties.

3.2.39 Every effort should be made to finalise the management agreement between the two parties without delay. Further, a mechanism needs to be put in place to ensure compliance with the terms and conditions of the agreement.

3.2.40 During the review, audit was advised by representatives of the Cranbourne Turf Club that no separate accounting records are maintained for the committee of management of the training complex, although a supplementary statement of revenue and expenses is included with the Club's annual financial statements. This statement indicates that the operations of the training complex are heavily subsidised by a training allowance (\$650 000, 1991-92) provided by the Victoria Racing Club.

3.2.41 In addition, accounting records relating to the complex's assets and liabilities have not yet been compiled. **As such, the committee of management has not yet established a proper accountability framework for the complex.**

3.2.42 The level of financial assistance provided to the complex from the Development Fund and the significant annual subsidy received from the racing industry reinforce the importance of a proper accountability framework for the complex. Such action will also provide a basis for any future consideration by the Board in terms of funding for stage 2 of the complex.

■ *RESPONSE provided by Secretary, Department of Arts, Sport and Tourism*

The Department agrees that the Cranbourne Training Complex Committee of Management needs to finalise its management agreement with the Cranbourne Turf Club and establish independent accounting records. The Committee of Management is responsible to the Minister for Conservation and Natural Resources under the provisions of the Crown Land (Reserves) Act 1978. The Department is in the process of ensuring the Committee of Management addresses the matters raised in the report.

VICTORIAN GAMING COMMISSION

EARLY REVENUE RESULTS FROM GAMING

3.2.43 The May 1992 Auditor-General's *Report on Ministerial Portfolios* outlined the important regulatory responsibilities of the Victorian Gaming Commission in the State's newly-established gaming industry.

3.2.44 As indicated in that Report, the Totalizator Agency Board (TAB) and the Trustees of the Will and Estate of the Late George Adams (Tattersalls) had been licensed under the *Gaming Machine Control Act 1991* as gaming operators with each allocated 5 000 of the planned 10 000 machines to be installed during 1992-93 at approved venues.

3.2.45 Currently, under directions given by the former Minister for Gaming, electronic gaming machines are allocated evenly between hotels and clubs with not less than 20 per cent of machines in country areas.

3.2.46 The Government's August 1992 *Budget Paper No. 4* indicated that a decision had been made to accelerate the introduction of gaming machines and to remove the previous upper limit of 10 000 on the maximum number of machines to be installed in 1992-93. At the accelerated rate, the Government estimated that about 15 000 machines would be installed at approved venues by 30 June 1993.

3.2.47 By the end of February 1993, about 7 months since the commencement of gaming operations, over 7 000 machines had been installed at approved venues and aggregate turnover had exceeded \$1.2 billion.

3.2.48 Table 3.2C provides details of turnover, net income from machines (after returns to patrons) and numbers of venues and machines up to the end of February 1993.

TABLE 3.2C
GAMING STATISTICS TO END OF FEBRUARY 1993

Item	Metropolitan venues		Country venues (a)	Total
	Hotels	Clubs		
Turnover	(\$m) 669.2	422.2	165.5	1 256.9
Less returned to patrons	(\$m) 607.8	382.1	149.3	1 139.2
Net income from machines	(\$m) 61.4	40.1	16.2	117.7
Number of venues	37	41	45	123
Number of machines	2 872	2 390	1 782	7 044

(a) The dissection of turnover into hotels and clubs for country venues was not available.

3.2.49 The net income from machines located at clubs, after returns to patrons, is distributed on the basis of one-third to the relevant gaming operator, the particular venue operator and the Consolidated Fund. Under legislation, the amounts credited to the Consolidated Fund are required to be allocated, in proportions set by the Treasurer, to the Hospitals and Charities Fund and the Mental Hospitals Fund.

3.2.50 The distribution of net income in the case of hotel venues is similar to clubs with the exception that the venue operator's share of gaming revenue is 25 per cent and the remaining 8.3 per cent is paid into the Community Support Fund. Moneys in this Fund are, in the first instance, applied to meet administrative expenses of the Commission and the costs of research into gambling. The remaining balance in the Fund is available for distribution, in accordance with the Act, for the benefit of sport and recreation clubs, community services, and promotion of arts and tourism. Amendments to the legislation currently before the Parliament extend the ambit of application of moneys within the Fund to encompass government initiatives on homeless youth.

3.2.51 The August 1992 Budget Paper also showed that revenue to be paid to the Consolidated Fund for 1992-93 was estimated at \$92.5 million, of which \$46.7 million was anticipated to be the result of accelerating the rate of introduction of gaming machines during the year. In October 1992, this estimate was revised upwards to \$110 million by the current Government.

3.2.52 Table 3.2D provides details of amounts progressively credited to the Consolidated Fund and the Community Support Fund since the commencement of gaming operations in July 1992.

TABLE 3.2D
GAMING REVENUE PAID TO THE
CONSOLIDATED FUND AND COMMUNITY SUPPORT FUND
(\$'000)

<i>Month</i>	<i>Consolidated Fund</i>	<i>Community Support Fund</i>	<i>Total</i>
1992 -			
July	169	26	195
August	1 361	205	1 566
September	4 573	619	5 192
October	4 876	676	5 552
November	5 560	788	6 348
December	6 983	1 064	8 047
1993 -			
January	7 991	1 293	9 284
February	7 911	1 315	9 226
Total	39 424	5 986	45 410

3.2.53 Up to the end of February 1993, the total amount of \$39.4 million credited to the Consolidated Fund has been allocated to the Hospitals and Charities Fund. Expenditure from the Community Support Fund has totalled \$3.7 million and relates solely to the costs of administering the Victorian Gaming Commission. The balance of \$2.3 million within the Fund has not yet been allocated. A formal process to consider submissions has been developed and distribution will be determined by the Minister for Gaming in consultation with other relevant Ministers.

3.2.54 For the same period, the 2 gaming operators (TAB and Tattersalls) have shared in proportion to their level of operations, the same amount as has been paid into the Consolidated Fund. Venue operators have received, also in proportion to their turnover, an amount of \$33.4 million.

3.2.55 In its April 1993 Statement on Victoria's Financial Management Strategy, the current Government further revised its estimate of 1992-93 gaming revenue from \$110 million down to \$89.6 million. Audit was advised that this reduction in revenue arose because the rate of installation of machines had been below the levels expected in the previous revenue projections.

3.2.56 Although still in its first year of operation, the gaming industry has generated significant revenue for the Consolidated Fund and gaming and venue operators. This position reinforces the importance of the Victorian Gaming Commission's key regulatory role within the industry.

■ *RESPONSE provided by Secretary, Department of the Treasury*

As revenue from electronic gaming machines is a new item, the estimates have been continually refined in the light of close monitoring of weekly actual data. The upward revision at the time of the October Statement was based on daily turnover per machine being above the estimate at the time of the August 1992 Budget. The downward revision in the Autumn Statement of April 1993 was based on the slower than previously forecast rate of installation of machines, which more than offset the higher than estimated turnover per machine.

TOTALIZATOR AGENCY BOARD

LOSSES, THEFTS AND IRREGULARITIES

Unauthorised credit betting by agents

3.2.57 During 1992, 7 instances of unauthorised credit betting by agents were reported to audit by the Board. The net loss to the Board totalled \$76 200 of which \$45 100 had been recovered at 31 December 1992.

Thefts of funds

3.2.58 A number of hold-ups and burglaries totalling \$56 200 occurred at retail sales outlets for the year ended 31 December 1992 with \$50 800 recovered in that year.

Other losses incurred

3.2.59 The Board has incurred additional costs of \$24 200 arising from irregularities in other operating activities which are currently the subject of examination by the Board's investigations unit.

Fraudulent activity

3.2.60 As indicated in the Auditor-General's *Report on Ministerial Portfolios, May 1992*, the Board had detected a significant defalcation within its head office involving the unauthorised alteration of invoices. The initial hearing of charges relating to this activity was held in January 1993 with the matter adjourned until May 1993.

TOURISM VICTORIA

IRREGULARITIES IN EXPENDITURE BY THE FORMER VICTORIAN TOURISM COMMISSION

3.2.61 An audit review of expenditure incurred by the former Victorian Tourism Commission (now Tourism Victoria) over the period July 1992 to January 1993 identified irregularities involving:

- ▶ falsification of records relating to purchases of computer equipment; and
- ▶ utilisation of funds for purposes of a private nature.

3.2.62 Although the dollar values relating to the irregularities are not material, important matters of principle are involved. In this respect, the audit findings raise doubts as to the effectiveness of management control procedures in place at the Commission during the period of review.

3.2.63 Tourism Victoria has advised audit that action has been taken to strengthen internal control over its expenditure systems in the light of the irregularities.

Falsification of documentation

3.2.64 On 15 October 1992, the Treasurer directed that agencies observe a temporary freeze on capital commitments. The audit review revealed instances where records relating to the acquisition of computer equipment had been falsified in order to circumvent this direction (a similar practice at the former Commission was commented on in the Auditor-General's *Report on Ministerial Portfolios, May 1990*). Details are as follows:

- ▶ 2 purchase orders dated around the October State election were cancelled as the relevant purchases were not to proceed;
- ▶ Audit was advised that a senior officer of the Commission (since promoted to another public body) deleted the details relating to the 2 cancelled purchase orders and supporting purchase requisitions from the Commission's computerised accounts payable system; and

- ▶ In late October 1992, 2 new purchase orders were prepared for the purchase of computer equipment, valued at \$17 500, using the numbers previously allocated to the 2 cancelled orders. These 2 orders and supporting purchase requisitions were backdated to 25 September and 12 October 1992 respectively.

3.2.65 In addition to the above falsification, the former officer, on 2 October 1992, prepared a third purchase order using a number already allocated to one of the above "cancelled" orders to acquire a separate personal computer and related software at a cost of \$2 500. After payment to the supplier, this purchase order was again deleted from the accounts payable system. At the time of the audit investigation, the official records showed that the purchase order was used only on one occasion i.e. the order backdated to 25 September 1992.

3.2.66 To enable the purchase of the personal computer in the above manner, the former officer used his position to override system control procedures in that he:

- ▶ assumed the role of purchase officer in the issue of the relevant purchase order;
- ▶ authorised the payment;
- ▶ signed the cheque; and
- ▶ personally collected the computer equipment.

3.2.67 The documentation examined by audit showed that the equipment was collected personally by the former officer on a weekend. When the matter was raised by audit, the computer was not recorded in the Commission's asset register but was located at the private residence of the former officer. It was immediately collected by an official of the Commission and placed into storage. (At the date of preparation of this report, the computer was still in storage).

3.2.68 An audit reconstruction of the computer files previously deleted and stored, but not yet overwritten, indicated that the computer had been utilised for purposes of a private business nature.

3.2.69 As soon as the irregular circumstances relating to the purchase of the personal computer became evident, audit informed the recently appointed Chairperson of Tourism Victoria. Audit was initially advised that an internal review by management of the Commission had been conducted and that *"the matter had been investigated and a satisfactory explanation of the particular incident had been provided and no further action was required"*.

3.2.70 **Circumvention by middle management of a government direction is a serious matter and can create opportunities for fraud. In terms of the purchase of the personal computer, audit considers the highly unusual actions of the former officer warrant further investigation.**

■ *RESPONSE provided by the recently appointed Chief Executive, Tourism Victoria*

Falsification of documentation

The backdating of 2 purchase orders was clearly inappropriate and action has been taken to strengthen internal control over the expenditure system to ensure that such an occurrence does not occur again. All staff involved in the process have been counselled.

Purchase of personal computer

In light of the further information that has been provided by audit and the issues that have now been raised I will be requesting the Crown Solicitor to review all material held both within Tourism Victoria and the State Audit Office with a view to recommending whether further action against any individual is required. In relation to the procedural weaknesses that have been disclosed by the audit investigation I can advise that steps have already been taken to ensure that these areas are strengthened to avoid any possible repetition.

Schedule A. COMPLETED/INCOMPLETE AUDITS
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
ARTS				
Ministry for the Arts (b)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	9 October 1992	23 October 1992
Council of the Museum of Victoria	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 November 1992.	25 November 1992	30 November 1992(a)
Council of the State Library of Victoria	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 15 November 1992.	27 October 1992	11 November 1992(a)
Council of Trustees of the National Gallery of Victoria	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 31 October 1992.	26 October 1992	30 October 1992(a)
Film Victoria	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 15 November 1992.	11 November 1992	12 November 1992(a)
Geelong Performing Arts Centre Trust	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 31 October 1992.	13 October 1992	13 October 1992 (a)
State Film Centre of Victoria Council	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 9 October 1992.	23 September 1992	8 October 1992 (a)
Victorian Arts Centre Trust	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 31 October 1992.	7 October 1992	8 October 1992(a)

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial period ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
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Completed audits - continued

GAMING

TAB - Gaming Operations	Period 19 November 1991 to 30 June 1992	31 October. <i>Gaming Machine Control Act 1991, s.132.</i>	10 September 1992	30 September 1992
Tattersalls - Gaming Operations	Period 19 November 1991 to 30 June 1992	31 October. <i>Gaming Machine Control Act 1991, s.132.</i>	30 September 1992	21 October 1992
Victorian Casino Control Authority	Period 1 February 1992 to 30 June 1992	30 September. <i>Casino Control Act 1991, s.147.</i>	15 September 1992	30 September 1992
Victorian Gaming Commission	Period 19 November 1991 to 30 June 1992	30 September. <i>Annual Reporting Act 1983 s.9.</i>	23 September 1992	30 September 1992

SPORT, RECREATION AND RACING

Department of Sport and Recreation (b)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	17 September 1992	12 October 1992
Greyhound Racing Control Board	31 July 1992	31 October. <i>Annual Reporting Act 1983, s.9.</i>	26 October 1992	27 October 1992
Harness Racing Board	31 July 1992	31 October. <i>Annual Reporting Act 1983, s.9.</i>	14 October 1992	23 October 1992
National Tennis Centre Trust	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	30 September 1992	30 September 1992
Totalizator Agency Board	31 July 1992	31 October. <i>Annual Reporting Act 1983, s.9.</i>	29 September 1992	9 October 1992

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial period ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued				
Victorian Institute of Sport Ltd	30 June 1992	No reporting requirements. Audit conducted at request of Treasurer.	14 October 1992	21 October 1992
Victorian Institute of Sport Trust	30 June 1992	No reporting requirements. Audit conducted at request of Treasurer.	14 October 1992	21 October 1992
TOURISM				
Emerald Tourist Railway Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	22 September 1992	21 October 1992 (a)
Victorian Tourism Commission (c)	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	25 September 1992	1 October 1992 (a)
Incomplete audits				
TOURISM				
Swan Hill Pioneer Settlement Authority	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 April 1993.	Financial statements not yet received.	

(a) Qualified audit report issued.

(b) The Ministry of Arts and Department of Sport and Recreation were absorbed into the Department of Arts, Sport and Tourism.

(c) Now Tourism Victoria.

VICTORIAN WORKCOVER AUTHORITY

- ▶ The processes established by the former Accident Compensation Commission to review the performance of its authorised agents in managing WorkCare (and now WorkCover) claims were not effective in assessing whether the subjective assessments and decisions made by agents were soundly based.

Paras 3.3.8 to 3.3.15

- ▶ The Victorian WorkCover Authority needs to re-assess the operation of its authorised agent performance scheme to ensure that the rewards offered to agents under the scheme take account of the achievement of both quantitative benchmarks and quality outcomes.

Paras 3.3.16 to 3.3.21

Details of ministerial responsibility within the Business and Employment portfolio are provided in Table 3.3A. In addition to the Department of Business and Employment, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.3A
MINISTERIAL RESPONSIBILITY WITHIN THE
BUSINESS AND EMPLOYMENT PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Industry and Employment	Exhibition Trustees Overseas Projects Corporation of Victoria Ltd
Industry Services	Coal Mine Workers' Pensions Fund Construction Industry Long Service Leave Board
Regional Development	Albury/Wodonga (Victoria) Corporation
Small Business	Liquor Licensing Commission
WorkCover	Victorian WorkCover Authority
Youth Affairs (a)	-

(a) Minister has responsibility for certain functions of the Department of Business and Employment.

Comment on matters of significance arising from the audit of certain of the above entities is discussed below.

VICTORIAN WORKCOVER AUTHORITY

MANAGEMENT OF AUTHORISED AGENTS

3.3.1 The Accident Compensation Commission was established in September 1985 under the provisions of the *Accident Compensation Act* 1985 to administer the workers' compensation scheme - WorkCare. Under that Act, the Commission was empowered to appoint claims administration agents (authorised agents) to manage and process compensation claims lodged under the Scheme and arrange for the commencement and continuation of payments in accordance with prescribed WorkCare benefits.

3.3.2 In December 1992, following legislative changes, the Victorian WorkCover Authority was established as the Commission's successor in law and the WorkCare scheme was replaced by the new WorkCover scheme. However, under the new arrangements, the functions of authorised agents have remained substantially unchanged and, in fact, are intended to progressively increase in line with the Authority's objective of devolving more of its operational activities to agents.

3.3.3 Payments in respect of WorkCare claims in 1991-92 amounted to \$995.2 million (\$856.6 million, 1990-91), the majority of which were processed by authorised agents. Payments to these agents for services provided to the Commission during 1991-92 totalled \$53.8 million (1990-91, \$50.1 million).

3.3.4 Audit carried out a review of the Commission's management of its authorised agents, with particular attention given to the processes established to review and assess their performance. As part of the review, audit also undertook a survey of all authorised agents, to assist in assessing the adequacy of claims management arrangements established by the Commission.

Overall conclusion

3.3.5 The review found that, in general, the former Accident Compensation Commission had established adequate processes to monitor and assess compliance by authorised agents with its established policies and procedures.

3.3.6 However, due to the limited scope of established review processes, neither the Commission nor the newly formed Authority were in a position to effectively assess the quality of claims management decisions made by authorised agents.

3.3.7 Given the Authority's intention to further devolve its operational functions to agents, it is important that this matter be promptly addressed by management.

Control over the quality of claims management

3.3.8 As previously indicated, the role of authorised agents is to manage and process, on an agency basis, WorkCare and WorkCover compensation claims lodged under the respective workers' compensation schemes. Specifically, these agents determine the initial eligibility of claimants to benefits available under the schemes and, where claims have been accepted, the period that those benefits continue to be provided. Therefore, agents are required to make critical decisions and subjective assessments on an on-going basis which directly effect the quality of claims management and ultimately the cost of the schemes.

3.3.9 To improve the management of claims by agents and the assessment of their performance, the Commission established a number of review processes, the most important of which are the agent performance scheme and the claims management review (CMR). Prior to the establishment of these processes in 1987 and 1989, respectively, the Commission relied, primarily, on the agents to ensure claims were effectively managed.

Claims management review

3.3.10 The CMR process involves the regular audit of authorised agents, by a private accounting firm, to determine the level of compliance with procedures established by the Commission in respect of the acceptance, management and payment of claims. Instances of agent non-compliance with established procedures, detected by the CMR auditors, resulted in the imposition of financial penalties.

3.3.11 Audit found that the prime focus of the CMR process was to test the extent of compliance by agents with certain of the Commission's procedures. Accordingly, only limited attention was given to assessing the quality of claims management. In other words, this review process did not require the CMR auditors to determine whether the subjective assessments made by agents during the on-going management of claims were soundly based, nor to determine whether the agents' in-house practices ensured that claims were managed effectively.

3.3.12 Audit acknowledges that, to some extent, compliance with established procedures does contribute to the quality of claims management processes. However, given that financial penalties are imposed for detected instances of non-compliance, agents may feel compelled to focus upon compliance issues rather than ensuring that quality claims management has been achieved.

3.3.13 A process, introduced in June 1989, in conjunction with the CMR reviews, to monitor the quality of claims management decisions and processes adopted by agents, was recently discontinued. This process involved the examination by the Commission of all decisions proposed by agents relating to the acceptance or rejection of claims, and the provision of on-going benefits, prior to those decisions being finalised. The process was intended to ensure that the agents' decisions were properly based and to reduce the potential for disputes with claimants.

3.3.14 However, from mid-1992, only a sample of claim files were examined by the Commission subsequent to agents finalising decisions and then, by late 1992, this internal review function was abolished. This action was taken as the function was deemed to be duplicating certain other dispute settlement processes.

3.3.15 The Authority needs to enhance the CMR process, particularly as the internal review function has been discontinued, to ensure it effectively assesses the quality of claims management achieved by agents. In this regard, consideration could be given to supplementing CMR teams with the necessary expertise to review claims management decisions of agents.

■ *RESPONSE provided by Chief Executive, Victorian WorkCover Authority*

The Authority disagrees with an audit conclusion that the Authority is not in a position to effectively assess the quality of claims management decisions made by authorised agents.

While the primary focus of the regular Claims Management Review (CMR) program, as designed in conjunction with our internal auditors, is compliance, a number of other aspects support the Authority's ability to assess the quality of claims management. For example:

- *The compliance required includes features to ensure both good quality decision-making and client services (e.g. requirement that only appropriately delegated officers make key entitlement decisions; requirement that claims be processed within certain time frames to ensure timeliness of decision-making); and*

- *The CMR is complemented by a range of other processes which, collectively, achieve the balance between compliance and quality management (e.g. Special Purpose CMR reviews focusing on problems or potential problem areas to ensure effective and quality decisions/service, establishment of Internal Review Officers at Claims Agent level to review basis/appropriateness of decisions; the monitoring of decisions/trends emerging from dispute resolution processes; the level of successful Section 120 Objections lodged by employers etc.).*

The internal review function of the former Commission was discontinued because it was found to be less than fully effective in improving the quality of decision-making by agents. The Authority is always exploring ways to improve the method of managing authorised agents and will also consider the audit suggestion to utilise a specialist audit group to review the "quality of decisions".

Performance scheme

3.3.16 In October 1987, the Commission established a performance-based system of remuneration for its authorised agents. Under this scheme, agents are paid a basic service fee and, where appropriate, a bonus to reward the efficient conduct of key claims management tasks based upon the level of achievement of predetermined benchmarks.

3.3.17 **The audit review identified that the prime focus of the performance scheme was on the achievement, by agents, of quantitative benchmarks. However, the scheme did not measure whether decisions or subjective assessments made by agents were soundly based.** In fact, 4 of the 5 performance measures established under the scheme for 1992-93 were quantitative, with the majority focusing on claims closures, while the other measure focused on the timely payment of benefits. In these circumstances, the scheme may not provide incentive or motivation for agents to deliver the Government's stated aim of providing a high quality service.

3.3.18 In response to an audit survey, most authorised agents acknowledged that due to the financial rewards provided under the performance scheme for closing claims, they aimed to maximise claims closures. This aim was reflected in the fact that significant claims closure activity occurred at the end of each month, primarily to achieve benchmarks relating to the volume of claims closed. Agents also acknowledged that this approach diminished the quality of equitable claims management.

3.3.19 **While audit acknowledges that the aim of removing claimants from the WorkCare and new WorkCover schemes by closing claims is of primary importance, any action to do so should not compromise the quality of equitable claims management.**

3.3.20 The former parliamentary WorkCare Committee, in its August 1988 *Final Report on WorkCare issues*, also acknowledged that, although it was premature at that time to assess the effectiveness of the performance scheme, some concerns were nevertheless evident. The Committee considered, *inter alia*, that, due to the nature of the performance scheme, agents may try to maximise their profits rather than meet the overall objectives of WorkCare. However, notwithstanding this comment, the Committee did not make a specific recommendation to address this potential problem.

3.3.21 Given the results of the audit review and the concerns of the WorkCare Committee, the Authority should re-assess the operations of the performance scheme to ensure that rewards provided to agents take account of the achievement of both the quantitative benchmarks and quality outcomes.

- *RESPONSE provided by Chief Executive, Victorian WorkCover Authority*

The prime objective of the performance scheme has been to reward agents for the achievement of specific outcomes. It is important to note that these outcomes, while referred to internally as "claim closures", are primarily a measure of the successful return to work of injured workers. Additionally, the performance scheme is regularly reviewed and fine tuned, in consultation with agents, to ensure it continues to provide sufficient incentive for agents to achieve key scheme objectives.

Efficient and effective management practices

3.3.22 Notwithstanding the comments outlined in the previous paragraphs, audit identified the following practices adopted by the Commission that assisted the efficient and effective management of its authorised agents:

- ▶ appropriate selection procedures relating to the appointment of authorised agents and CMR auditors;
- ▶ proper accountability relationships between the Commission and authorised agents; and
- ▶ adequate information systems to enable agents to effectively perform their duties and to enable the Commission to monitor, control and assess each agent's performance.

3.3.23 Audit also found that the Commission had effectively managed the CMR process which was undertaken using modern audit methodologies and in a professional manner.

3.3.24 Given these achievements, it is important that the Authority continually review and, where necessary, update these practices to ensure the present level of performance is sustained.

- *RESPONSE provided by Chief Executive, Victorian WorkCover Authority*

The Authority is continually fine tuning contractual arrangements to encourage all agents to strive for best practice.

Schedule A. COMPLETED/INCOMPLETE AUDITS
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<i>Entity</i>	<i>Financial period ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
INDUSTRY AND EMPLOYMENT				
Department of Labour (b)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	27 September 1992	30 October 1992
Exhibition Trustees	31 December 1992	31 March. <i>Annual Reporting Act 1983, s.9.</i>	29 March 1993	31 March 1993 (a)
Overseas Projects Corporation of Victoria Ltd	30 June 1992	No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law.	8 September 1992	30 September 1992
INDUSTRY SERVICES				
Coal Mine Workers' Pensions Fund	30 June 1992	No date specified. <i>Coal Mines Act 1958, S128.</i>	11 January 1993	20 January 1993
Construction Industry Long Service Leave Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	29 September 1992	30 September 1992
Occupational Health and Safety Authority (b)	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	16 October 1992	16 October 1992 (a)
REGIONAL DEVELOPMENT				
Albury/Wodonga (Victoria) Corporation	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 November.	7 October 1992	21 December 1992 (a)
SMALL BUSINESS				
Department of Small Business	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	16 September 1992	22 September 1992
Liquor Licensing Commission	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	5 October 1992	5 October 1992
Small Business Development Corporation (b)	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	30 September 1992	15 October 1992

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial period ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued				
WORKCOVER				
Accident Compensation Commission (c)	30 September 1991	31 October. <i>Accident Compensation Act 1985, s.38.</i>	12 November 1991	12 November 1991
.. ..	31 December 1991	31 January. <i>Accident Compensation Act 1985, s.38.</i>	31 January 1992	14 February 1992
.. ..	31 March 1992	30 April. <i>Accident Compensation Act 1985, s.38.</i>	30 April 1992	14 May 1992
.. ..	30 June 1992	30 September. <i>Accident Compensation Act 1985, s.38.</i>	30 September 1992	30 September 1992
Medical Panels (c)	30 September 1991	31 October. <i>Accident Compensation Act 1985, s.72M.</i>	4 November 1991	12 November 1991
.. ..	31 December 1991	31 January. <i>Accident Compensation Act 1985, s.72M.</i>	30 January 1992	11 February 1992
.. ..	31 March 1992	30 April. <i>Accident Compensation Act 1985, s.72M.</i>	30 April 1992	8 May 1992
.. ..	30 June 1992	30 September. <i>Accident Compensation Act 1985, s.72M.</i>	10 September 1992	15 September 1992

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued

<i>Entity</i>	<i>Financial period ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued				
Victorian Accident Rehabilitation Council (c)	30 September 1991	31 October. <i>Accident Compensation Act 1985, s.177.</i>	4 November 1991	19 November 1991 (a)
.. ..	31 December 1991	31 January. <i>Accident Compensation Act 1985, s.177.</i>	31 January 1992	24 February 1992 (a)
.. ..	31 March 1992	30 April. <i>Accident Compensation Act 1985, s.177.</i>	30 April 1992	18 May 1992 (a)
.. ..	30 June 1992	30 September. <i>Accident Compensation Act 1985, s.177.</i>	30 September 1992	30 September 1992
WorkCare Appeals Board (c)	30 September 1991	31 October. <i>Accident Compensation Act 1985, s.71Q.</i>	4 November 1991	12 November 1991
.. ..	31 December 1991	31 January. <i>Accident Compensation Act 1985, s.71Q.</i>	30 January 1992	11 February 1992
.. ..	31 March 1992	30 April. <i>Accident Compensation Act 1985, s.71Q.</i>	30 April 1992	8 May 1992
.. ..	30 June 1992	30 September. <i>Accident Compensation Act 1985, s.71Q.</i>	10 September 1992	21 September 1992

(a) Qualified audit report issued.

(b) Certain of the functions of these entities have been taken over by the Department of Business and Employment.

(c) The functions of these entities were subsumed by the Victorian WorkCover Authority in December 1992.

KEY FINDINGS

3.4

MELBOURNE WATER CORPORATION (trading as Melbourne Water)

- ▶ Faced in 1990 with an urgent need to substantially upgrade its information technology capability, Melbourne Water took the initiative and entered into an outsourcing arrangement with its IT executives under a management buy-out.

Paras 3.4.33 to 3.4.39

- ▶ While Melbourne Water has achieved major benefits to date in terms of better quality and more efficient IT services, an absence of competitive forces and shortcomings in cost management have necessitated corrective action.

Paras 3.4.58 to 3.4.83

- ▶ Other public bodies contemplating or already pursuing placement of IT services with the private sector can derive benefit from Melbourne Water's outsourcing experiences.

Paras 3.4.92 to 3.4.98

- ▶ Three significant sewer collapses in suburban streets of Melbourne resulted in outlays of around \$13 million by Melbourne Water and caused major temporary pollution to the Maribyrnong River and bayside beaches.

Paras 3.4.99 to 3.4.113

- ▶ Melbourne Water has responded to the sewer collapses with urgency and has instigated immediate and long-term strategies to review the soundness of its strategic management of the sewer infrastructure.

Paras 3.4.114 to 3.4.122

- ▶ The delay and subsequent breakdown in negotiations on the Braeside Park joint venture project has precluded early disposal by Melbourne Water of 122 hectares of surplus land.

Paras 3.4.123 to 3.4.129

RURAL WATER CORPORATION

- ▶ Several initiatives were taken by the Government aimed at ensuring the long-term financial viability of the new Rural Water Corporation.

Paras 3.4.140 to 3.4.144

Details of ministerial responsibility within the Conservation and Natural Resources portfolio are provided in Table 3.4A. In addition to the Department of Conservation and Natural Resources, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.4A
MINISTERIAL RESPONSIBILITY WITHIN THE
CONSERVATION AND NATURAL RESOURCES PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Conservation and Environment	Bundoora Park Committee of Management Environment Protection Authority Mount Macedon Memorial Cross Committee of Management Olympic Park Management Penguin Reserve Committee of Management Port Bellarine Committee of Management Recycling and Resource Recovery Council Royal Botanic Gardens Board 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
Natural Resources	Alpine Resorts Commission Melbourne Water Corporation Melbourne and Metropolitan Board of Works Employees' Superannuation Fund Non-metropolitan water authorities (130) Rural Water Corporation

Comment on matters of significance arising from the audit of certain of the above entities is provided below.

STATE SWIMMING CENTRE COMMITTEE OF MANAGEMENT

STATUS OF LEGAL PROCEEDINGS

3.4.1 Previous Reports of the Auditor-General have commented upon major design and structural defects in the construction of the State Swimming Centre.

3.4.2 The initial audit reference to the subject was in a June 1983 Special Report to the Parliament on *Works Contracts*. That Report examined, in some detail, the management of the contract relating to the construction of the Centre and identified a range of serious design and structural problems associated with the construction.

3.4.3 In a subsequent Report to the Parliament, the *Fourth Report for 1983-84*, tabled in April 1985 on the status of matters dealing with the Centre's construction, audit stated that it was not possible to ascertain which of the organisations involved with the construction contract (the then Public Works Department, the then Department of Youth, Sport and Recreation, or the Committee of Management) was responsible for follow-up action and recommended:

"... that the organisations determine responsibility for design and structural defects in the Centre's building with a view to obtaining compensation from appropriate parties".

3.4.4 The above audit comments have proved to be extremely pertinent and useful from the State's perspective. Legal proceedings were eventually commenced by the Government against the builder of the Centre in April 1987 and the consulting engineers in August 1988 to recover costs and obtain compensation. **In both cases, the final outcome has been favourable to the Government.**

3.4.5 The case against the builder was settled in April 1989. The terms of the settlement required the builder to pay the Government the sum of \$48 700 and for both parties to pay their respective costs. The agreed sum of \$48 700 was received from the builder in August 1989.

3.4.6 The engineers were sued in 2 separate actions, namely, for breach of contract and damages for negligence in the design of the pool. A judgement handed down in May 1990 found in favour of the engineers and the Government was required to settle the engineers' costs. However, an appeal against this judgement by the Government was upheld by the Full Court of the Supreme Court in June 1992. Under this judgement:

- ▶ the May 1990 decision was set aside;
- ▶ a new trial to assess damages was ordered;
- ▶ the engineers were ordered to pay the Government's costs of the trial; and
- ▶ the costs previously awarded to the engineers were ordered to be repaid to the Government, together with interest for the period during which the money was held.

3.4.7 An amount of \$572 000, representing previous costs with interest, was repaid by the engineers to the Government in June 1992. The Government's legal costs to date in respect of the June 1992 appeal, which are to be met by the engineers, have been calculated at \$849 800. This amount is scheduled to be assessed and finally determined by the Court in May 1993.

3.4.8 The engineers lodged an application with the High Court for special leave to appeal against the June 1992 decision of the Full Court of the Supreme Court. This application was heard by the Full Bench of the High Court on 12 March 1993 and special leave to appeal was refused by the Court.

3.4.9 **The new trial to assess the damages for negligence is set to be heard on 4 October 1993.**

MELBOURNE WATER CORPORATION

CORPORATISATION OF MELBOURNE WATER

3.4.10 In June 1991, the Premier delivered an economic statement which was aimed at addressing the key economic issues facing the State. A significant element of the economic statement was a program for improving the efficiency and productivity of Government Trading Enterprises (GTEs). In this regard, corporatisation of GTEs was envisaged to provide major benefits to the community including:

- ▶ improved operations through specification of performance targets and establishment of boards of directors with appropriate commercial expertise;
- ▶ a movement to market-driven corporate strategies;
- ▶ enhanced accountability through the provision of improved information on operations;
- ▶ greater internal funding of capital works programs; and
- ▶ optimising returns from the sizeable public investment in the enterprises.

3.4.11 The Government's first initiative on corporatisation was the enactment of the *Melbourne Water Corporation Act 1992* which took effect from 1 July 1992. The Act established the Melbourne Water Corporation, (which trades as Melbourne Water) as the successor to the Melbourne and Metropolitan Board of Works (MMBW), its constitution, basic powers and functions, corporate planning requirements, and reporting and auditing arrangements.

3.4.12 The transitional provisions of the Act provided, inter-alia, for the existing Board to be replaced with a single person Board to operate until 31 December 1992. From 1 January 1993, a new Board was formed with the appointment of 3 directors and the re-appointment of the Chairperson. The term of these appointments expires on 31 December 1993.

3.4.13 At the date of preparation of this Report, several important matters relating to Melbourne Water's commercial, operational and reporting framework were under consideration by the current Government. These matters included whether Melbourne Water will be brought within the ambit of the State Owned Enterprises Act, the final form of its legislative responsibilities, the nature of the taxation regime to apply to Melbourne Water and whether it would be required to continue to prepare Rate of Return Reporting (RRR) financial statements.

3.4.14 In addition to the above matters, the current Government has recently announced that external consultants have been engaged to explore potential privatisation options for Melbourne Water.

3.4.15 The July 1992 corporatisation of Melbourne Water represents a major event in the history of the organisation. It complements the internal reform program which has been underway for some years in the former MMBW in terms of a strong commercial focus and a drive towards enhanced efficiency in delivery of services.

■ *RESPONSE provided by Managing Director, Melbourne Water Corporation*

Melbourne Water agrees with the audit comment provided. The introduction of sound commercial practices through corporatisation should ultimately provide major benefits to Melbourne Water and the community.

As highlighted by audit, several important matters relating to the Corporation's commercial, operational and reporting framework are still under consideration by the State Government. These include the final form of the legislative responsibilities of the Corporation including taxation liability, the applicability of the Public Authorities Dividends Act 1983 and whether the Corporation would be required to prepare audited Rate of Return Reporting (RRR) financial statements in 1992-93.

Although there is still uncertainty on the issue of taxation Melbourne Water is preparing itself to become subject to taxation from 1993-94.

OUTSOURCING OF INFORMATION TECHNOLOGY SERVICES

Background

3.4.16 Until October 1990, services related to information systems and technology were provided within Melbourne Water by 2 in-house divisions, namely, the Information Technology Division and the Land Information Division.

3.4.17 In October 1990, Melbourne Water privatised its information systems and technology operations under a management buy-out involving senior executives of the 2 in-house divisions. As part of this process, a private company, Melbourne Information Technology Services Ltd (MITS), was formed. Under an agreement with Melbourne Water, MITS was appointed as the sole supplier of all existing Information Technology (IT) services and all new IT developments and acquisitions for the 5 year period to October 1995.

3.4.18 Under these new arrangements, MITS acquired assets comprising goodwill, plant and equipment, intellectual property, licences, contracts and records for a consideration, based on an independent valuation taking into account forecast profit levels expected to be earned by MITS. The agreement provided for 50 per cent of this consideration to be paid initially and the balance to be payable at or before October 1995, with interest at the rate of 20 per cent a year applying to any outstanding balance. The plant, equipment and licences represented "tools of trade" to allow MITS to carry out its obligations to operate and maintain existing computer and communications systems, and to develop new systems.

3.4.19 Melbourne Water retained ownership and control of its principal computer and communications hardware and software, applications systems and database assets. Subject to Melbourne Water's concurrence, MITS was permitted to use assets of Melbourne Water in business contracts with other clients.

3.4.20 Melbourne Water's major computer and communications centre at Mitcham was leased to MITS. Under the agreement, MITS is authorised to sub-lease any available space at the Centre to its other business customers, with Melbourne Water's approval.

3.4.21 Of the 260 staff employed in the 2 in-house IT divisions before October 1990, 160 transferred to MITS and the remaining 100 staff were either redeployed within Melbourne Water or received a severance package. On resignation, employees who joined MITS transferred their superannuation resignation benefits to a new superannuation fund established by MITS. Melbourne Water retained liability for accrued sick leave entitlements of transferred employees at October 1990, but has no liability for accrued long service leave entitlements or for any further payments in respect of superannuation.

3.4.22 Melbourne Water's IT operations are relatively large and complex comprising:

- ▶ central computing services involving large administrative systems, technical systems and office support services on mainframe and large minicomputers at the Mitcham communications centre;
- ▶ a substantial data communications network providing access to the computer systems across the greater metropolitan area;
- ▶ a telemetry network controlling and collecting data from remote telemetry equipment throughout the metropolitan water distribution network; and
- ▶ graphical and textual land information and mapping systems describing Melbourne's street and property database and all Melbourne Water facilities, drains, sewerage and water supply.

3.4.23 IT services provided by MITS to Melbourne Water under the October 1990 arrangements fall into 3 principal categories, namely:

- ▶ **Facility Management Services (FMS)** - the operation and support of mainframe computer systems, communications networks, telemetry and digital mapping;
- ▶ **Charged Services** - training, consultancy, small equipment and software purchases, minor maintenance and user computing services such as office automation and word processing; and
- ▶ **Information Systems Development** - new IT systems and modifications or replacement of existing systems.

3.4.24 Provision of the above services involved aggregate expenditure by Melbourne Water in 1991-92 of around \$49 million (budget 1992-93, \$50.2 million).

3.4.25 Audit conducted a review of the management of IT services by Melbourne Water under the outsourcing arrangement with MITS.

3.4.26 The objective of the review was to assess the soundness and effectiveness of the management control framework established by Melbourne Water as the means of ensuring that its strategic and operational interests in relation to IT services have been adequately protected.

Overall conclusion

3.4.27 Faced in 1990 with an urgent need to substantially upgrade its IT capability, Melbourne Water took the initiative and embarked on a major corrective path. This path, which would have been perceived in the public sector at the time as somewhat radical, involved the engagement of a private company, Melbourne Information Technology Services Ltd (MITS) under a management buy-out arrangement to be sole supplier of Melbourne Water's IT services over the 5 year period to October 1995.

3.4.28 Melbourne Water has confidently assessed that the partnership with MITS has already been the catalyst for major improvements in the strategic focus, quality, timeliness and cost of IT services. It considers that these benefits have been significant contributors to enhanced organisational performance in the challenging periods up to and since its corporatisation in July 1992.

3.4.29 The audit review has, in many respects, confirmed Melbourne Water's evaluation of the benefits realised to date under the arrangement with MITS. There is little doubt that substantial gains have been achieved, particularly in relation to the quality and timeliness of IT service delivery and recognition of its critical link with the pursuit of key business goals and satisfying customer needs. In short, there has been a major cultural shift in the organisation on IT and a comparison between the cumbersome and costly in-house environment which existed prior to 1990 and that which exists now certainly presents a sharp contrast.

3.4.30 On the downside, the absence of competitive forces in the outsourcing arrangement and shortcomings in Melbourne Water's cost management have worked to the financial advantage of MITS. The adverse consequences of these 2 factors have been accentuated by a failure of Melbourne Water to ensure key data on the operations of MITS and its cost structure formed an integral part of annual negotiations on fees to be charged by MITS for various IT services. As a consequence, much of the fee setting process was based on Melbourne Water's pre-October 1990 IT costs which were of little relevance to the new IT framework with MITS. In other areas, limited attention was directed to establishing commercial benchmarks against which fees paid to MITS for various services could be evaluated. In audit opinion, the very positive signs which progressively emerged from the arrangement with MITS in terms of IT service enhancements, compared with past experiences, helped push the negotiating focus for annual fees away from cost issues.

3.4.31 During 1992, Melbourne Water through its own monitoring processes became more and more conscious of its strategic dependence on MITS, especially in relation to specialist technical knowledge of its key business systems. The emerging implications of this IT exposure and the importance of introducing competitive factors to the arrangement led to the commissioning by Melbourne Water in October 1992, jointly with MITS, of an external review by an international firm of management consultants. The consultants have recently finished their work and have presented *strategies aimed at establishing a full commercial and strategically-independent relationship between the parties*. These strategies are also designed to provide the foundation for a stable long-term IT outsourcing partnership. Melbourne Water is currently considering its future IT direction in the light of the consultancy input.

Overall conclusion - continued

3.4.32 In summary, major benefits have been derived by Melbourne Water from the 1990 outsourcing initiative with MITS. In addition, problem areas have been systematically examined. Melbourne Water is now well placed to capitalise on opportunities offered from greater independence from MITS, while at the same time strengthening, where it deems desirable, the existing partnership with MITS.

Factors influencing Melbourne Water's decision to outsource IT services

3.4.33 During 1989, Melbourne Water adopted an IT Strategic Plan to direct the development of IT services for the period 1989 to 1994. At that time, the organisation was implementing major structural changes and critically examining its fundamental business priorities, its core business activities, and the quality and efficiency of its overall service delivery.

3.4.34 Melbourne Water recognised at the time that IT was a critical success factor in supporting its future business directions, and that:

- ▶ future information systems must have the flexibility to respond to changes in ways of managing the business; and
- ▶ it needed to remain largely self-sufficient in IT management.

3.4.35 However, it had determined that within its 2 internal IT divisions there were significant cultural, technical, and operational barriers to aligning IT performance with business strategies. In this regard, the divisions were considered to be overstaffed, inefficient in the delivery of services, lacking vital strategic skills and continually experiencing major industrial problems.

3.4.36 More specifically, in relation to its IT services, Melbourne Water identified a number of shortcomings, including:

- ▶ absence of an effective overall strategic IT management framework;
- ▶ application systems more oriented to operational activities than strategic business needs;
- ▶ lack of accountability of line management for delivery of systems;
- ▶ low priority accorded to customer service;
- ▶ high data capture and application costs;
- ▶ long lead times and excessive costs in systems development activities;
- ▶ poor access to specialist skills and difficulty in retaining expertise; and
- ▶ inflexibility in aligning IT personnel resources to changing needs.

3.4.37 Given the above factors, Melbourne Water recognised that a centralised in-house IT function was not necessarily the most effective way to serve its future business needs and obtained external consultancy advice to assist in evaluating other options for its IT services.

3.4.38 Melbourne Water concluded that the transfer of IT services to an external organisation to be operated by former employees under a management buy-out was the most appropriate course of action. Specific advantages of a management buy-out over other options were seen to be the availability of an immediate avenue to reduce staff numbers and avoid substantial retrenchment costs and continuity of access to staff with specialist expertise in its systems and technology.

3.4.39 Faced in 1990 with serious circumstances demanding decisive action, Melbourne Water, to its credit, took the initiative and embarked upon a major path aimed at upgrading the effectiveness of IT services in supporting its business directions.

Melbourne Water's overall assessment of benefits

3.4.40 The overall assessment by Melbourne Water is that the establishment of MITS has provided significant benefits and enabled it to overcome the serious problems which had characterised its IT services up to 1990.

3.4.41 In a September 1992 submission to the Board of Directors, the benefits realised to date by Melbourne Water were summarised as follows:

- ▶ clear definition and more effective implementation of the information systems plan to support business strategies;
- ▶ removal of industrial relations problems and avoidance of potential disruptions to the delivery of IT services;
- ▶ greater flexibility in IT staffing, service delivery and commercial experience;
- ▶ vastly improved management of IT with significant line management support;
- ▶ defined accountability for IT costs; and
- ▶ ability to support the organisation's continuing substantial management changes.

3.4.42 A subsequent report by Melbourne Water in December 1992, which represented the first of a planned series of reviews of the 1990 arrangement, further identified major benefits which have accrued to Melbourne Water as:

- ▶ reduction in overall costs of IT services by an average of 12 per cent per year;
- ▶ lower data capture costs;
- ▶ improved levels of IT service availability and response times;
- ▶ access to specialist resources previously not available;
- ▶ establishment of management processes to identify and achieve business and strategic benefits from IT;
- ▶ achievement of a cultural change necessary for effective management of IT;
- ▶ delivery of benefits and provision of quality IT services; and
- ▶ knowledge of the "real" costs of IT services.

3.4.43 Melbourne Water considers that the major improvements achieved to date in the strategic focus, quality, timeliness and cost of IT services from the partnership with MITS have been significant contributors to enhanced organisational performance in the challenging periods up to and since its corporatisation in July 1992.

Key elements of Melbourne Water's framework for identifying and managing benefits

3.4.44 Given the significance of the 1990 initiative and the needs and problems confronting Melbourne Water in terms of IT at that time, it was important that a framework of standards and measures was established to monitor and manage the outcomes of the arrangement with MITS.

3.4.45 The circumstances existing in October 1990 presented a number of difficulties for Melbourne Water in setting up a sound management control structure for progressive monitoring of IT outcomes. The 2 IT divisions were not operating as separate cost centres and the related accounting processes did not facilitate identification of total IT costs incurred prior to the creation of MITS. In addition, the prevailing industrial climate did not provide a co-operative environment to facilitate preparation for MITS, and all of Melbourne Water's IT competence and strategic ability were effectively locked into the IT divisions.

3.4.46 The framework established by Melbourne Water in 1990 to enhance its strategic position in IT and progressively control its interests as the outsourcing process was put into action comprised a range of specific control provisions embodied in the formal agreements entered into with MITS. The main features of this framework are summarised in the following paragraphs.

Service Level Agreements

3.4.47 For each IT service and business application, a formal Service Level Agreement (SLA) was to be agreed by June 1991 between MITS and a Melbourne Water system owner. It was intended that an SLA would document agreement between the 2 parties on the operational performance requirements of the service or application and provide a standard for monitoring progressive performance, a penalty formula for failure to meet specified standards and a basis for charging in terms of service usage.

3.4.48 Each SLA would be developed to document key specific measures on the operation of the service or application such as minimum and average availability levels, maximum downtime, hours of operation, response times, transaction rates and times to service faults.

Performance Review Function

3.4.49 The formal agreement provided for a Performance Review Function to act on behalf of Melbourne Water. An independent consultant was appointed by Melbourne Water in March 1991 to carry out this function throughout the period of the agreement, with 2 principal objectives, namely:

- ▶ "to monitor performance, quality and delivery of IT services to ensure that Melbourne Water obtains value-for-money as detailed in the SLAs; and

- ▶ to monitor and report realisation of benefits in client areas from implementation of the Information Technology Systems Program".

Fee setting process

3.4.50 Specific provisions were included in the agreement to enable Melbourne Water to obtain information and exercise control over its costs with MITS, namely:

- ▶ annual development of *profit forecasts* for MITS containing complete details of MITS costings in respect of facilities management and charged services fees;
- ▶ negotiation of fees in parallel with the preparation of profit forecasts by MITS and, in the absence of agreement between the 2 parties, a requirement for a minimum real 5 per cent annual reduction in fees;
- ▶ periodic reporting by MITS to Melbourne Water on costs involved in the provision of IT services; and
- ▶ development of a comprehensive costing analysis to provide accurate and appropriate cost measures.

3.4.51 The fee setting provisions recognised the absence of competitive forces in the outsourcing arrangement and that periodic information on the cost structure of MITS would be the principal basis for negotiations on levels of fees and charges to apply to IT services.

Performance purchase price - or "super profit"

3.4.52 Under the agreement, Melbourne Water was entitled to receive a share of any profits earned by MITS in excess of a designated benchmark, payable at the contract completion date in October 1995.

IT Steering Committee and IT Strategy Working Group

3.4.53 At the commencement of the outsourcing arrangement, Melbourne Water established an IT Steering Committee and an IT Strategy Working Group. Membership of the 2 groups was drawn from senior personnel from Melbourne Water and MITS.

3.4.54 The operation of the 2 groups was expected to be a key element in Melbourne Water's overview of its relationship with MITS and in maintaining strategic control and co-ordination during progressive implementation of its 3 year Information Systems Strategy Plan.

Standard systems development control methodology

3.4.55 The agreement with MITS included provision for the use of a standard structured project methodology known as P-Plus for managing information systems development projects.

3.4.56 This methodology breaks down the systems development process into specific stages beginning with basic conceptual outlines and extending through functional specification to actual implementation. Successful progression through each stage involves the ability to accurately scope and cost the next stage of system development, and to progressively refine overall project costs and times. An important aspect of the methodology is the requirement for a high level of involvement of Melbourne Water personnel.

Protection of Melbourne Water interests

3.4.57 The ultimate source of control for Melbourne Water under the outsourcing arrangement was derived from its membership of the MITS Board of Directors. Under the arrangement, the Managing Director of Melbourne Water chairs the MITS Board and there is one further member from Melbourne Water.

Audit analysis of initial implementation of control features

3.4.58 From the start of the outsourcing arrangement, Melbourne Water had available through MITS a professional supplier of IT services, conversant with its operational needs and operating in an environment which was much more dynamic and cost effective than the previous in-house situation.

3.4.59 Nevertheless, in the period up to late 1991, few of the specific management measures established by Melbourne Water were operating effectively, which slowed down transition to the outsourcing environment and precluded early achievement of many potential benefits.

3.4.60 Although the SLAs were intended to be a principal element in achieving improvements in IT service performance, progress in their development proved to be very slow. SLAs were initially targeted for completion by June 1991, but none were finalised at that time. This situation reflected the difficulty experienced by Melbourne Water and MITS in reaching agreement on accurate definitions for performance expectations and financial penalties for non-achievement of those expectations. It was not until March 1992 that all SLAs were finally completed.

3.4.61 Without SLAs in place, suitable performance measures had not been established and the Performance Review Function lacked sufficient information to effectively assess and report to Melbourne Water on satisfactory delivery of IT services. Those measurements that were provided to the Performance Review Function from MITS related to physical hardware and network performance and showed consistently high levels of performance with availability greater than 95 per cent. This information contrasted sharply with the actual experience of users with some systems. For example, in the case of Melbourne Water's major financial system, the Corporate Financial System, actual availability of the service to users was at unsatisfactory levels and had dropped to an average of 70 per cent for July 1991.

3.4.62 In terms of the fee setting process, the early arrangements severely restricted Melbourne Water's negotiating ability because the specific information regarding costs incurred by MITS in delivering IT services to Melbourne Water, which was required by the agreement, was not made available during annual fee negotiations. As a consequence, fees set for Facilities Management and Charged Services in 1991-92 (negotiated in March 1991) and 1992-93 (negotiated in March 1992) were based on Melbourne Water's pre-October 1990 IT costs, adjusted for agreed service and CPI variations and a minimum real reduction in costs of 5 per cent (the agreement specified this reduction if parties could not reach consensus on fee levels). In audit opinion, this historical basis for fee setting had little relevance to the new IT framework with MITS and meant that costs were based on a previous framework which was known to be highly inefficient. If this basis for fee setting continued throughout the duration of the agreement, it would be extremely doubtful that Melbourne Water would achieve maximum reduction of costs.

3.4.63 In addition to the problems associated with the use of an historical basis for fee setting, several other features of the process followed for the determination of fees have restricted Melbourne Water's capacity to fully minimise costs. These features included:

- ▶ reimbursement to MITS of rental payments on accommodation occupied by MITS, including property leased from Melbourne Water, property sub-leased by MITS to other tenants, and one property not owned by Melbourne Water;
- ▶ allowance to MITS in 1991-92 and 1992-93 for corporate overheads and depreciation at levels established at the commencement of the arrangement, without review by Melbourne Water of the continued relevance of the amounts involved;
- ▶ continued application of a specified profit margin to the total historical cost basis and to other items included in the fee calculations such as rental, corporate overheads and depreciation;
- ▶ an agreed loading on the cost of all smaller equipment such as personal computers, printers and facsimile machines purchased by MITS on behalf of Melbourne Water (for example, an excess of 10 per cent for personal computers);
- ▶ excessive prices paid by Melbourne Water to MITS for common personal computer software products in comparison with standard government contract rates (for example, an excess of 20 per cent for word processing and spreadsheet packages); and
- ▶ inclusion within charges for end-user services (office automation and word processing) of factors such as depreciation on Melbourne Water equipment which had no relevance to the outsourcing situation.

3.4.64 In regard to systems development, because of the lack of competitive forces in the arrangement with MITS, Melbourne Water needed to establish a basis for assessing proposed charges for major projects. However, the audit review found that limited attention was directed to establishing commercial benchmarks against which fees paid to MITS for systems development could be evaluated.

3.4.65 It can be seen that the cost setting arrangements worked to the financial advantage of MITS.

3.4.66 Although the Performance Purchase Price (covering a specified portion of any exceptional profits earned by MITS) was payable, if applicable, in October 1995, the early level of profitability of MITS was such that an advance payment of \$860 000 was made to Melbourne Water in February 1992 and a further payment of \$800 000 in March 1993. Given that this profitability had been predominantly derived from services provided to Melbourne Water, the early payments of exceptional profits represented, in effect, only a partial return to Melbourne Water of amounts previously paid to MITS under favourable provisions of the fee setting process.

3.4.67 Melbourne Water found that the IT Steering Committee and the IT Strategy Working Group were not initially effective in monitoring the satisfactory delivery of IT services. As a consequence, it became necessary for individual line management of Melbourne Water to deal with MITS on provision of services. Also it was recognised that applications systems planning was not business driven, and that MITS or its contractors still took the lead in Melbourne Water's IT strategic decisions.

3.4.68 In summary, while Melbourne Water began immediately to derive benefits in terms of the provision by MITS of better quality and more efficient IT services, it took some time to assume adequate strategic control of its IT interests and fully benefit from the outsourcing initiative.

■ *RESPONSE provided by Managing Director, Melbourne Water*

Melbourne Water has progressively implemented appropriate actions as outlined later in audit's report to enable full advantage to be taken of specific provisions in the agreement.

Cost information, including detail of major cost components, was requested from MITS in early 1992. This information has been compiled over an appropriate period of time which reflects the complexities involved in developing a detailed, reliable IT cost model for the first time. Results are beginning to come through to Melbourne Water now. Profit forecast information relating to 1993-94 has recently been forwarded by MITS to Melbourne Water as part of the 1993-94 fee negotiations.

A review of pricing for Charged Services is currently being undertaken in line with the recommendations of Melbourne Water's recent review of End User Computing and in conjunction with negotiations for the 1993-94 FMS fee.

The minimum real 5 per cent annual reduction in fees applies only in the event where agreement cannot be reached. This target financially justified the establishment of MITS and is also reflected in the independently valued purchase price paid by MITS for the business.

As noted elsewhere in the report, Melbourne Water is aggressively pursuing improved cost management of FMS and Charged Services.

Melbourne Water's aim throughout the outsourcing arrangement has been to optimise benefits and cost minimisation is only one part of this aim.

The inclusion of a margin on the price of personal computer products purchased through MITS is considered to be appropriate to ensure that the products meet Melbourne Water's corporate technical and network standards.

This report fails to take account of significant once-off costs incurred by MITS in its establishment (e.g. establishing financial control, enterprise agreements, arbitration etc.) as an offset to efficiency improvements which were quantified at a minimum of 5 per cent a year for the duration of the contract. There were also increases in ongoing operational costs to be incurred by MITS such as lease payments, tax etc. Nor does the report acknowledge the difficulty in maintaining this level of cost down in latter years of the agreement.

Finally, Melbourne Water considers that MITS has been an unqualified success having regard to the limited options permissible at the time to improve the business because of government constraints. As a management buy-out, there was no opportunity for others to compete but the price paid by the managers was an independent valuation of the business.

Melbourne Water's response to initial outsourcing experience

3.4.69 During the second half of 1991, Melbourne Water began to direct increasing attention to several aspects of the outsourcing framework. Its initial focus was on the need for improved performance from key systems and speeding up development of SLAs.

3.4.70 Melbourne Water's early concerns over performance improvements and SLAs became critical in July 1991 as its Corporate Financial System was available to users only 70 per cent of normal availability, compared with a requirement of 99 per cent availability. This very poor performance meant that the system would be unavailable to users for significant periods and important management reports on Melbourne Water's financial operations were either delayed or had to be produced again after re-entry of data.

3.4.71 In a joint exercise between Melbourne Water and MITS, the problems associated with the Corporate Financial System were systematically analysed. This exercise proved most effective as, by November 1991, the system was performing to the satisfaction of users and agreement had been reached on the performance data, including benchmarks, to be embodied in the system's SLA. Since that date, the system has performed at a very high level.

3.4.72 As the work on the Corporate Financial System proceeded, Melbourne Water resolved to substantially strengthen its overall management framework for strategic control of IT. This action was implemented in 2 stages during 1992.

Establishment of IT management functions in Melbourne Water

3.4.73 During January 1992, Melbourne Water established 2 key management functions, namely, the Network Systems Management Branch and a new position of Manager, IT Strategy.

3.4.74 The Network Systems Management Branch's main priorities concerned finalisation of outstanding SLAs, overall supervision of the information systems program, and development of stronger cost management through greater access to cost information from MITS. Initial SLAs were agreed for all services by March 1992. These SLAs were subsequently revised and are now subject to ongoing review. In terms of cost data, audit has been advised that Melbourne Water has now received additional information from MITS, which places it in a much stronger position to negotiate fees for 1993-94.

3.4.75 In February 1992 the Performance Review Function conducted a survey of users which revealed some dissatisfaction in relation to several areas of the outsourcing relationship. This dissatisfaction was particularly apparent in the quality of the MITS help desk service, the provision of services in end user computing and the communication process with MITS. A number of improvement projects were jointly instigated by Melbourne Water and MITS to address these issues, including an End User Computing Review which set out proposed strategies in end user computing (e.g. migration to PC's) and the development and distribution of a MITS "Info Pack" for users which included problem resolution procedures and guidelines for effective communication with MITS.

3.4.76 The IT strategic plan, developed in 1989, was redeveloped in 1992 as a Business Systems Strategy Plan which focuses to a far greater extent on Melbourne Water's business needs and places accountability for the development of specific applications upon nominated Melbourne Water executives.

Establishment of applications systems management framework in Melbourne Water

3.4.77 In November 1992, Melbourne Water further expanded its IT management structure with the primary aim of ensuring that Melbourne Water business requirements drive the implementation of the business systems strategy and that investments are aligned to business needs and maximise value-for-money to the organisation. The expanded structure was designed to reinforce management's accountability for delivery of systems.

3.4.78 Key elements of this management structure are:

- ▶ a Business Systems Steering Committee and a Business Strategy Working Group, intended to ensure at executive level that Melbourne Water invests in cost-beneficial systems' opportunities aligned to business needs;
- ▶ management responsibility for all phases of planning, operation and enhancement of each system assigned to particular line managers;
- ▶ system owners who manage all aspects of a business system throughout its life cycle, ensure the achievement of business contributions from systems and negotiate annual service level agreements with MITS;
- ▶ business system project managers to manage Melbourne Water project teams, development and implementation of systems projects, and project resources; and
- ▶ business owners process groups, comprising the system owner, system manager and line managers whose work areas are impacted by systems developments, responsible for identifying enhancements to business systems and capturing benefits.

Independent review by management consultants

3.4.79 With the above measures, Melbourne Water began to control and drive the outsourcing arrangement. However, it still had serious concerns and reservations regarding costs and a number of strategic issues including the importance of introducing competitive factors. These concerns led to a decision in September 1992 to engage an international firm of management consultants to assist in a review of the arrangement.

3.4.80 The consultants have now reported to the Board and presented strategic directions which are designed to enable Melbourne Water to maximise its strategic control of IT for business effectiveness and become independent of any particular service provider for most of its IT services.

3.4.81 Early developments in increased flexibility following the consultancy review include agreement in principle with MITS that Melbourne Water will purchase smaller computing requirements directly from suppliers, and that the 2 parties will investigate opportunities to inject competition into systems development work.

Overall comment on Melbourne Water's actions

3.4.82 It can be seen that, by 1992, almost 2 years after commencement of its outsourcing arrangement, Melbourne Water had systematically diagnosed its strategic position on IT and instituted a range of corrective measures. This action, taken in conjunction with and using the expertise of MITS, has further strengthened the quality of IT service delivery.

3.4.83 In addition, as a consequence of an important consultancy review, both parties are now more conscious of the need for strategic independence, not only for the existing relationship but also in terms of the long-term corporate growth of each organisation.

■ *RESPONSE provided by Managing Director, Melbourne Water*

It is true that Melbourne Water's actions in addressing management performance issues in relation to IT have been a significant factor in the success of the venture to date.

The management framework for IT services evolved quickly after the formation of MITS as experience was acquired.

As the report notes, Melbourne Water has taken action to improve management of the Information Technology Strategic Plan. The structure of the IT Steering Committee and the IT Strategy Working Group reflected Melbourne Water's needs at the time and has been modified as time has progressed. Modifications will continue to occur as needs change.

Further actions undertaken include:

- *a joint MITS/Melbourne Water service improvement project has recommended ways in which the supply of PCs and associated equipment could be improved including pricing;*
- *MITS has collected and provided further cost information to Melbourne Water;*
- *comparisons with other Water Authorities have been undertaken and Melbourne Water compares more than favourably;*
- *Melbourne Water and MITS have agreed to investigate opportunities to inject competition in systems development work; and*
- *McKinsey & Co. has recently reported and made recommendations in relation to the strategic issues raised in this section of the Report.*

Melbourne Water and MITS are examining ways of introducing competition to systems development projects, for example, substantial portions of Facilities Information conversion are being carried out by external and independent contractors.

Strategic and technical management implications for Melbourne Water

3.4.84 A major consequence of the decision to outsource IT services through a management buyout process was that all significant IT expertise formerly in Melbourne Water was transferred to MITS. This situation left Melbourne Water in a position of dependence on its supplier for direction in technology strategy and advice on all technical aspects of decisions regarding application systems.

3.4.85 In such circumstances it is important that Melbourne Water has sufficient management control of information systems and IT to ensure:

- ▶ reliable, efficient, and secure system operations;
- ▶ security and integrity of corporate data;
- ▶ correct definition of new applications or system changes to fully implement business intentions;
- ▶ the quality, structural soundness and documentation of systems; and
- ▶ an ability to make cost-effective, reliable changes in response to business needs, and to contract systems support to other providers.

3.4.86 In addition, Melbourne Water needs to ensure it is not at risk from technology obsolescence, locked into a service or technology provider or constrained, by technology platform and systems design, in developing business options, information exchange or new business relationships. Rather, it should be positioned to take advantage of new technology which could benefit its business and should have the capability to recognise opportunities to utilise IT for business benefit.

3.4.87 Melbourne Water's level of IT technical and strategic skills is essentially a carry forward of the previous situation where the skills were locked into the internal IT divisions, which is typical of in-house IT service operations. The outsourcing initiative has brought focus on the issue and Melbourne Water is in fact now in a better position, understanding its program management responsibility for controlling and exploiting IT, driving IT from a business perspective and recognising the need for independent specialist support.

3.4.88 Melbourne Water has established firm business control over its applications strategy. While the ability to control technology platform strategy is also important to business success, it is largely driven from a technology perspective. Melbourne Water recognises that it lacks the capacity for fully independent control of technology strategy to achieve the business management aims outlined above.

3.4.89 Similarly, while Melbourne Water has established *firm business control* over application systems development, it has limited technical control. It does not carry out overall monitoring and management of the systems development process nor does it have a central function to develop, co-ordinate and monitor standards and provide training and technical advice to user management directing systems projects. Audit has been advised by Melbourne Water that its Network Systems Management Branch is planning to develop these roles.

3.4.90 MITS has made substantial progress in developing a total quality management system for which it is seeking Australian Standards certification. Such certification will provide much of the assurance Melbourne Water needs in terms of sound operations, database administration, systems development processes, documentation and change control. In pursuing quality certification, Melbourne Water will need to develop the expertise to ensure that it benefits fully from the process.

3.4.91 There is a need for Melbourne Water to strengthen its strategic and technical management responsibilities by:

- ▶ establishing internal central management control of technology strategy, the systems development process and quality assurance with independent professional IT advice; and
- ▶ implementing a management development and training program covering major IT concepts, technologies, directions, business implications and its systems development methodology.

■ *RESPONSE provided by Managing Director, Melbourne Water*

As the report correctly notes, Melbourne Water is taking action to address the issues raised by audit in relation to technology strategy and management of IT systems projects.

The recently completed McKinsey report has identified directions to be taken by Melbourne Water in its IT strategy which will be pursued. These directions are consistent with audit's findings.

Melbourne Water has assigned responsibility for systems development expenditure to Application Family Directors. Melbourne Water project staff also have training made available to them in P-Plus and its application. Melbourne Water is also implementing plans for increased training in the areas of business case evaluations and IT project management.

Lessons to be learned from Melbourne Water's outsourcing experience

3.4.92 The outsourcing of IT services either totally or partially is a subject of increasing interest in the Victorian public sector. A number of public bodies have recently invited expressions of interest for the outsourcing of their IT services. In addition, the current Government has recently revised its policy on the outsourcing of IT services. Under this policy, agencies are now required to test the market for outsourcing of both new and existing IT services as an alternative to the maintenance of in-house capabilities.

3.4.93 It is timely, therefore, to draw from Melbourne Water's 1990 initiative and subsequent management enhancements some key issues which would be worthy of consideration by other agencies contemplating or already pursuing placement of IT services with the private sector.

3.4.94 From Melbourne Water's experience to date, the main lessons for other organisations can be summarised in 3 key areas.

3.4.95 Firstly, it is important for the organisation receiving outsourcing services to fully understand the business opportunities, challenges and management implications of IT and to assume effective management control of business applications planning, technology strategy, and technical performance and quality, through:

- ▶ creation of an IT management framework to strategically plan and control IT services;
- ▶ access to adequate technical expertise (either in-house or external, but independent of service provider), reporting at a high level, to support the IT management framework in the control of technology strategy, systems development and quality assurance; and
- ▶ the early development of SLAs for each major service or application system.

3.4.96 Secondly, the organisation should ensure it is capable of managing the business aspects of its relationship with the IT service provider through:

- ▶ immediate setting-up of a management structure to co-ordinate management of the relationship;
- ▶ prior establishment of accurate cost data covering existing IT services to provide an effective basis for determining efficiency targets and evaluating progressive performance;
- ▶ specific consideration of the costs of services rendered under the outsourcing arrangement when periodically assessing fee levels (use of prior in-house costs in setting fees should be avoided); and
- ▶ agreement of both parties to planned periodic reviews of all elements of the outsourcing process, with a mechanism to facilitate implementation of changes to terms and conditions.

3.4.97 Thirdly, it is vital that adequate provision for competitive forces be made to avoid dependence upon a single provider for all IT services. Where practical problems arise in terms of the application of competitive influences to particular elements of IT services, agreement between the parties should be reached on externally-derived evaluative benchmarks for progressively assessing costs and quality of services.

3.4.98 The benefits now available to the public sector in terms of the opportunity to learn from the outsourcing experiences of Melbourne Water serve to further highlight the progressive thinking which underpinned the organisation's 1990 outsourcing decision.

RECENT SIGNIFICANT SEWER COLLAPSES

3.4.99 Melbourne Water is responsible for the collection, treatment and disposal of Melbourne's wastewater. Its sewer network comprises over 17 000 kilometres of sewers which are used to collect and direct wastewater to the Corporation's 2 main wastewater treatment complexes, the Werribee Treatment Complex and the South-Eastern Purification Plant at Carrum.

3.4.100 The major portion of the sewer infrastructure was constructed many years ago with some parts dating back to the previous century.

3.4.101 To augment its ageing network of sewers, Melbourne Water commissioned into service in December 1991 the new western trunk sewer. In addition, it has commenced construction of the north-western sewer which stretches from Brooklyn to the Moonee Ponds Creek and is expected to carry a significant proportion of Melbourne's northern suburbs sewage. Stage 1 of the project is anticipated to be completed in 1998 at a cost of \$220 million. The completion of this sewer project will finalise the Corporation's existing major capital sewer construction program.

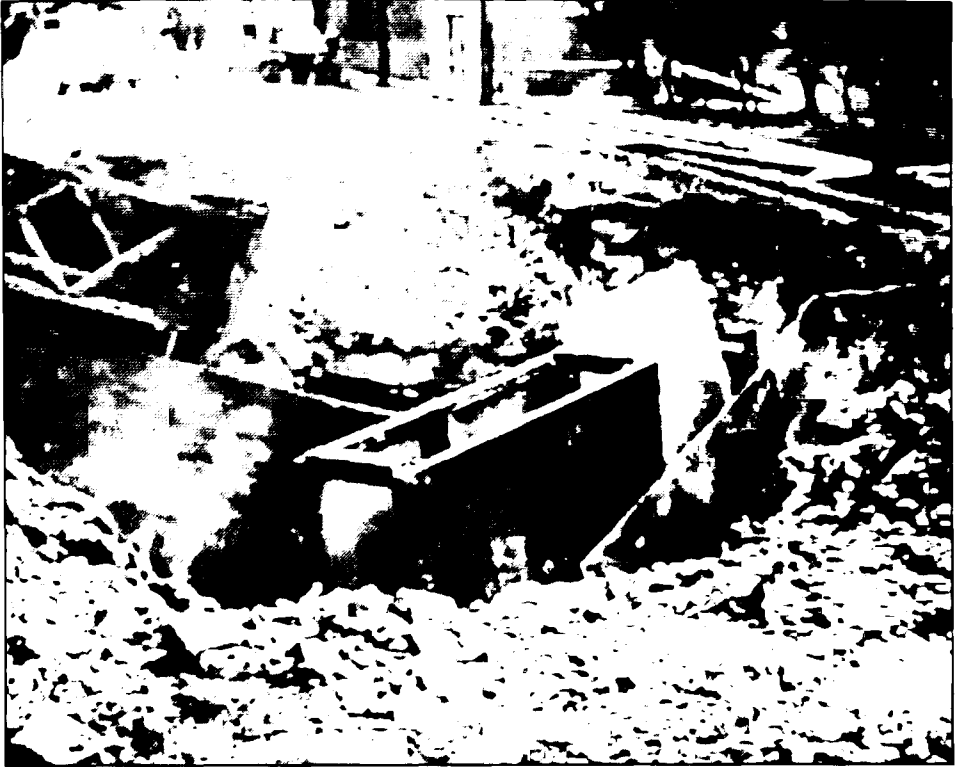
3.4.102 Capital works expenditure by Melbourne Water on the sewerage system during 1991-92 amounted to \$97 million. Also, the Corporation has, over many years, operated a program of inspection, maintenance and renewal of Melbourne's sewer network. Recurrent expenditure on this program currently averages about \$21 million a year.

3.4.103 Melbourne Water recently experienced a number of significant sewer collapses in suburban streets of Melbourne. The seriousness of these collapses necessitated immediate remedial action by the Corporation. Relevant details of these collapses are provided in the following paragraphs.

Epsom Road Main Sewer in Elizabeth Street, Kensington

3.4.104 The Epsom Road Main Sewer in Elizabeth Street, Kensington collapsed on 5 September 1992. This sewer was constructed in 1896 to mainly service the western suburbs of Melbourne and travels below the Maribyrnong River. The sewer services approximately 40 000 properties.

3.4.105 Melbourne Water believes that Melbourne's record rainfall during 1992 was the principal cause of the collapse of the sewer. In addition, the area surrounding the collapsed section of the sewer had been unsettled following repairs to a burst water main carried out in Elizabeth Street shortly before the collapse.



The Elizabeth Street, Kensington sewer collapse resulted in a hole 8 metres wide and 5 metres deep. (Photo: Courtesy of Channel 7 news.)

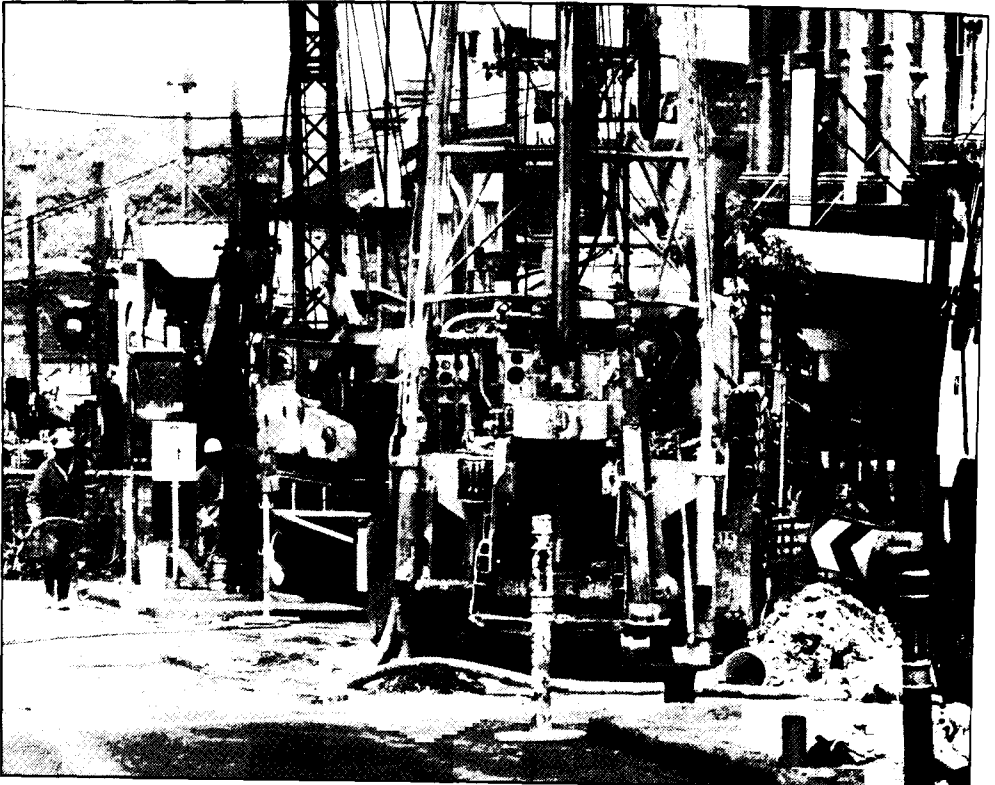
3.4.106 Melbourne Water responded to the collapse with a 2 month program of emergency repairs which involved construction of a new 65 metre sewer to replace the collapsed section. The new sewer section was commissioned on 23 November 1992, at a cost of \$3.8 million.

Epsom Road Main Sewer in Macaulay Road, Kensington

3.4.107 The Epsom Road Main Sewer in Macaulay Road, Kensington collapsed on 24 November 1992. Record rainfall is also believed to have been a major contributing factor to the collapse of this section of the sewer. The repair works carried out on the Elizabeth Street collapse (as described above) also caused additional stress to the Macaulay Road sewer. **Up to a 100 litres a second flow of raw sewage spilled into the Maribyrnong River from the 2 Epsom Road Main Sewer collapses, resulting in an estimated 19 million litres of raw sewage flowing into the River over a period of approximately 2 months.**

3.4.108 This sewer collapse, which was described by Melbourne Water's Managing Director as an "environmental disaster", also resulted in the closure of the Maribyrnong River for leisure activities and of a number of popular bayside beaches.

3.4.109 The spillage into the Maribyrnong River occurred through the special operation of safety valves (known as emergency relief structures) which are built in all sewerage systems by Melbourne Water. These structures control wastewaters by diverting overflows into nearby waterways when the system's capacity is exceeded, equipment fails or a sewer is blocked. This strategy prevents back-spillage into streets in the vicinity of collapses or blockages.



*Macaulay Road, Kensington sewer collapse - repairs in progress.
(Photo: Courtesy of "The Age".)*

3.4.110 Repairs to the sewer were still underway at the date of preparation of this Report and are not expected to be completed until the end of June 1993. Melbourne Water envisages that a new section of the sewer will be built around the collapsed section, and that the **repairs will cost approximately \$7 million**. In addition, Melbourne Water has invited Macaulay Road traders to submit claims relating to compensation for loss of business caused by the repair work. To date, a class action by store owners has been lodged with Melbourne Water for compensation. The class action did not specify the amount of damages sought by the claimants.

Moonee Ponds Main Sewer in Lawson Street, Moonee Ponds

3.4.111 The Moonee Ponds Main Sewer in Lawson Street, Moonee Ponds collapsed on 25 January 1993. The sewer was built some 80 years ago and services 13 000 households in the Coburg area.

3.4.112 As with the other collapses, heavy rainfalls are considered to have contributed to this collapse.



The Lawson Street, Moonee Ponds sewer collapse resulted in a hole 10 metres wide and 15 metres deep. (Photo: Courtesy of "The Age".)

3.4.113 Immediate repair works were commenced by Melbourne Water. However, additional work to a number of links to the sewer is anticipated to continue until mid-May 1993. **Reconstruction of this sewer is expected to cost Melbourne Water approximately \$800 000.** Unlike the Epsom Road Main Sewer collapses, there was no spillage of untreated wastewater in this instance into the nearby waterway, the Moonee Ponds Creek.

Reaction by Melbourne Water to the sewer collapses

3.4.114 Conscious of the significance and severity of the recent collapses, Melbourne Water has moved swiftly to re-assess its overall strategic position in terms of the management of the sewer infrastructure.

Immediate response

3.4.115 In addition to the immediate remedial action taken to repair the 3 sewer collapses, as described above, Melbourne Water commenced a major review of the sewer network and established a task force to identify sewer system trouble spots. This special review process was in addition to the on-going sewer inspection, maintenance and renewal program. Also, **Melbourne Water announced it would accelerate its \$40 million a year sewer replacement program.** The bulk of this expenditure comprises the cost of construction of the new north-western sewer.

Medium to long-term response

3.4.116 Melbourne Water concluded from its own urgent analysis of its management of the sewerage infrastructure and of its response to the sewer collapses that:

- ▶ the existing management system of largely routine and spasmodically co-ordinated initiatives needed to be implemented in a more systematic manner;
- ▶ there was a need to install an integrating mechanism to ensure adequate controls are in place to manage the sewerage system, particularly to:
 - address the structural condition of older brick main sewers;
 - monitor the level of sewerage overflow performance;
 - improve contingency planning; and
 - provide a strategic capacity to pump sewage away from collapsed sewers; and
- ▶ it was necessary to formalise a number of operational and strategic activities undertaken by various segments of Melbourne Water to ensure a speedy response by the organisation.

3.4.117 The Epsom Road Main Sewer collapses, in Elizabeth Street and Macaulay Road, Kensington, saw extensive delays by Melbourne Water in setting up by-pass pumping because of the limited equipment that could be obtained within Australia. On each occasion, there were several weeks of discharge to the environment while the by-pass pumping systems were assembled. **The cost of hiring this equipment was approximately \$450 000 per collapse.**

3.4.118 In addition to the unavailability of this vital equipment, Melbourne Water identified that it did not have adequate contingency plans, as required by the Environment Protection Authority, for all sewer *hot spots* in order to minimise:

- ▶ damage to the sewers;
- ▶ releases to the environment; and
- ▶ damage to property.

3.4.119 Melbourne Water's special task force has already identified sewer trouble spots within the system and has developed a program aimed at:

- ▶ identifying all known *hot spots*;
- ▶ establishing performance measures for assessing Melbourne's sewer performance against similar cities;
- ▶ researching technical solutions to current problem areas, including the detection of structural deficiencies in sewers; and
- ▶ providing appropriate contingency systems.

Announcement by Melbourne Water of "Operation Sewer Safe"

3.4.120 On 26 March 1993, Melbourne Water culminated its overall response to the recent sewer collapses with the announcement of a new high priority program of sewer repairs and renewal called Operation Sewer Safe (OSS). The purpose of OSS is to address potential weak spots in the sewer system and minimise the possibility of untreated wastewater escaping to the environment. The key elements of OSS include:

- ▶ Acceleration of Melbourne Water's sewer repair and renewal program costing an additional \$140 million over 10 years;
- ▶ Continued comprehensive investigation of older sewers, including closed circuit television and physical inspections, and increased levels of seismic surveys;
- ▶ The purchase of new technology and equipment to minimise the environmental impact of emergency situations. The Board recently approved the purchase of a by-pass and contingency pumping system to cope with main sewer collapses, at a cost of \$1.4 million;
- ▶ The development of new laser technology, in conjunction with the CSIRO, to detect sewer problem areas; and
- ▶ The extension of existing plans, or the development of new plans, to ensure the preparedness of Melbourne Water to respond to emergency situations.

3.4.121 In summary, the frequency and size of the recent sewer collapses resulted in outlays of around \$13 million by Melbourne Water on repair works and caused major temporary pollution to the Maribyrnong River and bayside beaches. The collapses also inconvenienced communities, both business and private, within the surrounding areas.

3.4.122 Melbourne Water has responded to the collapses with urgency and has instigated immediate and long-term strategies to review the soundness of its strategic management of the sewer infrastructure. A number of significant initiatives have been taken with the Operation Sewer Safe Program as the key element.

■ *RESPONSE provided by Managing Director, Melbourne Water Corporation*

Melbourne Water acknowledges audit's comments with respect to the recent sewer collapses.

As outlined by audit, Melbourne Water has responded to the sewer collapses with urgency and has instigated immediate and long-term strategies to review the soundness of its strategic management of the sewer infrastructure.

A special task force has been established to identify all known sewer hot-spots, establish performance measures, conduct research and develop contingency systems.

On 26 March 1993, Melbourne Water announced a new high priority program of sewer repair and renewal called Operation Sewer Safe (OSS). The purpose of OSS is to address potential weak spots in the sewer system and minimise the possibility of untreated wastewater escaping into the environment. The initiatives of OSS have been outlined in the audit report.

Melbourne Water is very concerned by the temporary pollution caused as a result of the sewer collapses and the inconvenience caused to the community. Recent initiatives are designed to progressively resolve the problems being encountered.

BRAESIDE INDUSTRIAL PARK ESTATE

3.4.123 In 1973, Melbourne Water assumed financial responsibility for the development and management of a metropolitan parks system. Braeside, located approximately 25 kilometres south-east of Melbourne within the City of Springvale, was one of the metropolitan parks for which Melbourne Water assumed responsibility.

3.4.124 Adjacent to Braeside metropolitan park lies an area of land, of approximately 122 hectares which, up to 1980, had been used by Melbourne Water as a sewerage treatment plant complex. The treatment plant was de-commissioned in 1980 and the land lay idle until October 1988 when Melbourne Water approved a proposal to set up a joint venture partnership with the City of Springvale to manage disposal of the surplus land. The joint venture was formed to progressively develop and sell a garden industrial estate over a 10 year period. The project was aimed at significantly improving the financial return to Melbourne Water from the Braeside land assets.

3.4.125 In December 1988, Melbourne Water called for registrations of interest for a third party to join the venture and, in May 1989, invitations to tender for the joint venture were issued to 9 of 22 registrants. In May 1990, State Cabinet endorsed a recommendation from the 2 existing joint venturers that Lend Lease Developments Pty Ltd, become the third party to the Braeside project.

3.4.126 The subsequent negotiations between the parties were protracted and agreement could not be reached on the project. The main problem areas centred around:

- ▶ substantial revisions sought by Lend Lease Developments Pty Ltd to the approved tender;
- ▶ a fall in the estimated value of the land from \$22 million in 1988 to \$6 million at July 1992; and
- ▶ a request by the City of Springvale that its contribution to the joint venture be reduced on a proportional basis in line with the reduction in land values.

3.4.127 In July 1992, Melbourne Water determined to cease negotiations with the parties on the Braeside joint venture.

3.4.128 The delay and subsequent breakdown in negotiations has resulted in:

- ▶ the inability of Melbourne Water to dispose of the 122 hectares of surplus land;
- ▶ a reduction in the value of the land by \$16 million; and
- ▶ the input of a significant amount of resources by Melbourne Water, over an extended period, in community consultation, planning, negotiation and legal costs (Melbourne Water has written-off approximately \$600 000 in direct costs incurred on the project).

3.4.129 At the date of preparation of this Report, Melbourne Water had decided to re-assess the potential for sale of the Braeside property when market conditions improve.

■ *RESPONSE provided by Managing Director, Melbourne Water Corporation*

The planned Braeside Industrial Estate joint venture was, in part, based on the progressive disposal of the land over 10-15 years in line with market demand.

By the time of the Cabinet endorsement in May 1990 the property market had already begun to collapse with demand for industrial land disappearing. Valuations rapidly decreased in line with the number of willing buyers.

Negotiations and preliminary planning with the joint venture partners continued, and were near finalisation, when the City of Springvale elected to change its basis of participation. Its contribution bore no relationship to the land value and in the joint venture Melbourne Water was required to take the risk of changing land values.

Melbourne Water wished to commence the project. Altered market conditions and the continually changing requirements of the joint venture partners hampered this proceeding. A decision was taken to avoid further costs until market conditions improved. While the information obtained is still useful it cannot be shown to add value to the asset and the expenditure was written-off.

The initial premise for the project was based on market demand. This has not changed, although market conditions have significantly altered. As sales would have been very difficult to achieve at this time Melbourne Water has not been disadvantaged by delaying implementation of a disposal strategy for this site.

THEFTS AND LOSSES

Misappropriation at head office

3.4.130 In March 1993, Melbourne Water advised audit that a misappropriation of funds had taken place over a period of approximately 18 months. The misappropriation occurred in Melbourne Water's head office building and amounted to \$136 400. The matter was referred to the Victorian Police Fraud Squad on 15 February 1993 and the employee involved (Manager, Accounts Payable), was charged with misappropriation of funds and his employment was subsequently terminated.

3.4.131 The misappropriation occurred because the employee, who was in a position of authority and possessed extensive knowledge of Melbourne Water's accounts payable system, was able to by-pass key internal controls by:

- ▶ creating a supplier record within the system in his name;
- ▶ inputting fictitious invoice details;
- ▶ initiating the generation of cheques in his name (in total, 7 fraudulent cheques amounting to \$136 400 were produced);
- ▶ having physical access to printed cheques and extracting these cheques together with associated pages of computer-produced control reports to conceal his activities; and
- ▶ requesting invoice status changes from the EDP System Administrator from *paid* status to *load* status, which enabled him to transfer transaction details from the system's production file to its test data file.

3.4.132 The defalcation was discovered when the employee took annual leave and the final fraudulent cheque resulted in a discrepancy between the general ledger and the accounts payable systems.

3.4.133 The misappropriation was assisted by some critical internal control weaknesses at Melbourne Water, namely:

- ▶ a lack of segregation of duties;
- ▶ absence of timely clearance of discrepancies identified on monthly reconciliations; and
- ▶ delays in reconciliations of all general ledger account balances.

3.4.134 **The lack of segregation of duties in the accounts payable area was addressed in a report by audit to Melbourne Water in September 1990.** The overall conclusion to the report stated:

"... the Accounts Payable and Purchasing systems have significant control weaknesses and opportunities exist to circumvent or override key controls that do exist.

"The major risk is unauthorised purchases and/or payments due to lack of segregation of duties between key ordering, receiving and payment functions.

"Testing of a sample of payments showed that processing was generally satisfactory, but the weaknesses found in documentation and overrides of system controls means that significant unauthorised purchases/payments could occur and not be detected by the Accounts Payable controls. That is, controls are satisfactory to ensure that most authorised purchases/payments are processed completely and accurately, but significant unauthorised or fraudulent activity could occur without collusion and not be readily detected".

3.4.135 The audit report contained recommendations to strengthen internal control procedures relating to the accounts payable system. It is highly likely that adoption of those recommendations by Melbourne Water would have made it more difficult for the defalcation to have occurred.

3.4.136 Melbourne Water indicated to audit that, since the detection of the defalcation, it commenced a complete review of the accounts payable system and a review of Melbourne Water's IT security. Melbourne Water also advised that it is hopeful of a full recovery of the misappropriated funds.

3.4.137 The circumstances surrounding this serious fraudulent activity in a key area of Melbourne Water reinforce the importance of effective corrective action on potential risk issues raised in audit communications to management.

Misappropriation at Yarra Region Office (Mitcham)

3.4.138 In addition to the above defalcation, on 5 April 1993, Melbourne Water advised audit that a further defalcation occurred in January 1993 at the Yarra Region Office (Mitcham). The misappropriation totalled \$16 600 and was perpetrated by a Corporation officer forging signatures on 2 documents. This matter was referred to the Nunawading CIB on 10 February 1993 and the employee involved was charged with obtaining funds by fraudulent deception. His employment was terminated on 18 February 1993.

Other thefts and losses

3.4.139 A number of other thefts and losses of stores and plant and equipment occurred mainly at Melbourne Water's regional locations during the period 1 January 1992 to 31 December 1992. The aggregate value of these thefts and losses, as reported to audit by Melbourne Water, was approximately \$270 000.

■ *RESPONSE provided by Managing Director, Melbourne Water Corporation*

Melbourne Water is concerned at the level of fraud, theft and losses which occurred during 1992 (including the recently detected Accounts Payable fraud).

The South East region is about to undertake a "fraud risk assessment" which it is anticipated will benefit "Total Melbourne Water". Finance Managers have been advised to identify ways in which the incidence of fraud and theft could be reduced and internal controls tightened.

Procedures have been changed in Accounts Payable, Head Office, to reduce future instances of fraud. Multi-skilling has been introduced and procedures have been developed to ensure proper segregation of duties.

Melbourne Water will ensure that Accounts Payable reconciliations occur on a periodic basis.

As explained by audit, Melbourne Water is still hopeful of a "full recovery" of the misappropriated Accounts Payable funds.

RURAL WATER CORPORATION

FORMATION OF THE NEW CORPORATION

Implementation of recommendations from McDonald Review

3.4.140 As reported in the Auditor-General's *Report on Ministerial Portfolios, May 1992*, the findings and recommendations of a major review (the McDonald Review) in relation to the future management of the then Rural Water Commission were presented to the Government in January 1992. The Government endorsed these findings and recommendations in June 1992.

3.4.141 The Government's first major initiative following the McDonald Review was the enactment of the *Water (Rural Water Corporation) Act 1992* which was effective from 1 July 1992. The Act established the Rural Water Corporation as the successor to the Rural Water Commission.

3.4.142 Other features of the restructuring process since the McDonald Review have been as follows:

- ▶ 5 regional boards of management (each with a board of directors) were established within the Corporation as business units to manage rural water services, with authority to determine the level of services and to set prices within regions;
- ▶ a small corporate centre was created with a board of directors to provide strategic direction and commercial guidance to the new regional boards;
- ▶ 2 service divisions were formed to provide business and technical services to the Corporation and to the water sector generally on a commercial *fee-for-service* basis; and
- ▶ all employees of the former Commission were transferred to a separate award system and no longer covered by the legislative provisions dealing with public service employment.

Key characteristics of the Corporation's financial framework

3.4.143 To complement this major restructuring process, a series of initiatives were announced by the then Minister aimed at ensuring the long-term financial viability of Victoria's rural water services under the responsibility of the new Corporation. A summary of these initiatives is presented below:

- ▶ The Government assumed responsibility for \$102.4 million of the Corporation's \$120.5 million debt at 30 June 1992. The remaining \$18.1 million represented a liability of the former Coliban region and is still to be transferred to the new Coliban Regional Water Authority. The new Authority has agreed to meet all interest charges associated with this debt until the transfer takes place;
- ▶ Responsibility for \$269 million of the former Commission's \$292 million accrued superannuation liability at 30 June 1992 was transferred to the Government. Financial responsibility for the balance of \$23 million relating to the former Coliban region has been transferred to the new Coliban Regional Water Authority. From 1 July 1992, the Corporation became responsible for the funding of the employer's contribution for employees' superannuation;
- ▶ The Government ceased funding the Corporation's core business activities including capital works. In future, the Corporation will need to finance all capital works from new borrowings or internally generated revenue;
- ▶ The Government provided \$9 million to meet the cost of implementing the recommendations of the McDonald Review;
- ▶ The Corporation is required to prepare a new business plan and develop a new commercial strategy to enable it to become self-sufficient at the earliest practicable time; and
- ▶ The Corporation is to enter into contracts with the Government for the provision of government services.

3.4.144 With its financial and operational autonomy and strong commercial focus, the new Corporation has the major challenge of building on the framework established by the former Commission and achieving maximum efficiency and effectiveness in delivery of rural water services.

THEFTS AND LOSSES

Alleged irregularity

3.4.145 The Corporation has advised audit of an alleged fraudulent activity which took place between 30 October 1991 and 26 November 1992, by an officer, on secondment from a government department.

3.4.146 This officer allegedly:

- ▶ allocated Corporation works to an associated firm at inflated prices without disclosing his association with the firm to the Corporation;
- ▶ further sub-contracted Corporation works as an associate of the firm, without the prior knowledge of the Corporation;

- ▶ failed to obtain competitive quotes which contravened the Corporation's purchasing guidelines;
- ▶ issued and authorised requisitions for works to be carried out, which were outside the normal procurement guidelines;
- ▶ certified duplicate payments for certain works; and
- ▶ falsely signed material received vouchers showing goods supplied through the associated firm.

3.4.147 Although the actual loss to the Corporation is not known at this stage, **suspect transactions handled by the secondee have a value in excess of \$150 000.** The Corporation has carried out internal investigations and suspended the officer. The matter was referred to the Police Fraud Squad in November 1992.

Schedule A. COMPLETED/INCOMPLETE AUDITS

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
CONSERVATION AND ENVIRONMENT				
Department of Conservation and Environment (c)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	29 October 1992	30 October 1992
Bundoora Park Committee of Management	Years 30 June 1991 and 30 June 1992	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	4 January 1993	7 April 1993 (a)
Environment Protection Authority (previously part of the former Department of Conservation and Environment)	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	30 September 1992	30 September 1992
Penguin Reserve Committee of Management	30 June 1991	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	31 August 1992	28 September 1992 (a)
Shrine of Remembrance Trustees	30 June 1992	No reporting requirements. Audit conducted at request of Treasurer.	1 October 1992	7 April 1993
State Swimming Centre Committee of Management	30 June 1991	No reporting requirements. <i>Crown Land (Reserves) Act 1978 s.15</i> provides for the audit of the accounts.	15 July 1992	17 March 1993 (b)
Victorian Conservation Trust	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	28 September 1992	30 September 1992 (a)
Victorian Institute of Marine Sciences	31 December 1991	31 March. <i>Victorian Institute of Marine Sciences Act 1974, s.26.</i>	15 July 1992	28 September 1992 (a)

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued				
Yarra Bend Park Trust	30 June 1992	31 October. <i>Kew and Heidelberg Lands Act 1933, s.15.</i>	20 October 1992	30 October 1992 (a)
Zoological Board of Victoria	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	28 September 1992	30 September 1992
NATURAL RESOURCES				
Alpine Resorts Commission	31 October 1992	31 January. <i>Annual Reporting Act 1983, s.9.</i>	29 January 1993	29 January 1993
Department of Water Resources (d)	Period 1 February to 30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	30 October 1992	30 October 1992
Albert Park Committee of Management Incorporated (e)	31 December 1991	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	30 August 1992	8 October 1992 (a)
Melbourne and Metropolitan Board of Works (f)	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	18 September 1992	23 September 1992
Melbourne and Metropolitan Board of Works Employees' Superannuation Fund	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	5 October 1992	6 November 1992
Rural Water Commission (g)	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 October 1992.	23 October 1992	27 October 1992 (a)

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued

Entity	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Incomplete audits				
CONSERVATION AND ENVIRONMENT				
Mount Macedon Memorial Cross Committee of Management	31 December 1992	No reporting requirements. Audit conducted at request of Treasurer.	Financial statements not yet received from Committee.	
Olympic Park Management	30 June 1992	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Financial statements recently received from Committee. Audit will be undertaken shortly.	
Penguin Reserve Committee of Management	30 June 1992	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Financial statements recently received from Committee. Audit will be undertaken shortly.	
Port Bellarine Committee of Management	30 September 1992	No reporting requirements. <i>Port Bellarine Tourist Reserve Act 1981, s.21</i> provides for the audit of the accounts.	Financial statements recently received from Committee. Audit will be undertaken shortly.	
State Swimming Centre Committee of Management	30 June 1992	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Financial statements not yet received from Committee.	
Victorian Institute of Marine Sciences	31 December 1992	31 March. <i>Victorian Institute of Marine Sciences Act 1974, s.26.</i>	Financial statements not yet received from Institute.	
Victorian Institute of Marine Sciences Superannuation Fund	Years 30 June 1989 to 30 June 1990	No reporting requirements. Audit conducted at request of Treasurer.	Financial statements not yet received from Trustees of Fund.	

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
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Incomplete audits - continued

Zoological Board of Victoria Superannuation Fund	30 June 1991	No reporting requirements. Audit conducted at request of Treasurer.		Audit substantially completed.
" "	30 June 1992	" "		Financial statements not yet received from Trustees of Fund.

NATURAL RESOURCES

Albert Park Committee of Management Incorporated (e)	31 August 1992	No Reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.		Financial statements not yet received from Committee.
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- (a) Qualified audit report issued.
- (b) Disclaimer audit report issued.
- (c) Now Department of Conservation and Natural Resources.
- (d) Now part of Department of Conservation and Natural Resources.
- (e) The Committee was dissolved by the Minister with effect from 1 September 1992 and its operations merged with the Melbourne Water Corporation.
- (f) Now Melbourne Water Corporation.
- (g) Now Rural Water Corporation.

DEPARTMENT OF EDUCATION

- ▶ A large proportion of asset registers in schools and administrative centres, controlling assets with a total value in excess of \$200 million, were found to be inadequate. Contributing factors included the level of information system support provided by the Department and a lack of commitment by those responsible for maintaining asset registers in accordance with departmental directives.

Paras 3.5.9 to 3.5.13

- ▶ Absence of integrated computerised registers has resulted in reduced capacities for self-management and accountability at school level, a situation which will be compounded because of the greater responsibilities envisaged under the "Schools of the Future" policy framework.

Para. 3.5.25

- ▶ Internal review of integrated education for children with disabilities concurs with audit findings concerning the overall management of the Integration Program. The Department of Education is taking action to improve management of the Program.

Paras 3.5.33 to 3.5.37

Details of ministerial responsibility within the Education portfolio are provided in Table 3.5A. In addition to the Department of Education, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.5A
MINISTERIAL RESPONSIBILITY WITHIN THE EDUCATION PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Education	Educational Administration, Institute of Telematics Course Development Fund Trust Victorian Curriculum and Assessment Board
Tertiary Education and Training	Colin Badger Trust Council of Adult Education Goulburn Valley Driver Training Complex Ltd Office of the Adult, Community and Further Education Board, Post-secondary education institutions - 7 universities and 32 associated companies, trusts and foundations; 1 college of advanced education; 27 colleges of technical and further education; and 2 university colleges Sir John Monash Business Centre State Training Board, Office of the Victorian Post-Secondary Education Commission Victorian Tertiary Admissions Centre

Comment on matters of significance arising from the audit of certain of the above entities is provided below.

DEPARTMENT OF EDUCATION

ASSET MANAGEMENT IN STATE SCHOOLS

Departmental asset registers

3.5.1 The Department of Education's asset registers provide the primary source of detailed information on its physical asset holdings for the purpose of:

- ▶ decision-making at school level;
- ▶ providing accountability to the community through the school council's annual report of stewardship of a school's assets and resources; and
- ▶ maintaining the Department's Schools Asset Management System on which the Department relies for asset resource decision-making and accountability.

3.5.2 At 30 June 1992, the Department of Education's primary and special development schools, post-primary schools, regional offices and school support centres were spread across approximately 2 000 locations. This number includes 55 schools and school campuses which have since closed.

3.5.3 Collectively, these locations control assets with a total value in excess of \$200 million. Each location is required, through the *Education Act 1958* and departmental directives, to maintain an asset register which records details of furniture, plant and machinery, motor vehicles, computer and office equipment, and other assets (excluding land and buildings) under its control.

3.5.4 The asset registers are examined as part of each location's annual audit conducted by auditors employed or engaged by primary schools or the Department.

3.5.5 Given the current environment, where a number of schools, school campuses and school support centres have been, or are going to be closed, it is essential that asset registers are complete. The accounting for and proper disposal of assets, many of which are of an attractive nature and of considerable value, takes on added significance given the potential for losses to be incurred as evidenced by the level of thefts and losses reported to audit by the Department during 1992. Details of these are given in paragraphs 3.5.38 to 3.5.39 of this Report.

3.5.6 Asset resource information will assume **greater** importance under the "Schools of the Future" policy framework introduced by the current Government. Under this framework, schools will assume responsibility and authority for the administration and management of operational matters currently undertaken by central or regional administration.

3.5.7 The Department's reliance on the integrity of asset register data is based on opinions provided by the respective auditors who are required to ascertain whether the detail contained in asset registers met the standard set by the Department.

3.5.8 Audit conducted a review of information provided by the respective auditors to determine the integrity of asset registers used by those responsible for asset stewardship at the local school level, regional offices and school support centres.

Adequacy of asset registers

3.5.9 The review found that a large proportion of asset registers had been reported as inadequate or incomplete.

3.5.10 Reports referred to instances of:

- ▶ failure to record all eligible asset acquisitions;
- ▶ incomplete asset descriptions and purchase details;
- ▶ failure to record disposal of assets;
- ▶ non-recording of assets on loan to other schools; and
- ▶ inadequate control or security over data.

3.5.11 In addition, there were reports of missing assets and of unsatisfactory stocktaking procedures.

3.5.12 Audit found that although the Department has issued guidelines on asset details to be included in registers, the form which the register must take is not prescribed. As a result, register formats range from regularly updated computer-managed asset systems to poorly maintained manual systems.

3.5.13 In audit opinion, the deficiencies of asset registers were primarily due to the level of information system support provided by the Department, which is discussed in the following sections, together with a lack of commitment by those responsible for maintaining the registers to ensure compliance with departmental directives.

Asset management systems

3.5.14 The need to aggregate the Department's asset holdings and establish standard asset recording procedures has resulted in the development of modules within 2 computer-based management information systems, namely, Schools Asset Management Systems (SAMS) and the Computerised Administrative Systems Environment for Schools (CASES). These are discussed below.

Furniture and equipment module of the Schools Asset Management System

3.5.15 In 1987, a project was initiated by the Treasurer to improve the recording and reporting of assets in the Victorian public sector. This contributed to the development of various accounting policy statements and the Annual Reporting (Administrative Units) (Asset Reporting) Regulations 1988 under the *Annual Reporting Act 1983*.

3.5.16 Subsequently, the Department requested the former Public Service Board to analyse its asset management requirements.

3.5.17 A major finding contained in the Public Service Board's report was that the Department did not have a satisfactory system for recording its furniture and equipment assets.

3.5.18 This led to the introduction of the SAMS project which included a furniture and equipment module to record the asset holdings of schools in one central repository of information.

3.5.19 The data collection process for SAMS is cumbersome and time consuming as it requires schools to submit to their regional offices, for manual data entry, schedules detailing furniture, equipment and other assets over \$500, as recorded in their asset registers.

3.5.20 Although initial computer support for the administration of schools had commenced as far back as 1986, an asset information module had not been included. It was mainly due to the absence of such a module that it was necessary to use this labour intensive method to obtain the information recorded in SAMS.

3.5.21 As a means of ensuring that schools submitted asset details, the Department used an incentive in the form of a "self-insurance policy". Basically, this meant that if a school's asset was not on SAMS, the Department would not fund the replacement of the asset in the event of loss, damage etc.

3.5.22 Apart from this test, the data contained in SAMS is not verified with individual asset registers. Accordingly it is not possible to comment on the completeness or otherwise of the data.

3.5.23 In audit opinion, the equipment module of SAMS was a measure which was necessitated by the additional reporting imperatives under the *Annual Reporting Act 1983*, the mixed standard of asset recording and the absence of computerised asset details at departmental locations.

3.5.24 Lack of departmental support in the past to provide computer assistance to develop asset registers at schools has resulted in the poor standard of asset recording. This has had a significant impact on management's asset stewardship at all departmental levels.

3.5.25 At the school level, the absence of computerised asset registers that are integrated with other computerised information systems such as purchasing and financial accounting records, has resulted in reduced capacities for self-management and accountability. Such capacities will be further strained because of the greater responsibilities of schools envisaged under the Schools of the Future policy framework.

3.5.26 At the departmental level, a lack of computerised asset register support to schools has resulted in the inability of those schools to supply to the Department accurate, standardised information for macro level decision-making.

Computer support for the administration of schools

3.5.27 It is pleasing to report that in January 1993, the Director of School Education approved departmental management's recommendations for the implementation of CASES, in all schools. The implementation is to be a strategic objective of the Department and be synchronised with the implementation of the Schools of the Future initiative. The system includes an asset register module.

3.5.28 The adoption of CASES by the Department as a strategic objective is a positive first step, however, until CASES is completely implemented, SAMS is dependent on data which is still mostly in the form of schedules forwarded from schools to regional offices for keying into SAMS. The continuity of data will be affected by strategies being developed under the Schools of the Future policy framework, including:

- ▶ staff resources at both schools and regional offices;
- ▶ support by capital funding and training of systems-wide, integrated computer-assisted administrative support systems;
- ▶ continuation of the Department's policy to replace school assets stolen or damaged; and
- ▶ the policy of maintaining a centralised asset recording system.

Impact of future financial reporting requirements

3.5.29 The emphasis on departmental financial reporting is moving towards the production of financial statements based on accrual accounting principles. Given the poor standard of asset recording it would currently be difficult for audit to issue an unqualified opinion on the accuracy of asset holdings if they had to be included in accrual based financial statements prepared by the Department.

3.5.30 The Department needs to implement corrective action if information on assets is to form part of credible accountability to the community by schools and the Department.

Enhanced role of Schools Review Office

3.5.31 The Department's Schools Review Office is currently responsible for departmental internal audit functions. According to the *Schools of the Future Preliminary Paper* issued in January 1993, the existing role of that Office will be enhanced to include the approval of school charters, surveying levels of satisfaction among students, staff, principals, parents and others, as well as providing regular reports on the quality and effectiveness of educational programs in schools.

3.5.32 In its development of the Schools of the Future policy framework, the Department needs to ensure that the resourcing of the Office is sufficient for it to adequately carry out its enhanced functions and responsibilities.

■ *RESPONSE provided by the Director of School Education*

I am pleased to confirm that we regard the report fair and reasonable and that we are in agreement with the audit conclusions.

With respect to the comments on the CASES system, we confirm that we are moving to it being adopted by schools as a standardised platform, integrating the asset register component with other CASES components and providing for automatic information interchange with SAMS.

INTEGRATED EDUCATION FOR CHILDREN WITH DISABILITIES

3.5.33 The Auditor-General's *Special Report No. 17 - Integrated Education for Children with Disabilities, May 1992*, included a number of key recommendations concerning the overall management of the Integration Program, by the then Department of School Education. Specific references were made to the absence of a clear integration policy, inadequacies in the management of both human and financial resources allocated to the Program and the evaluation of program performance.

3.5.34 Reference was also made in the Report that, subsequent to the findings of the audit review being conveyed to the Department, an internal review of the management of the Integration Program had been requested by the then Minister for School Education. This review was commissioned as a result of the Minister's disagreement with audit's findings.

3.5.35 The internal review, which was completed in August 1992, focused on both Integration and Special Education. **The review concurred with the audit findings in that it concluded that the resourcing, management and evaluation of the Integration Program required major improvement.**

3.5.36 The Director of School Education has recently advised audit that action aimed at addressing certain recommendations contained in both reports, including the development of an implementation plan, has commenced.

3.5.37 The Director has also undertaken to keep audit informed of further developments as they take place. This will assist audit in continuing to monitor the progress of the Department's implementation of the recommendations.

LOSSES, THEFTS AND OTHER IRREGULARITIES

3.5.38 Table 3.5B summarised particulars of losses and thefts and other irregularities, including property damage, which occurred in 1992 and which were notified to audit by entities within the Education portfolio.

**TABLE 3.5B
LOSSES, THEFTS AND OTHER IRREGULARITIES**

<i>Item</i>	<i>Amount</i>
	(\$)
Department of Education -	
Losses, thefts and damage < \$5 000	945 300
Losses, thefts and damage > \$5 000	
Funds	17 700
Equipment	427 700
Property damage	1 881 500
Universities -	
Equipment	280 800
Funds	12 400
Property damage	198 200
Colleges of Advanced Education -	
Equipment	28 300
Funds	600
Property damage	6 000
Technical and Further Education colleges -	
Equipment	196 500
Funds	59 100
Property damage	25 500
Total reported losses, thefts and other irregularities	4 079 600

3.5.39 Major incidences of losses and thefts of funds and equipment and property damage are detailed below:

- ▶ Burglary at the Dandenong College of TAFE whereby 2 safes were opened and \$51 674 in cash was taken. Police were notified and are currently preparing a report. The College has taken a number of steps to ensure that security is adequate in the future to prevent a recurrence.
- ▶ Fire at Swinburne University of Technology caused damage totalling \$35 000 to a Mass Spectrometer. An insurance claim has been lodged.
- ▶ Theft of 2 Skid Steer Loaders with a total value of \$60 000 at the Epping Horticulture Campus of the Northern Metropolitan College of TAFE. Police were notified and are still conducting their investigation. An insurance claim has been made and is waiting settlement.
- ▶ A number of fires at schools were reported by the Department of Education. The suspected cause of many of these was arson and the Police were called in all cases. Major fires reported and estimated damages were Box Hill North Primary School (\$400 000), Patterson River Secondary College (\$310 000), Ringwood Secondary College (\$560 000) and Mitcham Primary School (\$120 000).
- ▶ Computers, audio and mechanical equipment valued at \$40 690 were stolen from the Euroa Secondary College. The Police were notified and their report is pending.

Schedule A. COMPLETED/INCOMPLETE AUDITS
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
EDUCATION				
Department of Education (formerly Department of School Education)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	20 October 1992	21 October 1992 (a)
Institute of Educational Administration	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	30 September 1992	30 September 1992
Telematics Course Development Fund Trust	31 December 1991	No reporting requirements. Audit conducted at request of the Treasurer.	10 December 1992	22 December 1992
Victorian Curriculum and Assessment Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	21 September 1992	29 September 1992
Victorian Tertiary Admissions Centre	30 June 1992	No reporting requirements. Audit conducted at request of the Treasurer.	17 November 1992	1 December 1992
TERTIARY EDUCATION AND TRAINING				
Adult, Community and Further Education Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	2 December 1992	7 December 1992
Colin Badger Trust	31 December 1991	" "	10 March 1992	31 March 1992
" "	31 December 1992	" "	31 March 1993	31 March 1993
Council of Adult Education	31 December 1991	31 March. <i>Annual Reporting Act 1983, s.9.</i>	31 March 1992	31 March 1992
" "	31 December 1992	" "	31 March 1993	31 March 1993

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
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Completed audits - continued

TERTIARY EDUCATION AND TRAINING - continued

Sir John Monash Business Centre Pty Ltd	31 December 1991	No reporting requirements. Audit conducted at request of the Treasurer.	24 March 1992	31 March 1992
" "	31 December 1992	" "	31 March 1993	31 March 1993
State Training Board	30 June 1992	31 December. <i>Annual Reporting Act 1983, s.9.</i>	10 March 1993	29 March 1993
Victorian Post-Secondary Education Commission	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	7 October 1992	29 October 1992
Department of Employment and Training	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	30 October 1992	30 October 1992
Office of Higher Education	30 June 1992	" "	7 October 1992	29 October 1992

Post-secondary education institutions*Universities and associated companies*

Deakin University	31 December 1991	31 March <i>Annual Reporting Act 1983, s.9.</i>	2 April 1992	5 June 1992 (a)
Circular Force Proprietary Limited	31 December 1991	31 March. <i>Deakin University Act 1974, s.34A.</i>	10 April 1992	29 June 1992
Deakin University Foundation Limited	31 December 1991	" "	8 April 1992	5 June 1992
Milake Proprietary Limited	31 December 1991	" "	10 April 1992	5 June 1992
Unilink Limited	31 December 1991	" "	10 April 1992	29 June 1992
Winsearch Ltd	5 months to 31 December 1990	" "	28 January 1992	4 May 1992

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued				
Winsearch Ltd (in receivership)	31 December 1991	" "	23 March 1992	28 August 1992 (a)
La Trobe University	31 December 1991	31 May. <i>Annual Reporting Act 1983, s.9.</i>	17 June 1992	24 June 1992 (a)
La Trobe University Housing Limited	31 December 1991	31 March. <i>La Trobe University Act 1964, s.37A.</i>	27 February 1992	2 June 1992
Monash University	31 December 1991	31 March, <i>Annual Reporting Act 1983, s.9.</i>	20 February 1992	5 June 1992 (a)
Infertility Medical Centre Pathology Services Trust	31 December 1991	31 March. <i>Monash University Act 1958, s.35B.</i>	16 March 1992	17 June 1992
Infertility Medical Centre Pty Ltd	31 December 1991	" "	16 March 1992	29 May 1992
Monash - ANZ Centre of International Briefing Pty Ltd	31 December 1991	" "	27 February 1992	5 June 1992
Monash University Foundation	31 December 1991	" "	11 April 1992	24 April 1992
Montech Pty Ltd	31 December 1991	" "	10 March 1992	29 May 1992
Obstetric and Diagnostic Ultrasound	31 December 1991	" "	16 March 1992	17 June 1992
Pelletray Pty Ltd	31 December 1991	" "	11 March 1992	5 June 1992
University of Melbourne	31 December 1991	30 April. <i>Annual Reporting Act 1983, s.9.</i>	8 April 1992	24 April 1992 (a)
Australian Music Examination Board	31 December 1991	31 March. <i>Melbourne University Act 1958, s.40A.</i>	29 January 1992	29 April 1992
Graduate School of Management	31 December 1991	" "	12 February 1992	24 April 1992

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
Completed audits - continued				
Hawthorn Institute of Education Ltd	31 December 1991	" "	25 February 1992	3 March 1992
Melbourne Business School Limited	31 December 1991	" "	12 February 1992	24 April 1992
Unimelb Limited	31 December 1991	" "	17 February 1992	24 April 1992
Victoria University of Technology	31 December 1991	30 April. <i>Annual Reporting Act 1983, s.9.</i>	30 April 1992	25 May 1992
<i>Colleges of advanced education</i>				
Ballarat University College	31 December 1991	31 March. <i>Annual Reporting Act 1983, s.9.</i>	25 March 1992	26 June 1992 (a)
Footscray Institute of Technology	31 December 1991	30 June. <i>Annual Reporting Act 1983, s.9.</i>	31 August 1992	7 September 1992 (a)
Hawthorn Institute of Education	31 December 1991	31 March. <i>Annual Reporting Act 1983, s.9.</i>	23 March 1992	24 July 1992
Institute of Catholic Education	14 August 1991	14 November. <i>Annual Reporting Act 1983, s.9.</i>	1 May 1992	5 May 1992
Phillip Institute of Technology	31 December 1991	31 March. <i>Annual Reporting Act 1983, s.9.</i>	30 March 1992	26 June 1992 (a)
" "	6 months to 30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	8 September 1992	24 January 1993 (a)
RMIT Ltd	31 December 1991	31 March. <i>Annual Reporting Act 1983, s.9.</i>	27 April 1992	30 June 1992 (a)
Swinburne Ltd	31 December 1991	" "	24 March 1992	31 March 1992
Victoria College	30 December 1991	" "	2 April 1992	22 June 1992 (a)
Victorian College of the Arts	31 December 1991	" "	12 March 1992	15 April 1992
Victorian College of Pharmacy Ltd	31 December 1991	" "	4 March 1992	30 June 1992

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>		<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued					
Victorian College of Agriculture and Horticulture	31 December 1991	"	"	11 December 1992	24 December 1992 (a)
Western Institute	31 December 1991	"	"	26 February 1992	31 March 1992
LaTrobe University College of Northern Victoria	31 December 1991	"	"	23 March 1992	4 June 1992
<i>Colleges of technical and further education</i>					
Batman Automotive College	31 December 1991	31 March. <i>Annual Reporting Act 1983, s.9.</i>		7 April 1992	22 May 1992
Box Hill	31 December 1991	"	"	17 June 1992	28 August 1992
Broadmeadows	31 December 1991	"	"	10 June 1992	8 July 1992
Dandenong	31 December 1991	"	"	7 October 1992	30 October 1992
East Gippsland	31 December 1991	"	"	13 April 1992	14 July 1992
Flagstaff	31 December 1991	"	"	24 June 1992	15 July 1992
Frankston	31 December 1991	"	"	27 March 1992	29 May 1992
Gordon	31 December 1991	"	"	23 March 1992	15 July 1992 (a)
Goulburn Valley	31 December 1990	"	"	22 April 1992	16 June 1992
" "	31 December 1991	"	"	24 April 1992	17 June 1992
Goulburn Valley Driver Training Complex Ltd	31 December 1991	No reporting requirements. Audit conducted at request of the Treasurer.		9 April 1992	16 June 1992

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued				
Holmesglen	31 December 1991	31 March <i>Annual Reporting Act 1983, s. 9</i>	30 March 1992	29 May 1992
Loddon-Campaspe	31 December 1991	" "	18 September 1992	23 November 1992 (a)
Melbourne College of Decoration	31 December 1991	" "	10 June 1992	25 June 1992
Melbourne College of Printing and Graphic Arts	31 December 1990	" "	23 March 1992	29 May 1992
" "	31 December 1991	31 May. <i>Annual Reporting Act 1983, s.9.</i>	27 July 1992	12 August 1992
Melbourne College of Textiles	31 December 1991	31 March. <i>Annual Reporting Act 1983, s.9.</i>	24 March 1992	29 July 1992
Moorabbin	31 December 1991	" "	23 March 1992	2 June 1992
" "	31 December 1992	" "	5 March 1993	24 March 1993
Newport	4 months to 30 April 1991	31 July. <i>Annual Reporting Act 1983, s.9.</i>	30 April 1992	5 August 1992
Northern Metropolitan	31 December 1991	31 March. <i>Annual Reporting Act 1983, s.9.</i>	27 April 1992	29 May 1992
Outer Eastern	31 December 1991	" "	3 July 1992	28 August 1992
Prahran	31 December 1991	" "	12 June 1992	6 August 1992
Richmond	31 December 1991	" "	22 April 1992	25 June 1992
RMIT Ltd	31 December 1991	" "	27 April 1992	30 June 1992 (a)

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>		<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>	
<table border="1"> <tr> <td>Completed audits - continued</td> </tr> </table>						Completed audits - continued
Completed audits - continued						
School of Mines and Industries Ballarat Ltd	31 December 1991	"	"	18 March 1992	24 March 1992	
" "	31 December 1992	"	"	17 March 1993	22 March 1993	
South West	31 December 1991	"	"	20 May 1992	30 June 1992	
Sunraysia	31 December 1991	"	"	10 April 1992	24 July 1992 (a)	
Swinburne Ltd	31 December 1991	"	"	24 March 1992	31 March 1992	
Wangaratta	31 December 1991	"	"	19 March 1992	18 June 1992	
William Angliss	31 December 1991	"	"	13 May 1992	16 June 1992	
Wimmera Community	31 December 1991	"	"	27 March 1992	2 June 1992	
Wodonga	31 December 1991	"	"	16 June 1992	22 July 1992	
Yallourn (b)	31 December 1991	"	"	18 March 1992	22 June 1992	
Western Metropolitan (c)	31 December 1991	31 May. <i>Annual Reporting Act 1983, s.9.</i>		5 August 1992	28 August 1992	

(a) Qualified audit report issued.

(b) Yallourn now called Central Gippsland.

(c) Footscray and Newport Colleges were merged into the Western Metropolitan College of TAFE from 1 May 1991.

ENERGY AUTHORITIES

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

Details of ministerial responsibility within the Energy and Minerals portfolio are provided in Table 3.6A. In addition to the Department of Energy and Minerals, the entities listed below were subject to audit by the Auditor-General.

TABLE 3.6A
MINISTERIAL RESPONSIBILITY WITHIN THE ENERGY AND MINERALS PORTFOLIO

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Energy and Minerals	Coal Corporation of Victoria Gas and Fuel Corporation of Victoria Gas and Fuel Corporation Superannuation Fund Loy Yang B Power Station Pty Ltd Renewable Energy Authority Victoria SEC Superannuation Fund SECV Superannuation Pty Ltd State Electricity Commission of Victoria

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

ENERGY AUTHORITIES

THEFTS AND LOSSES

3.6.1 Losses of cash, stores, and plant and equipment for the period 1 January 1992 to 31 December 1992 reported to audit by entities within the Energy and Minerals portfolio were as follows:

- ▶ Gas and Fuel Corporation of Victoria (\$135 000); and
- ▶ State Electricity Commission of Victoria (\$313 000).

3.6.2. In addition, the State Electricity Commission of Victoria has notified audit of the theft of cash totalling \$19 400 by an employee over a 2 year period. The employee pleaded guilty to charges of obtaining property by deception and making and using false documents. An order was made for the employee to undertake 350 hours of community service over a 12 month period, together with restitution to the Commission of the stolen money.

Schedule A. COMPLETED/INCOMPLETE AUDITS
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
ENERGY AND MINERALS				
Department of Manufacturing and Industry Development (a)	30 June 1992	31 October. <i>Annual Reporting Act</i> 1983, s.8.	20 October 1992	30 October 1992
Coal Corporation of Victoria	30 June 1992	30 September. <i>Annual Reporting Act</i> 1983, s.9.	6 August 1992	31 August 1992
Gas and Fuel Corporation of Victoria	30 June 1992	30 September. <i>Annual Reporting Act</i> 1983, s.9.	11 September 1992	30 September 1992
Gas and Fuel Corporation Superannuation Fund	30 June 1992	30 September. <i>Annual Reporting Act</i> 1983, s.9. Extension granted to 30 November 1992.	1 September 1992	22 September 1992
Loy Yang B Power Station Pty Ltd	30 June 1992	No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law.	20 August 1992	1 September 1992
Renewable Energy Authority Victoria	30 June 1992	30 September. <i>Annual Reporting Act</i> 1983, s.9.	18 September 1992	22 September 1992
SEC Superannuation Fund	30 June 1992	30 September. <i>Annual Reporting Act</i> 1983, s.9. Extension granted to 30 November 1992.	18 November 1992	23 November 1992
SECV Superannuation Pty Ltd	30 June 1992	No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law	18 November 1992	23 November 1992
State Electricity Commission of Victoria	30 June 1992	30 September. <i>Annual Reporting Act</i> 1983, s.9.	27 August 1992	1 September 1992

(a) This Department has ceased to exist and certain functions have been subsumed into the Department of Energy and Minerals.

FINDINGS

GOVERNMENT VEHICLE FLEET MANAGEMENT

- ▶ While the former VicFleet Directorate had overall responsibility for the strategic management of the government vehicle fleet, it was not effective in discharging this role, which adversely impacted on the performance and costs associated with fleet operations.

Paras 3.7.14 to 3.7.18

- ▶ Adequate management information systems had not been maintained by VicFleet and certain agencies to facilitate the effective monitoring of government vehicle fleet operations.

Paras 3.7.29 to 3.7.32

- ▶ Around 30 per cent of vehicles controlled by agencies examined by audit were utilised less than the minimum benchmark established by VicFleet. Given current vehicle utilisation levels, scope exists for the rationalisation of the fleet.

Paras 3.7.35 to 3.7.37

- ▶ Until such time as the Government's current and future vehicle needs are actually determined, public funds will continue to be wasted due to the existence of excessive vehicles within the vehicle fleet.

Paras 3.7.40 to 3.7.45

- ▶ Within the budget sector fleet, 33 per cent of passenger vehicles and 46 per cent of light commercial vehicles were retained past their optimum economic life, adversely impacting on the level of maintenance costs incurred for their upkeep, and future changeover costs.

Paras 3.7.46 to 3.7.50

- ▶ Based on vehicle changeover costs incurred by budget sector agencies during 1991-92, audit estimated that the cost to the State of not replacing existing fleet vehicles at the optimum interval stipulated by VicFleet was around \$15 million.

Paras 3.7.51 to 3.7.52

- ▶ The Department has estimated that funding in the order of \$45 million to \$50 million will be required over the next 3 years to achieve and maintain an ageing profile for the budget sector vehicle fleet which is consistent with the established policy parameters.

Paras 3.7.53 to 3.7.54

STATE SUPPLY SERVICE

- ▶ The lack of adequate business planning and sales and marketing strategies have contributed to the State Supply Service only capturing a small component, presently around 8 per cent, of the total public sector market for the services it provides.

Paras 3.7.65 to 3.7.72

- ▶ A share of potential savings of around \$11 million is available to public sector bodies from the full utilisation of the State Supply Service. To ensure that these benefits are realised, action needs to be taken to increase the awareness of public sector bodies of the price competitiveness of the Service.

Paras 3.7.73 to 3.7.76

Details of ministerial responsibility within the Finance portfolio are provided in Table 3.7A. In addition to the Department of Finance, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.7A
MINISTERIAL RESPONSIBILITY WITHIN THE FINANCE PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Finance	Emergency Services Superannuation Board Government Employee Housing Authority Hospitals Superannuation Board Local Authorities Superannuation Board State Casual Employees Superannuation Board State Employees Retirement Benefits Board State Superannuation Board of Victoria, administering: <ul style="list-style-type: none"> · Holmesglen Constructions Superannuation Plan · Parliamentary Contributory Superannuation Fund · State Superannuation Fund Surveyors Board of Victoria Transport Superannuation Board

Comment on matters of significance arising from the audit of certain of the above entities is provided below.

DEPARTMENT OF FINANCE

MANAGEMENT OF GOVERNMENT VEHICLE FLEET

3.7.1 The Government, through its various agencies which include departments and public bodies, operates a fleet of some 23 000 passenger and light commercial vehicles. Around 12 000 of the fleet vehicles, with an estimated value of \$120 million, are operated by budget sector agencies. Of these, around 800 vehicles are assigned to Senior Executive Service (SES) officers as part of their remuneration packages, with the balance principally comprising red plate vehicles which are only to be used for government purposes.

3.7.2 Up until January 1993, the Victorian Government Motor Vehicle Fleet Directorate (VicFleet), of the Department of Finance, had overall policy responsibility for the management of all government motor vehicles with a capacity of up to 3.5 tonnes. Since that date, the newly created Vehicle Management Division of the Department has assumed this role.

3.7.3 Specifically, VicFleet's responsibilities included:

- ▶ development of policies and procedures to ensure the efficient and economic management of the fleet;
- ▶ monitoring compliance by all agencies with established policies and procedures;
- ▶ monitoring performance of the fleet;
- ▶ consultation with agency Chief Executives regarding fleet management structures and staffing;

- ▶ provision of valuation advice to agencies relating to vehicle disposals and acquisitions; and
- ▶ investigation of public complaints relating to misuse of government vehicles.

3.7.4 Under long-standing fleet management arrangements, respective agencies are responsible for the day-to-day management of vehicles under their control. However, some non-budget sector agencies such as the Melbourne Water Corporation, the State Electricity Commission of Victoria, and the Gas and Fuel Corporation have also been delegated responsibility for approving vehicle acquisitions and disposals within their organisations, while still obligated to follow VicFleet policies.

3.7.5 The Auditor-General's April 1987 *Special Report No. 7 - Motor Vehicles*, outlined the results of an audit review on the management of the government vehicle fleet. The review, inter alia, found that while, at that time, VicFleet had been effective in developing fleet policies and procedures, deficiencies existed in agency management information systems and there was a need to rationalise the fleet.

3.7.6 In May 1991, the Government commenced an assessment of alternative vehicle fleet management arrangements in order to achieve the following strategic objectives:

- ▶ operation of the vehicle fleet on a fully-commercial basis;
- ▶ removal of government exposure to fleet ownership and management risks; and
- ▶ fleet rationalisation and cost reduction.

3.7.7 In July 1992, following consideration and evaluation of various options, the Treasurer announced a major reform of the existing fleet management arrangements, involving the establishment of a wholly-owned government company to take over the ownership and management of budget sector vehicles. Under the proposed arrangements, the company would provide centralised fleet management services which would involve the lease or hire of vehicles to agencies. To assist the company in fulfilling this role, in September 1992, the Treasurer entered into a contract with a private sector fleet manager for the provision of fleet management services, on behalf of the company, over a 3 year period, for a fee of \$8 million. However, at the date of audit, the contract had not been ratified by the current Government.

3.7.8 The current Government is re-assessing the proposed budget sector fleet management arrangements, including the abovementioned contractual agreement and alternative fleet management structures, with a view to ensuring that the arrangements that are ultimately implemented will result in the most efficient, effective and economical management of the vehicle fleet.

3.7.9 It is against this background that audit carried out a review of the management of the government vehicle fleet.

Overall conclusion

3.7.10 The audit review concluded that VicFleet had not been effective in discharging its management responsibilities relating to the government vehicle fleet.

3.7.11 The poor strategic management of the fleet, combined with inadequate information systems, have contributed to the incurrence of excessive costs by the State, from:

- ▶ maintenance of a fleet in excess of operational requirements, resulting in vehicle under-utilisation;
- ▶ inappropriate use of vehicles; and
- ▶ vehicles not replaced at optimum economic intervals, resulting in an aged fleet and excessive changeover costs.

3.7.12 Alternative fleet management arrangements have been investigated and evaluated by both the Departments of the Treasury and Finance over the past 2 years. Although a decision to establish new arrangements was made by the previous Government, this is now under review and a final decision as to the future management of the fleet is yet to be made.

3.7.13 The results of the audit review reinforce the need to introduce enhanced fleet management arrangements. In this regard, it is critical that the current Government determine future arrangements on a timely basis, to ensure that the fleet operates at optimum efficiency, and that costs to taxpayers, from its operation, are minimised.

Strategic management of vehicle fleet

3.7.14 Imperative to the effective strategic management of any business or resource is the existence of a cohesive framework which encompasses comprehensive policy direction, reliable information systems, forward planning, establishment of performance measures based on industry standards, and the regular monitoring and assessment of actual performance against such standards.

3.7.15 Audit found that a number of factors had limited the effectiveness of VicFleet's strategic management of the vehicle fleet, including:

- ▶ Inadequate authority to discharge its responsibilities, together with a lack of senior management support to ensure agency compliance with established policies;
- ▶ Inadequate information systems, both at VicFleet and agencies, which had limited VicFleet's capacity to monitor the size, composition, utilisation and performance of the fleet;
- ▶ The adoption of reactive rather than pro-active management practices by VicFleet, particularly relating to the collection of fleet performance information from agencies;
- ▶ Poor co-operation by agencies in providing key information to VicFleet, to enable the effective discharge of its responsibilities;

- ▶ Failure to maintain a comprehensive and up-to-date policy and procedural framework;
- ▶ Poor communication with agencies, reducing VicFleet's awareness of agency needs and problems relating to agency vehicle fleets;
- ▶ Machinery of Government changes that resulted in the transfer of responsibility for VicFleet, between the Department of Finance and the Department of the Treasury, on a number of occasions in the past 2 years; and
- ▶ The fact that VicFleet did not have responsibility for all vehicle acquisitions, precluded effective control over the size of the fleet. For instance, budget sector agencies did not require VicFleet approval for light commercial vehicle purchases not covered by the State Tender Board light commercial vehicle contract.

3.7.16 As a result of these deficiencies, VicFleet had not been able to effectively monitor agency compliance with established fleet management policies and procedures, nor to assess their performance in managing vehicles under their control. Consequently, potential cost savings with regard to staffing, fleet size and running costs could not be identified by VicFleet, and the action needed to improve the efficiency of fleet operations had not been initiated.

3.7.17 To enhance the efficiency and effectiveness of government vehicle fleet operations, it is essential that effective central strategic management of the budget sector fleet be established. Given VicFleet's role in this area, and on the assumption that this role remains unchanged under new fleet management arrangements, it is critical that the new Vehicle Management Division:

- ▶ establish appropriate management information systems, performance measures and organisational arrangements to facilitate the progressive and timely monitoring of government fleet operations;
- ▶ maintain a comprehensive policy and procedural framework which reflects relevant industry standards and practices and is effectively communicated to all agencies; and
- ▶ adopt a more pro-active approach to the gathering and analysis of agency fleet information to enable assessments of agency compliance with government policies and procedures, and to review and recommend improved fleet management practices.

3.7.18 To ensure that the Division is effective, it is important that its management role be clarified by government, and agencies be accordingly advised.

■ *RESPONSE provided by Secretary, Department of Finance*

The inadequacy of previous central fleet management arrangements has been acknowledged.

New central management arrangements were introduced in January 1993 with the establishment of the Vehicle Management Division (VMD) of the Department of Finance.

The VMD is responsible for the implementation of government fleet management policy, and particularly the development of comprehensive information systems. The VMD has commenced the definition of performance requirements for agency fleet management to ensure that they accord with best commercial practices and standards. The VMD will progressively introduce stringent monitoring procedures to ensure that government policies and procedures are being observed by all relevant agencies.

Proposed management arrangements for the fleet

3.7.19 In the 1991-92 Budget Papers, the Government announced that, as part of a program aimed at improving the productivity of budget sector agencies, as from November 1991, the vehicle fleet would operate on a fully commercial basis under the trade name of *VicFleet*. Under the proposed arrangements, *VicFleet* was to be responsible for the ownership of budget sector vehicles and the introduction of commercial practices relating to fleet management, funding and maintenance. It was anticipated by the Government that implementation of these arrangements would generate savings of \$20 million in 1991-92.

3.7.20 As part of the above initiative, in May 1991, the Government invited expressions of interest from private sector fleet managers and financiers, seeking proposals for revised management structures for the government vehicle fleet.

3.7.21 Following a protracted evaluation of all proposals, by a team of external consultants and internal officers, in July 1992 the Treasurer announced a decision to engage a private sector fleet manager to manage the budget sector fleet. In the Government's 1992-93 August 1992 Budget Papers, it was further announced that a wholly-owned government company, *VicFleet Pty Ltd*, would be established to assume ownership of all budget sector vehicles and operate a fully-commercial vehicle hire service to agencies. The Government estimated that cost savings of \$44 million would result in the first 3 years of operation of the new arrangement.

3.7.22 On 11 August 1992, the Treasurer entered into a heads of agreement with a private sector fleet manager for the management of the budget sector vehicle fleet, on behalf of *VicFleet Pty Ltd*. On 29 September 1992, this agreement was re-affirmed through the completion of a final contractual agreement. However, under this contractual agreement, the current Treasurer is required to ratify the contract in order for it to take effect.

3.7.23 The current Government, at the date of audit, had not yet engaged the services of the private sector fleet manager, and had deferred a decision on whether to proceed with the arrangement until **31 March 1993**. However, audit was subsequently advised by the Department that the private sector fleet manager will be engaged as from July 1993 to manage the vehicle fleets of 3 agencies, on a trial basis. Up-front payments by government under the contract have totalled \$300 000.

3.7.24 The continuing delay since November 1991 in introducing revised fleet management arrangements resulted in the stagnation of VicFleet operations, uncertainty among agencies as to fleet management requirements and delays in the acquisition and disposal of vehicles.

3.7.25 A review of the management processes followed to date in relation to changing the government fleet management arrangements, revealed the following shortcomings:

- ▶ The evaluation of alternative management arrangements was significantly constrained by the lack of adequate central information relating to the existing vehicle fleet, including associated running costs. In particular, the Government's projected cost savings of \$44 million over the first 3 years of operation of the proposed new fleet management arrangements, could not be supported by detailed documentation due to the absence of complete and reliable fleet costing information;
- ▶ The evaluation of alternative fleet management structures did not include a detailed assessment of other alternatives to the external management of the fleet, such as central in-house management;
- ▶ Inadequate consultation occurred with agencies during the evaluation process, to ensure that proposed arrangements were consistent with their needs; and
- ▶ Consideration was not given to incorporating the management of non-budget sector vehicle fleets, for which VicFleet had overall responsibility at the time, within the proposed management arrangements.

3.7.26 Given the above deficiencies in the evaluation of alternative fleet management arrangements, especially relating to the determination of the potential cost savings of \$44 million, audit was unable to independently assess whether the Government's proposed framework represented the most cost-effective alternative, nor whether these anticipated cost savings from implementation of such a framework were achievable.

■ *RESPONSE provided by Secretary, Department of Finance*

The evaluation of expressions of interest for the provision of external fleet management services was undertaken by an external consultant.

Current status

3.7.27 In recognition of the shortcomings associated with previous evaluation processes, the current Government, at the date of audit, was re-assessing various alternative fleet management arrangements, including:

- ▶ retention of vehicle ownership by agencies, with all vehicle acquisitions and disposals centrally managed and performed by the Vehicle Management Division;
- ▶ sale and leaseback of agency vehicles, with central management by the Division;
- ▶ transfer of vehicle ownership and management to a statutory authority established specifically for this purpose; and
- ▶ ownership of vehicles to be transferred to a wholly-owned government company specifically set up to manage these vehicles.

3.7.28 Given the significant delays that have already occurred in the establishment of enhanced vehicle fleet management arrangements and the lack of effective strategic management over the fleet, it is critical that the current Government finalise and implement such arrangements to optimise benefits and minimise costs accruing to the State, arising from existing inefficiencies.

■ *RESPONSE provided by Secretary, Department of Finance*

To ensure that the motor vehicle fleet is placed on a commercial operating basis in a timely manner, the following determinations concerning the future management of the fleet have been made:

- *The Vehicle Management Division will implement government strategic fleet management policy and ensure that policy is strictly adhered to; and*
- *As part of this strategy, commercial fleet management will be trialed. The trial will be assessed and appropriate decisions on long-term fleet management arrangements made.*

Management information systems

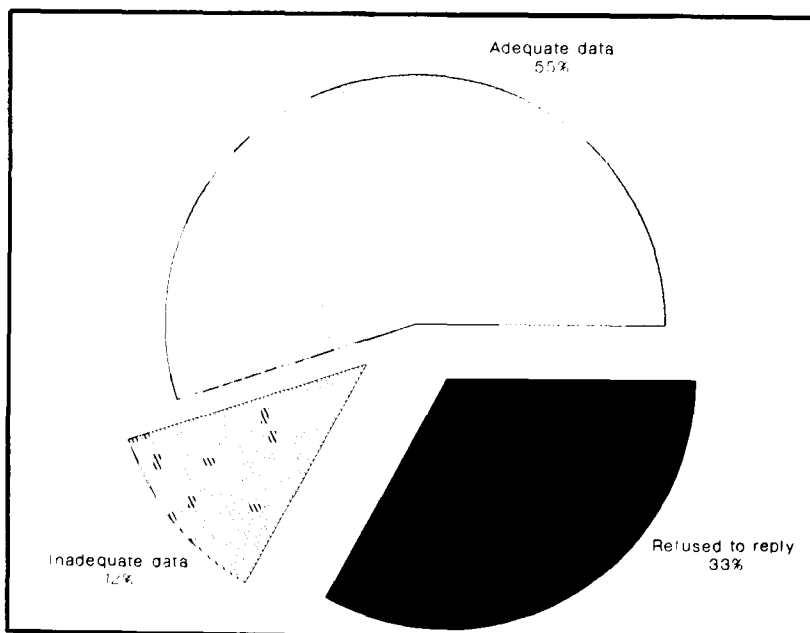
3.7.29 As previously mentioned, **effective management information systems had not been maintained by VicFleet to facilitate the monitoring of vehicle fleet operations, therefore inhibiting its capacity to effectively manage the fleet.** The only central fleet records maintained by VicFleet were manual cards created to record vehicle acquisitions approved by the Directorate. These cards did not include all budget sector agency vehicles and therefore did not provide a comprehensive record of the total fleet. As a consequence, VicFleet was not in a position to ascertain:

- ▶ vehicles retained by agencies without approval;
- ▶ level of vehicle utilisation;
- ▶ ageing of the vehicle fleet; and
- ▶ agency vehicle maintenance and running costs.

3.7.30 In an attempt to establish comprehensive central fleet records, in October 1991, all budget sector agencies were requested by VicFleet to provide key information relating to vehicle fleet composition, new acquisitions, disposals and running costs, on a monthly basis. However, the poor response from agencies to this request, in conjunction with a lack of senior management support, resulted in the abandonment of this exercise in early 1992.

3.7.31 In response to a September 1992 survey of budget sector agencies conducted on behalf of VicFleet, it was further identified that vehicle fleet information systems maintained by certain agencies were inadequate. This situation was similar to that identified in the April 1987 Auditor-General's Report on the management of the government vehicle fleet. Specifically, the September 1992 survey found that **12 per cent or 5 of the 40 agencies surveyed had not maintained adequate fleet records. In addition, 13 agencies refused to respond to the survey due to resistance to the proposed external fleet management arrangement.** Chart 3.7B summarises the survey results.

**CHART 3.7B
RESULTS OF SURVEY OF BUDGET SECTOR FLEET INFORMATION**



3.7.32 The newly established Vehicle Management Division has recently initiated a project to establish a central database of budget sector vehicles, including operating costs, by the use of information recorded by the Roads Corporation together with information available at the agencies. **To achieve effective management of the vehicle fleet, it is critical that this project be completed on a timely basis so as to facilitate ongoing performance monitoring and assist in reducing the overall fleet running costs.**

■ *RESPONSE provided by Secretary, Department of Finance*

The inadequacy of previous management information systems has been acknowledged.

The Vehicle Management Division has developed a database which will hold all required data on inner budget fleet vehicles. Existing data anomalies are currently being rectified.

The database will be verified and supported by an enhanced data update mechanism. The completed database forms the core of an effective strategic management regime.

Utilisation of vehicle fleet

3.7.33 The policies and procedures of VicFleet with regard to vehicle utilisation, inter alia, provided that:

- ▶ with the exception of vehicles assigned to SES officers as part of their remuneration packages, fleet vehicles should travel a minimum of 20 000 kilometres a year or be used for a minimum of 6 hours a day; and
- ▶ vehicles should only be used for official purposes.

3.7.34 A review by audit of vehicle utilisation against the above VicFleet criteria, at selected agencies, identified **significant under-utilisation of the fleet and inappropriate private use of vehicles**. These matters are further discussed below.

Under-utilisation of motor vehicles

3.7.35 An analysis of annual vehicle usage rates at selected agencies, focusing on vehicle mileage, highlighted that, **on average, 30 per cent of non-SES vehicles were utilised less than 20 000 kilometres a year**, which was the benchmark minimum utilisation rate required by VicFleet. Table 3.7C illustrates this position.

TABLE 3.7C
VEHICLE UTILISATION RATES (a)

Agency	Vehicles in fleet	Vehicles < 20 000 kms per year	Under- utilised
	(No.)	(No.)	(%)
Budget sector -			
Office of the Chief Commissioner of Police	2 027	208	10
Public Transport Corporation	801	357	45
Roads Corporation	705	116	17
Environment Protection Authority	96	62	65
Department of Conservation and Natural Resources	1 550	487	31
State Vehicle Pool	163	33	20
Non-budget sector -			
Melbourne Water Corporation	1 449	746	51
Urban Land Authority	7	1	14

(a) Does not include SES vehicles.

3.7.36 In addition, an audit survey of major Melbourne central business district government carparks highlighted that a significant number of red plate vehicles remained idle during business hours. Specifically, it was found that around 50 per cent of the vehicles garaged at these carparks remained idle for at least 6 hours per day, indicating some scope for vehicle pooling among agencies. These results were consistent with a similar survey undertaken by the Department in 1990-91.



Red plate vehicles parked at St Andrews Place, East Melbourne.

3.7.37 Consistent with the conclusions drawn in the previously referred April 1987 Auditor-General's *Special Report No. 7 - Motor Vehicles*, the above audit analysis of fleet utilisation levels also highlights that **some scope exists for rationalisation of the current fleet resources. Given current government budgetary restraints, a detailed review of vehicle utilisation levels, including an assessment of vehicle pooling opportunities, between agencies, needs to be undertaken by the Vehicle Management Division in order to identify potential cost savings.**

■ *RESPONSE provided by Secretary, Department of Finance*

On the basis of utilisation analyses it has been determined to reduce the size of the inner budget fleet. Ongoing utilisation studies should lead to further reductions in fleet numbers.

The Vehicle Management Division will assess the potential for extending the pool network to support strategies to improve vehicle utilisation.

■ *RESPONSE provided by Managing Director, Melbourne Water Corporation*

Melbourne Water motor vehicles operate almost exclusively within the metropolitan boundaries of Melbourne. In addition, because of the decentralisation of Melbourne Water functions, most vehicles are allocated for works within specific regional boundaries within the Melbourne area.

As a consequence, the criteria of 20 000 kms a year is inappropriate to measure the utilisation of vehicles given they are operating in relatively small geographic areas.

The size and make up of our fleet is subject to constant review to ensure that it is able to meet the operational needs of our decentralised organisation.

■ *RESPONSE provided by Chairman, Environment Protection Authority*

As an introduction to the EPA's response it is important to understand that to address environmental and pollution issues it is essential that it has available specialised scientific equipment, staff and an appropriate vehicle fleet. Unfortunately, the focus of the audit is on vehicle usage criteria (as if we were running a taxi fleet franchise) in isolation from providing the capability for the Authority to operate to the expectations of the Government and community while performing our statutory functions.

EPA's operations are not all routine or predictable and are regionalised. Many of the trips are over short distances in the metropolitan area carrying specialised scientific equipment. The EPA must have the capability to respond quickly and professionally to a wide range of environmental issues and emergencies which may potentially pose a threat to the environment and or human health 24 hours a day, 7 days a week.

Organisational efficiency and effectiveness is not assessed against vehicle usage criteria.

A more appropriate measure would be the preparedness and capability of the organisation to respond to environmental and pollution issues.

These fundamental factors have not been reflected in the audit report.

The total EPA fleet usage over the past year was 1 751 995 kms which equates to an average of 17 520 kms per vehicle. A more detailed analysis of the EPA fleet shows 31 per cent of the vehicles travelled between 20 000 kms and 30 000 kms, 5 per cent between 30 000 and 40 000 kms and 4 per cent in excess of 40 000 kms. In all, 40 per cent of the EPA fleet have exceeded 20 000 kms over the past year. It should also be noted that a further 22 per cent of the fleet show usage between 15 000 and 20 000 kms for the year.

Private use of vehicles

3.7.38 While VicFleet policy required that vehicles should only be used for official purposes, an audit utilisation survey of red plate vehicles garaged at central business district carparks identified that on average 50 per cent of the vehicles were utilised for travel to and from work. While it is recognised that there may be justification for the utilisation of some of these vehicles after hours for the purpose of travelling to and from work, audit concluded that the high percentage of vehicles used in this manner represented a level of inappropriate use of the vehicle fleet. Audit also found that the Melbourne Water Corporation and the Environment Protection Authority had allocated vehicles to certain non-executive staff on a permanent basis, with some primarily used for travel to and from work.

3.7.39 Action needs to be taken to ensure the proper usage of government vehicles at all times.

■ *RESPONSE provided by Managing Director, Melbourne Water Corporation*

Melbourne Water applies the following criteria to determine whether commuter use is an operational requirement:

- *Employees in positions required to attend emergency calls outside the normal spread of hours. An assessment of the most appropriate vehicle for the duties must be made;*
- *Employees required to undertake duties representing Melbourne Water outside the normal spread of hours regularly, a number of times a week. The requirement to work overtime does not qualify the employee for commuter use;*
- *Employees required to start or finish work on a site or location which is not their normal place of work regularly a number of times a week; and*
- *Employees deemed by a Divisional Manager to be undertaking regular extensive travel within the Melbourne Water area in the conduct of business.*

Approval of commuter use is solely related to the duties of the position and to satisfy the operational requirements of Melbourne Water.

■ *RESPONSE provided by Chairman, Environment Protection Authority*

The EPA reviewed usage of its red plate vehicles in October 1992. Management has since applied more rigorous control over after hours access to vehicles resulting in a significant increase in compliance with policy and reductions (approximately 25 per cent) in monthly vehicle running costs. There is an operational need to have staff rostered and available for after hours call-out across the State, together with our Emergency Response staff, in addition to regular intrastate travel and night time meetings with community environmental groups. A significant amount of this work is unpaid time. Overnight usage of red plate vehicles currently operates under an approval and monitoring system.

Vehicle acquisitions

3.7.40 Effective control over vehicle acquisition approvals is critical to the overall strategic management of the fleet. In the absence of effective central control over this function, the vehicle fleet may not reflect government needs and therefore may not be cost-effective. In addition, vehicles may not be acquired at the lowest price, with optimum trade-in values.

3.7.41 For the period 1985 to October 1991, the larger budget sector agencies were delegated responsibility for the approval of vehicle replacements within their fleet due to a lack of staff resources at VicFleet to perform this function, and a general move by government towards greater devolution of responsibilities. However, as a result of inefficient practices identified by VicFleet at some agencies, this delegation was withdrawn in October 1991. Since this date, all agencies (except for some non-budget sector agencies such as the State Electricity Commission of Victoria, Melbourne Water Corporation, and the Gas and Fuel Corporation) have been required to obtain VicFleet approval for all vehicle acquisitions, including replacements.

3.7.42 Audit examination revealed that, upon withdrawal of the abovementioned delegation, certain budget sector agencies were given approvals by VicFleet for the acquisition of additional vehicles, to increase their fleet size, without justification.

3.7.43 In addition, due to poor information systems and inadequate resourcing, VicFleet was not in a position to effectively scrutinise all agency requests and justifications for additional or replacement vehicles. Furthermore, a large number of vehicles had been acquired by agencies without VicFleet approval. These included:

- ▶ at least 300 vehicles purchased by various school councils;
- ▶ approximately 30 vehicles acquired by hospitals for utilisation by the Department of Health and Community Services; and
- ▶ 29 vehicles purchased by Holmesglen College of TAFE and Central Gippsland College of TAFE.

3.7.44 The above instances were contributing factors to the increase in the size of the government vehicle fleet.

3.7.45 **Until such time as effective central control is established by the Vehicle Management Division over vehicle acquisitions, the strategic management of the government vehicle fleet will continue to be unsatisfactory. Furthermore, until the current and future government vehicle needs are actually determined, public funds will continue to be wasted due to the existence of excessive vehicles within the fleet.**

- *RESPONSE provided by Secretary, Department of Finance*

The Vehicle Management Division is developing and will implement policy and operational procedures to control an effective vehicle acquisition and disposal system. Such a system is entirely dependent on the possession of the verified asset register that is being developed by the VMD.

Ageing of vehicle fleet

3.7.46 In order to optimise the resale value of vehicles and reduce the overall operating costs of the fleet, it is essential that vehicles are disposed at the optimum changeover time.

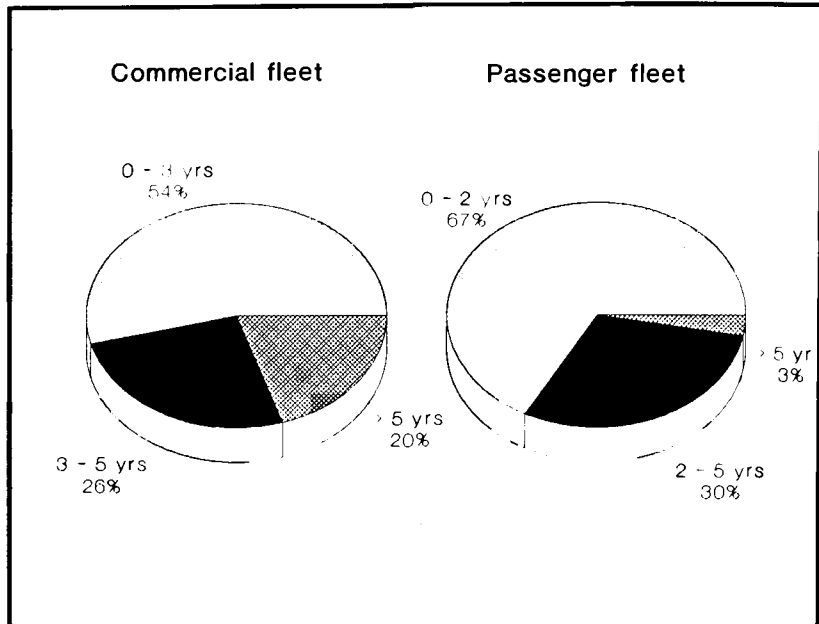
3.7.47 Government policy for the disposal of vehicles provides that:

- ▶ passenger vehicles are to be disposed at 40 000 kilometres or 2 years, whichever comes first;
- ▶ light commercial vehicles are to be disposed at 60 000 kilometres or 3 years, whichever comes first; and
- ▶ VicFleet should be advised of vehicles which are surplus to agency requirements.

3.7.48 Audit examination revealed that agencies had retained vehicles for considerably longer periods than stipulated in the Government policy. Specifically, **33 per cent of budget sector passenger vehicles were retained for greater than 2 years, while 46 per cent of light commercial vehicles were retained in excess of 3 years.** In the case of the Roads Corporation, 42 per cent of its vehicle fleet was aged in excess of 3 years.

3.7.49 Chart 3.7D illustrates the ageing of the budget sector vehicle fleet.

CHART 3.7D
AGEING OF BUDGET SECTOR VEHICLE FLEET



3.7.50 The retention of vehicles beyond their optimum changeover time has adversely impacted on the condition of the fleet and the level of maintenance costs incurred for its upkeep.

3.7.51 Based on vehicle changeover costs incurred by budget sector agencies during 1991-92, audit estimated that the cost to the State of not replacing existing fleet vehicles at the interval stipulated by VicFleet, was around \$15 million.

3.7.52 Reasons provided by agencies for non-compliance with the VicFleet vehicle changeover policies included:

- ▶ budget constraints;
- ▶ disagreement with appropriateness of the policies; and
- ▶ the need for extended retention of certain special purpose vehicles.

3.7.53 The Vehicle Management Division has estimated that funding in the order of \$45 million to \$50 million will be required over the next 3 years to achieve and maintain an ageing profile for the budget sector vehicle fleet which is consistent with the established policy parameters.

3.7.54 To ensure the cost-efficient operation of the government vehicle fleet, it is important that appropriate processes be developed for the timely identification of vehicles requiring disposal, and the actual disposal of these vehicles. Budget allocations should also accommodate such disposals at the optimum time.

- *RESPONSE provided by Secretary, Department of Finance*

The Vehicle Management Division is developing a management information system which flags vehicle replacements according to a vehicle changeover regime based on commercial asset management principles. The system will contribute substantially to achievement of operating and capital cost savings.

MANAGEMENT OF STATE SUPPLY SERVICE

3.7.55 The State Supply Service is a unit of the Department of Finance established in 1988 to rationalise a number of previous departmental supply services, for the purpose of achieving savings for government funded agencies through the centralised purchase and distribution of products, including office equipment, stationery and furniture.

3.7.56 The Service currently serves approximately 4 500 public sector customers, located throughout Victoria, and generates annual sales revenue of around \$26 million. From 1992-93, the Service is anticipated to become self-funding in that it will generate sales revenues sufficient to meet all its operating costs, and will not require support from budgetary appropriations.

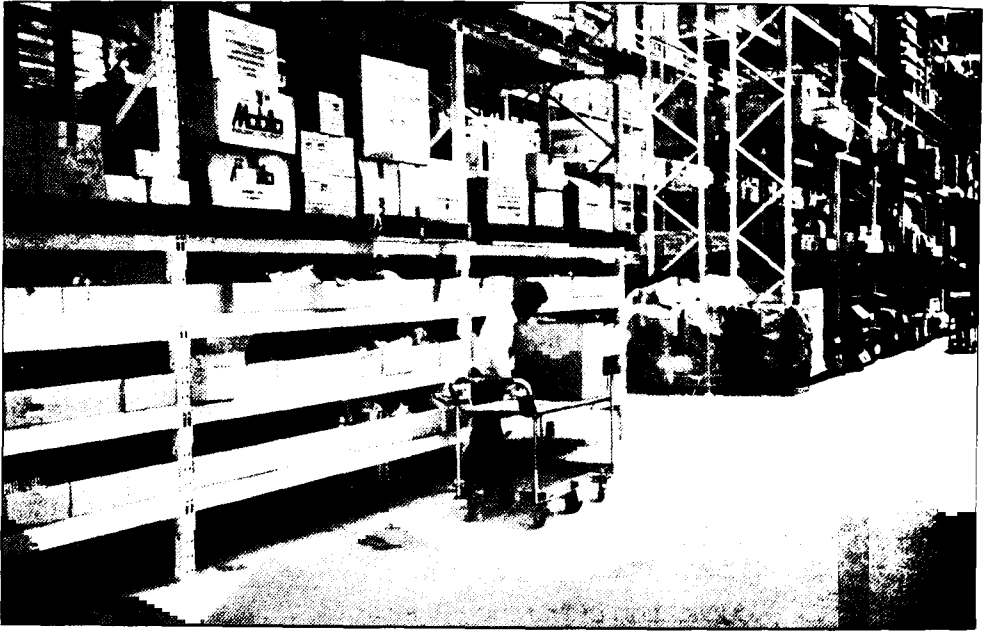
3.7.57 A 1991 management instigated review of Service operations identified a number of significant deficiencies which adversely impacted upon its performance, including:

- ▶ duplication of warehouse facilities;
- ▶ over-staffing within warehousing operations;
- ▶ slow service to customers; and
- ▶ continued involvement in unprofitable product lines, particularly furniture.

3.7.58 In response to these findings, management implemented a number of initiatives aimed at improving the efficiency of the Service, including:

- ▶ the engagement of On-line Distribution Services (a division of Mayne Nickless Ltd), in April 1992, to provide sales order processing, warehousing, replenishment buying and distribution services, on behalf of the Service over a 5 year period;
- ▶ the release for sale of 3 warehouse sites which had an estimated value of \$6 million;
- ▶ significant staff reductions, from 150 at June 1991 to 30 at January 1993, through the Enhanced Resignation Program and redeployment pools; and
- ▶ the closure of the furniture operations in June 1992.

3.7.59 These initiatives have contributed to an improved financial performance by the Service. Specifically, the level of direct government support required to finance Service operations has reduced from \$2.9 million in 1990-91 to \$1.7 million in 1991-92, with no support anticipated for the current financial year. Furthermore, the operating result of the Service, prior to any government support, has improved from a loss of \$1.3 million for 1991-92, to a profit of \$61 000 for the 6 months ending 31 December 1992, and an anticipated profit of \$91 000 for the 1992-93 financial year.



Warehouse and distribution centre at Altona.

3.7.60 Audit carried out a review of the State Supply Service in order to assess the efficiency and effectiveness of its operations.

Overall conclusion

3.7.61 Implementation of significant changes in 1991-92 to the operations of the State Supply Service have improved its financial performance, eliminating the need for continued government support.

3.7.62 Audit found that, on average, the price of products available through the Service were lower than the prices offered by its major competitors. However, as only a small proportion of public sector bodies utilise the Service, there remain significant savings to be made by the public sector from its increased utilisation.

3.7.63 A number of deficiencies have adversely impacted upon the efficiency and effectiveness of the Service, including:

- ▶ poor strategic management resulting from inadequate business planning and marketing;
- ▶ non-usage of longer-term contracts as a means of achieving lower stock purchase costs; and
- ▶ ineffective monitoring of stock levels, contributing to customer orders not immediately met.

3.7.64 Given the substantial potential savings that are available to the public sector from the efficient management and operation of the Service, it is critical that the abovementioned issues be promptly addressed by management.

■ *RESPONSE provided by Secretary, Department of Finance*

The Department of Finance notes the audit comments on the improved performance of State Supply. It is acknowledged that there may be a need to improve some aspects of business planning, and sales and marketing activities.

Poor strategic management of the Service

Overview

3.7.65 The efficient and effective management of any business is characterised by the existence of adequate 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 business objectives.

3.7.66 The audit review of the strategic management of the Service concluded that **the absence of adequate business planning and sales and marketing strategies had adversely impacted upon the effectiveness of the Service in maximising the benefits to the State, in terms of reduced product acquisition costs for government agencies.** This is further discussed below.

Business planning

3.7.67 Essential to the effective achievement of organisational objectives is the development of a comprehensive business plan, which includes:

- ▶ future strategic directions of the organisation;
- ▶ specific targets, such as sales volumes and inventory holdings;
- ▶ detailed strategies and action plans for achievement of organisational objectives, together with timeframes for the achievement of set targets;
- ▶ appropriate performance indicators to enable management monitoring of the progressive implementation of the plan; and
- ▶ a need for the on-going analysis of market trends, including the identification of growth areas and new products.

3.7.68 The audit examination revealed that, while a draft business plan had been prepared by the Service in May 1991, its focus was limited to only a 10 month period which expired in February 1992. In the absence of a long-term business plan since that date, an effective framework was not in place to guide and strategically manage the operations of the Service, both in the medium and long-terms.

3.7.69 **It is important that the Department moves swiftly to develop adequate medium to long-term business planning relating to the future operations of the Service, in order to establish clear directions, targets and strategies to be achieved, so as to optimise its efficiency and effectiveness.**

■ *RESPONSE provided by Secretary, Department of Finance*

The overall assumptions and strategies of the 1991 Business Plan remain valid. The need for further medium and long-term plans will be reviewed. Annual budgeting and monthly monitoring is in place, however, subsidiary target setting and monitoring will be reviewed and strengthened.

Sales and marketing strategies

3.7.70 One of the key objectives of the Service, as stated in its May 1991 draft business plan, was to expand its client base. As a means of achieving this objective, in April 1992, management established a sales and marketing branch to focus on capturing an increased market share.

Audit examination revealed that the lack of sales and marketing strategies had inhibited the effectiveness of the branch in meeting the objectives of the Service, as evidenced by the fact that:

- ▶ sales and marketing action plans had not been developed by the branch to provide defined work programs aimed at increasing market share;
- ▶ the branch had not undertaken any formal forward assessments to identify future needs of current and prospective public sector customers, to ensure that appropriate strategies were developed to satisfy these needs;

- ▶ research had not been conducted since 1991 to determine customer perceptions of the quality of service and product range currently offered; and
- ▶ sales and marketing staff were relatively inexperienced and had not received any formal training relating to the sales function.

3.7.71 These deficiencies, in audit opinion, have contributed to the Service only capturing a small component, presently around 8 per cent, of the total public sector market for services it provides, and placing heavy reliance on its traditional customers, such as the educational institutions, for the sale of its products.

3.7.72 The ability of the Service to increase its business, and therefore maximise expenditure savings to the public sector is significantly dependent upon the development of effective sales and marketing strategies. **Given the current deficiencies in this area, it is critical that management develop comprehensive forward strategies and action plans, including staff development programs for sales and marketing staff, to enhance the effectiveness of the Service.**

- *RESPONSE provided by Secretary, Department of Finance*

Since July 1992, priority in sales planning has been directed at the development of sales reporting and analysis as a prerequisite to a marketing plan; and effective customer contact through sales representatives, to assess their requirements and State Supply performance. It is acknowledged that there are staff training needs which are now being addressed.

Scope for further public sector savings from greater utilisation of the Service

3.7.73 To establish whether the Service was in fact providing savings to the public sector, audit undertook an analysis to determine its price competitiveness with major competitors. The analysis involved a comparison of product prices available through the Service with prices offered by 9 major competitors, and covered approximately 200 commonly used items.

3.7.74 The audit analysis revealed that, on average, the prices offered by the Service were 5 per cent lower than those of its competitors. Accordingly, there were substantial financial benefits to be gained by public sector bodies that utilise the Service for the acquisition of supplies.

3.7.75 Annual spending on stationery and stores consumables by Victorian public sector bodies has been estimated by the Service to be in the order of \$250 million. Based on this estimate, **potential annual savings of around \$11 million are available to public sector bodies from the full utilisation of the Service for the acquisition of such products.**

3.7.76 Action needs to be taken to increase the awareness of public sector bodies of the price competitiveness of the Service, to ensure that the optimum benefits are realised.

Inventory purchasing procedures

3.7.77 The Service stocks approximately 2 500 product lines, valued at \$4 million, which are purchased from around 350 suppliers. The majority of products are purchased through approximately 270 annual contracts entered into as a result of tendering processes.

3.7.78 Current purchasing arrangements involve the Service entering into annual contracts for the acquisition of products at best available prices. However, audit considered that there was scope for entering into longer-term contracts for certain products, resulting in further cost reductions from volume buying and administrative efficiencies, which would benefit both the Service and its customers. In addition, the current contracts let by the Service did not contain any penalty provisions relating to supplier performance, such as the timely delivery of orders.

3.7.79 **The Service needs to investigate the viability of establishing longer-term supplier contracts, which encompass performance requirements and penalties, to ensure that products are purchased at minimum cost.**

- *RESPONSE provided by Secretary, Department of Finance*

The audit recommendation is accepted and work has commenced to establish many current contracts for a 2 year period. In some cases, shorter contracts are let where there is risk of obsolescence or changing client demands. Supplier performance reporting is presently under review.

High incidence of stock-outs

3.7.80 Essential to the effective operation of any stores function is the ability to satisfy customer demand, while keeping inventory levels and warehousing costs to a minimum. The achievement of this objective requires on-going review of inventory levels and the periodic re-assessment of optimum re-order points.

3.7.81 Audit observed that **sufficient stock was not on hand to immediately fully meet around 30 per cent of customer orders received by the Service.** A key contributing factor for this occurrence was that stock re-order points had been set at levels which were insufficient to ensure the immediate availability of required stock items.

3.7.82 **Given the prevalence of stock-outs, which adversely impact upon the reliability of the Service, there is a need for the Service to identify key stock items susceptible to such situations and to set related re-order points at levels which ensure the on-going availability of such products.**

- *RESPONSE provided by Secretary, Department of Finance*

The audit recommendations are given qualified endorsement although it should be noted that customers reliably receive over 95 per cent of ordered items. With multiple item orders - sometimes exceeding 100 lines - it is quite possible for a number of orders to be incompletely filled. Improved inventory management is receiving management attention, but many factors impinge on inventory management in addition to re-order points.

Schedule A.COMPLETED/INCOMPLETE AUDITS

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
FINANCE				
Department of Finance	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	29 October 1992	30 October 1992
Emergency Services Superannuation Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 November 1992.	28 October 1992	6 November 1992
Government Employee Housing Authority	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 31 December 1992.	22 December 1992	24 December 1992
Holmesglen Constructions Superannuation Plan	30 June 1992	No reporting requirements. Audit conducted at request of Treasurer.	24 December 1992	18 January 1993
Hospitals Superannuation Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 November 1992.	8 October 1992	30 October 1992
Local Authorities Superannuation Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	25 September 1992	30 September 1992
Metropolitan Fire Brigades Superannuation Board (a)	31 December 1991	30 September. <i>Annual Reporting Act 1983, s.9.</i>	29 April 1992	13 May 1992
Parliamentary Contributory Superannuation Fund	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 November 1992.	26 November 1992	30 November 1992
State Casual Employees Superannuation Board	30 June 1991	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 28 April 1992.	28 April 1992	29 April 1992
State Casual Employees Superannuation Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 31 December 1992.	29 December 1992	31 December 1992

Schedule A.COMPLETED/INCOMPLETE AUDITS - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>	
<table border="1"> <tr> <td>Completed audits - continued</td> </tr> </table>					Completed audits - continued
Completed audits - continued					
State Employees Retirement Benefits Board	30 June 1992	30 September. <i>Annual Reporting Act</i> 1983, s.9. Extension granted to 31 December 1992.	31 December 1992	31 December 1992	
State Superannuation Fund	30 June 1992	30 September. <i>Annual Reporting Act</i> 1983, s.9. Extension granted to 30 November 1992.	5 October 1992	14 October 1992	
Surveyors Board of Victoria	30 June 1992	No date specified. Audit conducted under the authority of the <i>Surveyors Act</i> 1978, s.28.	30 October 1992	30 October 1992	
Transport Superannuation Board	30 June 1992	30 September. <i>Annual Reporting Act</i> 1983, s.9. Extension granted to 30 November 1992.	11 November 1992	18 November 1992	

(a) Merged with Emergency Services Superannuation Fund on 1 January 1992.

SCHOOLS DENTAL HEALTH SERVICE

- ▶ Due to the failure of the Dental Health Service and the Department of Health and Community Services to adequately examine alternate service-wide delivery methods, such as outsourcing, taxpayers could not be assured that current school dental health services were provided in the most cost-efficient manner.

Paras 3.8.19 to 3.8.25

- ▶ The dental health of children participating in the Victorian schools dental health program was generally consistent with that of children participating in similar programs in New South Wales, South Australia and Tasmania.

Paras 3.8.26 to 3.8.35

- ▶ Only 67 per cent of eligible school children had participated in the schools dental health program, which was the lowest of all Australian States and Territories except for New South Wales. This low rate of participation is likely to contribute to a poorer dental health outcome for the State.

Paras 3.8.36 to 3.8.44

- ▶ The failure of the Service to fully identify and treat children with high dental needs resulted in one of its major objectives not being achieved, thereby contributing to a potentially lower dental health outcome for Victorian children.

Paras 3.8.45 to 3.8.54

MANAGEMENT OF THE KINDERGARTEN PROGRAM

- ▶ An increase in the level of teacher contact hours and revised work arrangements would enhance opportunities for improving the efficiency of kindergarten services in Victoria and could lead to substantial savings in government subsidies.

Paras 3.8.86 to 3.8.89

- ▶ There is scope for improvement in the assistance provided by the Department to kindergarten management bodies in terms of curriculum development.

Paras 3.8.90 to 3.8.106

- ▶ The absence of accountability arrangements for kindergartens operated by municipal councils needs to be addressed.

Paras 3.8.112 to 3.8.119

Details of ministerial responsibility within the Health and Community Services portfolio are provided in Table 3.8A. In addition to the Department of Health and Community Services, the entities listed below were subject to audit by the Auditor-General.

TABLE 3.8A
MINISTERIAL RESPONSIBILITY WITHIN THE
HEALTH AND COMMUNITY SERVICES PORTFOLIO

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Aboriginal Affairs (a)	-
Aged Care (a)	-
Community Services (a)	-
Health	Ambulance Officers Training Centre Ambulance Services (7) Mental Health Review Board Prince Henry's Institute of Medical Research Psychosurgery Review Board Public hospitals and nursing homes (142) Victorian Health Promotion Foundation Victorian Nursing Council

(a) Minister has responsibility for certain functions of the Department of Health and Community Services.

Comments on matters of significance arising from the audit of certain of the above entities is provided below.

DEPARTMENT OF HEALTH AND COMMUNITY SERVICES

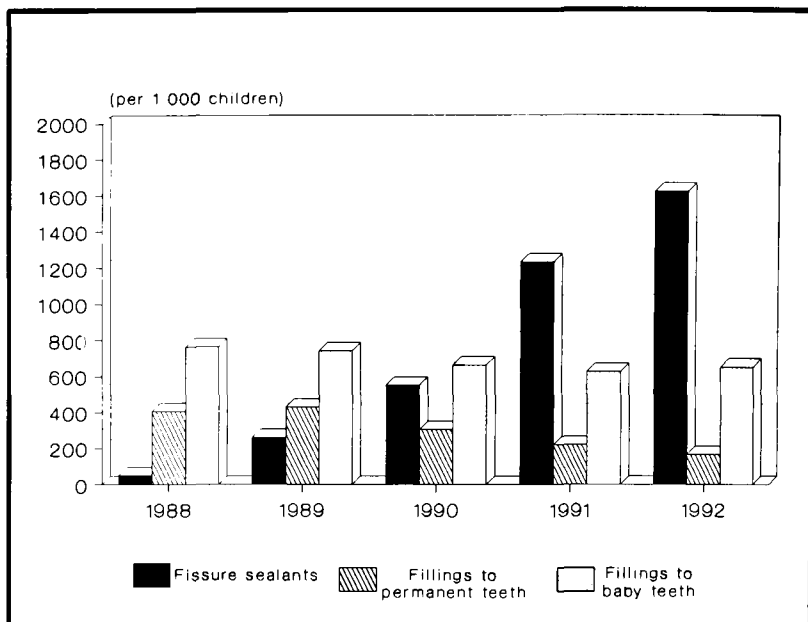
SCHOOLS DENTAL HEALTH SERVICE

3.8.1 As part of the Government's children's health program, free dental services have been offered, over a number of years, to specific groups of primary school children by the Schools Dental Health Service (SDHS), a unit of the Department of Health and Community Services. These services, which have been provided across the State in 5 rural and 9 metropolitan areas, have included dental examinations, fillings and *fissure sealant* treatments, which seal the pits and grooves occurring in emerging molar teeth.

3.8.2 The overall aim of the SDHS has been to improve the long-term dental health of Victorian children.

3.8.3 Prior to 1988, the focus of the SDHS was on the provision of curative and restorative dental treatments, such as fillings. However, since that time, the use of *fissure sealant* treatments, a preventive approach to dental care, has become the most common service provided. This change in the focus of dental services, the impact of which is illustrated in Chart 3.8B, resulted from a SDHS policy to emphasise preventative care for developing permanent teeth in preference to curative and restorative treatments.

CHART 3.8B
DENTAL CARE PROFILE



Source: Schools Dental Health Service.

3.8.4 An audit review was undertaken of the Schools Dental Health Service program, which operated during the 1991 and 1992 calendar years, in order to assess its efficiency and effectiveness.

3.8.5 The 2 year program included the provision of dental treatment to school children:

- ▶ in grade prep through to grade 4, as well as to those children in grades 5 and 6 who:
 - attended schools located more than 34 kilometres from the nearest private dental practice; or
 - had parents or guardians who were recipients of Commonwealth health benefits; and
- ▶ assessed as having high dental needs, every 12 months, and to lower risk children once every 24 months.

3.8.6 In the 2 calendar years covered by the program, the following *priority* groups were designated for special attention:

- ▶ children enrolled at schools participating in the Department of Education's *Disadvantaged Schools* program;
- ▶ children attending designated *remote* schools; and
- ▶ children with high dental needs.

3.8.7 In excess of 276 000 children attending 1 860 schools were treated under the program at a cost of \$26 million.

- **RESPONSE** provided by Secretary to the Department of Health and Community Services

An emphasis on prevention applied prior to 1988 mainly through dental health education sessions conducted in classrooms (occupying about 10 per cent of a dental therapist's time) and the application of topical fluoride to teeth.

In addition, service delivery was extended to all children in grades 5 and 6 in 5 Dental Areas from the beginning of the 1992 school year.

Overall conclusion

3.8.8 Current dental research supports the continued operation of State dental health programs, aimed at school children, as an effective means of enhancing the overall standard of community dental health.

3.8.9 The review found that, over recent years, there has been considerable improvement in the cost-efficiency of providing school dental services. However, the Department had not undertaken a service-wide review to determine whether alternate service delivery methods, such as out-sourcing, provided opportunities to further reduce costs to taxpayers.

3.8.10 The Schools Dental Health Service program spanning the 1991 and 1992 calendar years achieved a number of positive outcomes. However, the poor participation by school children, in comparison with other States, precluded the program from achieving its optimum result of treating all eligible children.

3.8.11 To ensure that the dental health outcomes and cost-efficiency of the program are maximised, it is important that action be taken by the Service to improve participation rates and to determine the potential for cost savings from the establishment of alternate program delivery arrangements.

Is there a need for a schools dental health program?

3.8.12 Following the loss of baby (deciduous) teeth, permanent teeth develop in 2 stages. Firstly, around the age of 7, when front teeth and first molar teeth emerge, and secondly, around the age of 12, when eye teeth, pre-molars and second molars emerge. Dental hygiene practices developed by children prior to the age of 12, together with preventative and curative treatments provided by dentists, significantly determine the quality of the permanent teeth of children.

3.8.13 As the development of permanent teeth corresponds with the period in which children attend primary school, and the early part of secondary school, the school environment provides a convenient place to reinforce and encourage the development of appropriate practices to improve the overall long-term dental health of future adults.

3.8.14 A study initiated by the Commonwealth Government, and undertaken by the National Oral Health Unit, in 1988 concluded that public dental health programs contributed to the overall improvement of the oral health of children.

3.8.15 The on-going relevance of a schools dental health service was also highlighted in the 1992 Commonwealth Government's National Health Strategy Report entitled *Improving Dental Health in Australia* which stated that there was a:

"... need for an expansion of school dental services provided by State Governments. The dental treatment needs of children in Victoria and New South Wales are substantially higher than in other States. Without school dental services, a significant proportion of children would be expected to receive the inadequate and episodic treatment now suffered by many adults. In this light, the extension of the school dental service in Victoria and New South Wales would be highly desirable".

3.8.16 The aforementioned studies concluded that **there are significant advantages to the long-term dental health of the community from the operation of a comprehensive schools dental health program.**

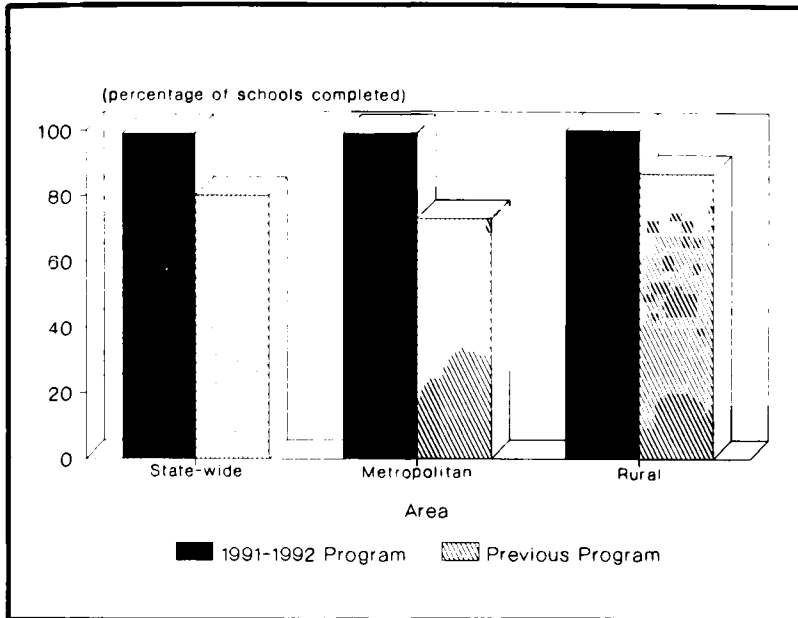
Positive outcomes of the program

3.8.17 The 2 year schools dental health program conducted by the SDHS, which concluded in December 1992, produced the following positive outcomes:

- ▶ a 93 per cent treatment completion rate for participating children;
- ▶ higher participation rates for children attending *disadvantaged* and *remote* schools than for those attending other schools;
- ▶ *fissure sealant* treatments totalled in excess of 395 000, which exceeded the target of 282 000 by 40 per cent; and
- ▶ the implementation of productivity and efficiency measures, such as reductions in effective full-time staff employed by the SDHS, resulting in an 8 per cent reduction in the average cost of dental examinations per child since January 1991.

3.8.18 In addition, under previous programs, only 80 per cent of schools were visited by dental teams within the prescribed program period. **However, during the recent program, this situation substantially improved, with 99 per cent of schools (all but 5) visited by the end of December 1992.** A comparison of school visitations under the 1991-1992 program with the previous program is provided in Chart 3.8C.

CHART 3.8C
SCHOOL VISITATION COMPLETION RATES



Source: SDHS Schools Participation Information System.

Is the program provided in the most cost-efficient manner?

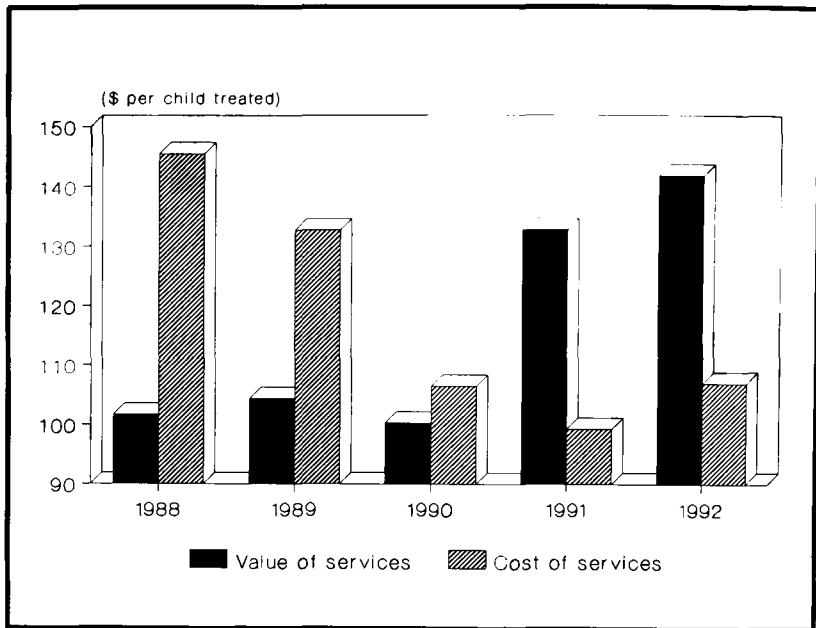
Efficiency of current service provision

3.8.19 A key indicator adopted by the SDHS to evaluate the efficiency of its dental operations is the comparison of the value of services provided with the costs associated with such services.

3.8.20 The value of dental services provided to children is determined by applying the standard rates set out in the Commonwealth Department of Veterans' Affairs (DVA) scale of fees to each particular category of service provided. This fee scale is the basis of payments by the DVA to consulting dentists for services provided to DVA clients. The fee scale has been adopted by the SDHS in the absence of established standard fees for private dental services. Service costs are essentially cash outlays with no provision for overheads such as depreciation or superannuation liability.

3.8.21 The audit analysis revealed that, since 1988, the cost of providing school dental services (excluding overheads) has reduced relative to the value of services provided, as shown in Chart 3.8D.

CHART 3.8D
VALUE AND COST OF SERVICES
(in constant 1992 prices)



Source: SDHS Victoria.

3.8.22 The chart illustrates that, prior to 1990, costs associated with the provision of dental services exceeded the value of such services. However, improved operator productivity since that time has reversed the situation to the extent that, by the end of December 1992, the value of services provided per child exceeded costs, excluding overheads, by 33 per cent.

Consideration of alternate service delivery methods

3.8.23 Under current arrangements, dental therapists are the primary providers of SDHS services. These therapists are trained to provide a range of services, under the supervision of a qualified dental officer, and are required to be licensed by the Victorian Dental Board. In addition, the *Dentists Act 1972* stipulates that these **therapists can only be employed by the SDHS to provide school dental services under the direction and control of the Minister for Health.**

3.8.24 Although the provision of school dental health services has been supported by recent Commonwealth studies, the audit review established that the SDHS, and the Department, had not adequately compared the service-wide cost-efficiency of exclusively using in-house resources, such as dental therapists, with alternate methods of service delivery, such as contracting private dentists to provide dental services at a scheduled fee.

3.8.25 As a consequence of the failure of the SDHS, and the Department, to examine alternate service delivery methods, taxpayers could not be assured that current services are provided in the most cost-efficient manner.

- *RESPONSE provided by Secretary to the Department of Health and Community Services*

Alternative modes of delivery have been considered (e.g. a capitation scheme involving private dentists) but have proved to be not cost-effective. The experience in other States reinforces this view, except for remote locations involving high personal expenses of staff. Nevertheless, the feasibility of piloting cost beneficial alternative modes of service delivery will continue to be explored.

Coverage of the 1991-1992 program and dental health outcomes

3.8.26 As previously mentioned, the SDHS offers dental care to all school children in grade 4 and below, plus disadvantaged children in grades 5 and 6. These services are normally offered once in a 24 month period although, for children assessed as having high dental needs, care is offered on a 12 month basis.

3.8.27 No services are provided to secondary school students although as previously indicated the development of permanent teeth, such as eye teeth, pre-molars and second molars, can continue up to age 12 (year 8).

3.8.28 Public dental services to school children are also provided in other Australian States and Territories. Therefore, comparisons can be made of the eligible school age groups (target groups) and the frequency of service provision (recall periods) between Victoria and other States.

3.8.29 Table 3.8E lists the target groups and recall periods of various State and Territory school dental services.

TABLE 3.8E
SCHOOL DENTAL HEALTH SERVICES, TARGET GROUPS AND RECALL PERIOD

<i>State</i>	<i>Target groups</i>	<i>Recall period</i>
Victoria	Prep - grade 4 Disadvantaged and remote schools, grades 5 and 6	24 months or 12 months for high risk children
New South Wales	All primary grades All secondary years (voluntary)	12 months
Queensland	All primary grades	12 months
South Australia	All primary grades All secondary years	14 months
Western Australia	All primary grades Secondary years 8, 9, 10	12 months
Tasmania	All primary grades All secondary years	12 months
Northern Territory	All primary grades All secondary years (voluntary)	6-18 months
Aust. Capital Territory	All primary grades Health Card Holders up to year 12.	6-18 months

Source: State Dental Health Services.

3.8.30 The table highlights that the coverage of dental services provided to Victorian school children is limited, in comparison to services provided in other States. This is a result of a departmental decision to restrict the program to primary school children. However, the Department could not provide audit with government policy supporting this action. While the specific focus of the Victorian program is on primary school children up to and including grade 4, other States provide their schools dental services:

- ▶ to all primary school grades;
- ▶ over a more frequent period; and
- ▶ in most instances, to secondary school students.

- *RESPONSE provided by Secretary to the Department of Health and Community Services*

Restriction of the school dental service to primary school children conforms with Government policy determined in the early 1980's. Resources have only ever been provided for the provision of dental care to children in certain primary school grades.

Victoria has always had a relatively lower level of resources for its school dental service compared with those States which provide dental care to secondary school students. In 1991 the school dental resources available in Victoria per primary school child was \$33 compared with \$72 in South Australia, \$67 in Western Australia, \$54 in the Northern Territory, \$52 in Queensland and \$46 in the A.C.T.

Pre-school dental clinics to a limited number of local municipalities, which have been subsidised by the Department for over 20 years, need to be included.

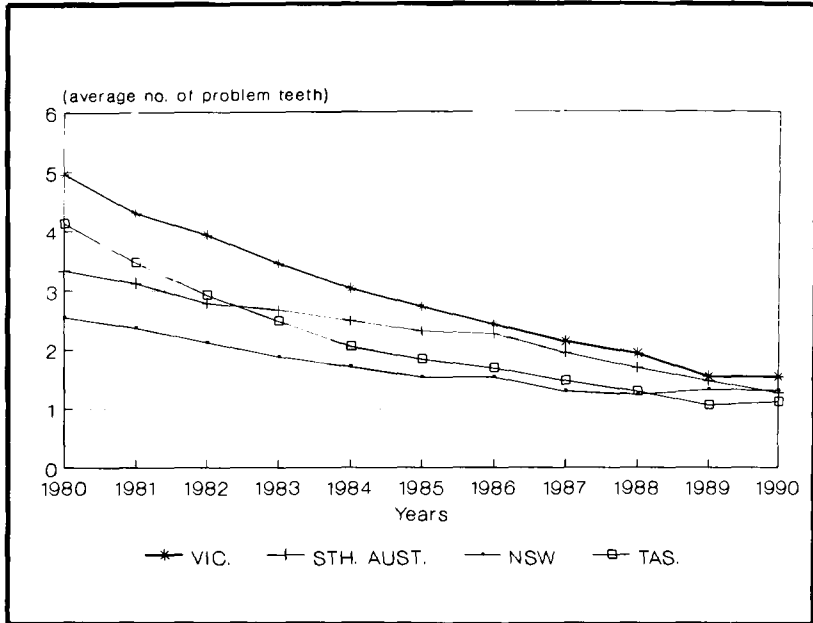
Impact of lower service provision

3.8.31 Despite the lower coverage provided by the Victorian program, dental health indicators examined by audit highlighted that the dental treatment needs of Victorian children participating in the SDHS programs were generally consistent with children participating in similar programs in New South Wales, South Australia and Tasmania.

3.8.32 The most common measure of children's oral health is the average number of decayed, missing and filled teeth, referred to as the DMFT score, for a particular age group. The DMFT score for children aged 12, which includes only those children participating in school dental programs, is a significant oral health indicator because permanent teeth are generally fully developed by that age.

3.8.33 Chart 3.8F shows the annual DMFT score for 12 year olds participating in State dental health programs in Victoria and selected States for the 10 year period to 1990, the most recent available data from the Australian Institute of Health.

CHART 3.8F
DMFT SCORE FOR 12 YEAR OLD CHILDREN



Source: Australian Institute of Health Dental Research Unit.

3.8.34 The chart indicates that the dental health of 12 year old children in all States has significantly improved over the 10 year period to 1990 and that the incidence of dental decay in Victorian children is similar to, but still marginally in excess of, the other States included in the comparison.

3.8.35 However, it should be noted that the DMFT score for Victoria shown in Chart 3.8F reflects the outcomes of dental treatments performed on primary school children prior to the 1991-1992 program. Given the substantially different direction and priorities of that program compared with previous programs, it is likely that the results of the 1991-1992 program will be reflected in an improved Victorian DMFT score, when the participating children reach the age of 12, in some 3 to 5 years time.

- *RESPONSE provided by Secretary to the Department of Health and Community Services*

The dental treatment needs of Victorian primary school children is not generally consistent with the dental treatment needs of school children in the other nominated States.

In those States which have accessible public dental programs for pre-school children (e.g. S.A.), children at school entry have far less dental treatment needs than in Victoria and New South Wales which have limited pre-school public dental services. In 1990, 5 and 6 year olds in Victoria and New South Wales had twice the proportion of untreated decayed teeth than South Australian children in this age group.

A number of factors need to be considered when making comparisons of 12 year old DMFT data between States. The higher Victorian scores reflect the relatively later introduction of fluoridation in Victoria, the school dental targeting of more disadvantaged areas in the early 1980's and long periods between visits in some areas.

The 1989 and 1990 Victorian DMFT data is not statistically valid because of unrepresentative and small samples.

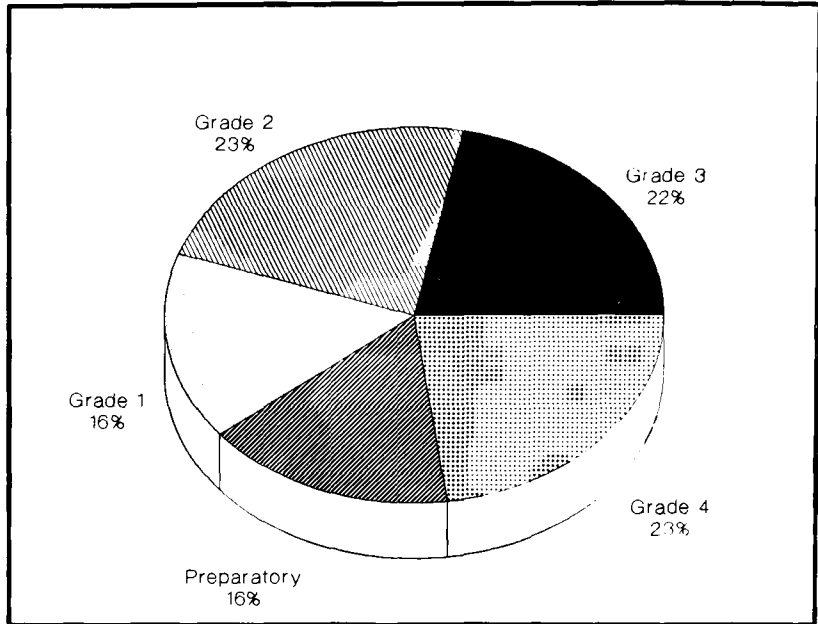
Participation rates of children

3.8.36 In order to maximise the benefits of the 1991-1992 program, in terms of improved community health, a high rate of participation by eligible children was desirable.

3.8.37 As previously commented, the 1992 Commonwealth National Health Strategy Report, dealing with dental health in Australia, indicated that dental problems in school age children were higher in those States which had poor dental program coverage. The Report concluded that the Victorian and New South Wales schools dental programs had the poorest coverage of all Australian States and it would be highly desirable for services to be expanded in those 2 States. This conclusion was based primarily on the fact that the Victorian program was restricted to primary school children, and was adversely impacted by comparatively low participation rates.

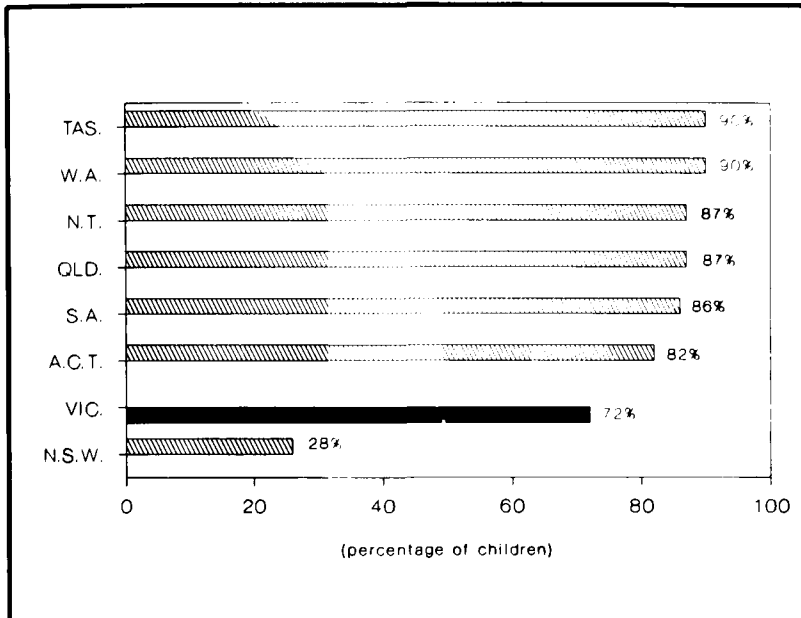
3.8.38 The audit examination revealed that only 67 per cent of eligible school children had participated in the 1991-1992 program, with at least 86 000 children not participating, as shown in Chart 3.8G.

CHART 3.8G
NON-PARTICIPATING CHILDREN, SCHOOL GRADE NUMBERS



3.8.39 As a basis for evaluating the participation rate achieved in Victoria, this rate was compared with equivalent rates for other States for 1991, which is the most recent data available. Chart 3.8H illustrates the results of this comparison.

**CHART 3.8H
PARTICIPATION RATES,
ELIGIBLE PRIMARY SCHOOL CHILDREN,
VICTORIA AND OTHER STATES,
1991**

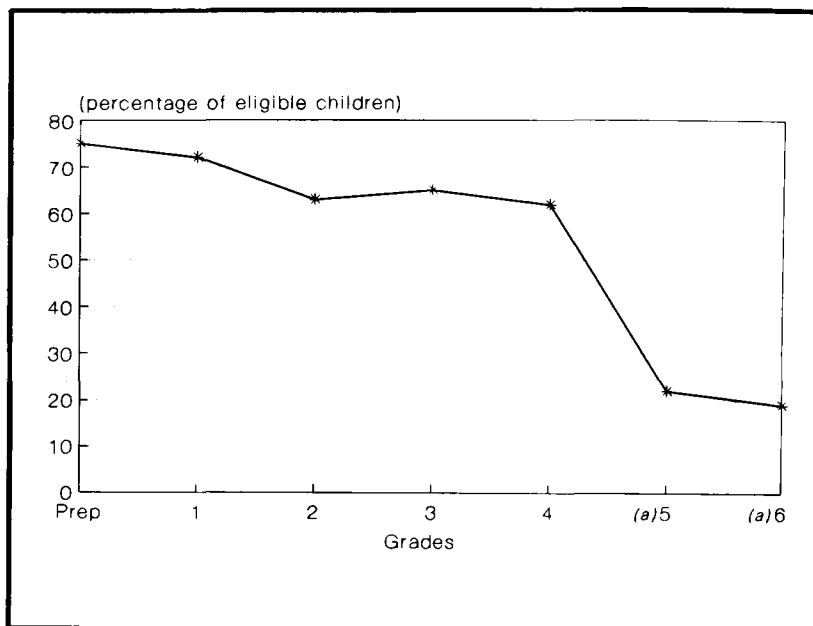


Source: Participation rates as provided by the various State Dental Health Services.

3.8.40 The chart indicates that, with the exception of New South Wales, Victoria's participation rate for eligible school children was the lowest compared with other Australian States and Territories. The low participation rate for NSW is a consequence of different arrangements for the provision of dental care to school children in that State.

3.8.41 Further analysis of children's participation rates in Victoria revealed a decline in participation after the preparatory grade, as shown in Chart 3.8I.

CHART 3.8I
PARTICIPATION RATES FOR THE 2 YEAR PROGRAM
(ended 31 December 1992)



(a) Service to grades 5 and 6 only provided to children attending disadvantaged and remote schools.

Source: SDHS Victoria.

3.8.42 The chart highlights that the progressive decline in school grade participation rates is a general tendency throughout the 1991-1992 program. The trend was evident within each dental area and was also observed in priority groups reviewed by audit, such as children attending *disadvantaged* and *remote* schools. Factors impacting on participation rates of eligible Victorian school children during the program were:

▶ *Recall periods*

A 2 year gap between services for children with normal teeth provided a disincentive for parents to continue using the service. In other States, school dental services were generally twice as frequent as the Victorian service.

▶ *Consent policies*

Parental consent was obtained each time an offer of service was made. Restrictive features inherent in the current process included:

- the existence of multiple consent options allowing for single or multiple services to be provided; and
- no follow-up processes to research the causes of consent forms not being returned.

By comparison, other States' dental services generally operated more flexible consent policies. For example, in South Australia parents were invited to enrol their children in the dental service at preparatory grade. Enrolment was then presumed to continue throughout the child's school life unless the parents indicated otherwise.

▶ *Clinical settings*

During the program, visits by *mobile surgical vans* to schools (the main facility used to provide services) were reduced by 30 per cent due to budgetary considerations and a desire to reduce clinical *down-time* associated with van movements between schools. Most schools not visited by vans were visited by dental teams under *white chair* operations in which only examinations were provided. Treatment needs were subsequently provided at larger schools serviced by vans.

Participation and treatment completion rates for schools serviced by *white chair* operations were 7 per cent lower than the participation rates for schools directly visited by *mobile surgical vans*.

▶ *Lack of management strategies*

The improvement of participation rates by eligible children had not been given a high priority by SDHS management. For example, service levels were developed by dental area management on the basis of an anticipated 30 per cent non-participation rate. **No data existed within the SDHS to test the presumption that children declining the offer of dental services were receiving sufficient care under private dental arrangements.** Strategies within the SDHS to analyse and improve overall participation rates had not been developed.

3.8.43 Lower participation rates are likely to contribute to a poorer dental health of Victorian school children. Declining participation rates for post-preparatory grade children are of concern because it is in these years that permanent teeth are developing. Such age groups should be a primary focus of services provided by the SDHS.

3.8.44 **To assist in achieving maximum public benefit from the schools dental health program, the SDHS should develop strategies to improve participation rates at all school grade levels.** Such strategies could include an amendment to the current parental consent policy to require only initial consent for all future treatments, improvements to the notification to parents of available SDHS services, and research into the causes of non-participation.

- *RESPONSE provided by Secretary to the Department of Health and Community Services*

A higher participation rate may mean that more children currently attending private dentists will opt for the school dental service - or use both services which is undesirable. The Department will concentrate on high risk target children who are currently receiving no dental care from either the private or public sector.

A research project has commenced to determine whether non-participants in the school dental service are receiving adequate dental care elsewhere.

The age groups which are most important to access for the dental health of the permanent teeth are the 6-7 and 11-13 age groups. This is when the first permanent molars (6-7 years) and the second permanent molars (11-13 years) erupt and when fissure sealants can be placed.

To a considerable extent, the interstate participation rates reflect the level of resources available to the school dental service in those States over a period of time.

There is no evidence to suggest that the 2 year cycle is too long for the majority of primary school children. Most importantly, Dental Health Services targets high risk children who are recalled every 12 months - or less if necessary. With the general improvement in the dental health of primary school children, some other States are lengthening their standard recall periods.

Consent is obtained for an initial examination and then for any subsequent treatment, if required, to meet legal requirements for informed consent. The Department does not consider that the South Australian practice adequately provides for informed consent.

The participation of grade 2 children was lower in 1991 because not all grade 2 children were eligible for care in this year.

Treatment of children with high dental needs

Patient treatment levels

3.8.45 A key component of the recent program was the offer of treatment every 12 months to children assessed as having high dental needs. The criteria adopted for the identification of children with high dental needs were developed by the SDHS at the commencement of the program, in conjunction with dental area managers. The criteria included a condition that extra care should be offered within 12 months if, on examination, the child had 4 or more teeth requiring treatment for dental decay.

3.8.46 At the end of December 1992, 13 600 children had been assessed as having high dental needs and offered treatment on the 12 month recall basis. Notwithstanding this, information maintained by the SDHS suggests that a substantial number of children with high dental needs were not offered additional treatment.

3.8.47 The information referred to above was derived from a dental survey jointly conducted by the SDHS and the Australian Institute of Health in 1991, which disclosed the percentage of children for each age group with 4 or more decayed teeth on a dental area basis. Calculations by audit indicated that if these percentages were compared to the number of children receiving care over the recent program, **up to 13 000 additional children may have been eligible for treatment on a 12 month recall basis.**

3.8.48 Commenting on the audit estimates, the SDHS advised that the statistical analysis conducted by audit may not necessarily be indicative of children with high dental needs, in that:

- ▶ the professional judgement of dental operators is relied upon when assessing further treatment needs; and
- ▶ circumstances can exist where treatment is not required although the criteria have been met.

3.8.49 However, the SDHS has acknowledged the need to further address this area and is currently re-assessing and updating assessment guidelines and criteria for the identification of children with high dental needs.

Treatment completion rates

3.8.50 Details of children identified as having high dental needs are recorded in dental areas where appointments for subsequent recall treatment are managed. The SDHS policy is that the recall period must not exceed 12 months for these children.

3.8.51 Given the high dental needs of children on 12 monthly recall, it would be expected that treatment completion rates should be substantially high.

3.8.52 An analysis of treatment completion rates for children on recall up to June 1992 was undertaken by SDHS management in late 1992 which indicated that **the overall treatment completion rate for this group was only 56 per cent, compared with 93 per cent for the entire program.**

3.8.53 According to the SDHS, the relatively low treatment completion rates for children identified with high dental needs resulted from:

- ▶ a lack of understanding of the policy by parents and Area Dental Officers;
- ▶ the failure of parents to keep appointments; and
- ▶ inadequate systems in dental areas to effectively manage the recall program.

3.8.54 **A failure to improve treatment completion rates for children with high dental needs may compromise the overall effectiveness of future programs.** However, it is recognised that the SDHS management has recently reviewed strategies to improve treatment completion rates and revised processes and systems in dental areas to aid in the management of recall patients.

- **RESPONSE** provided by Secretary to the Department of Health and Community Services

The 12/24 month service delivery program was commenced in January 1991 in most Areas, but some Areas started the program as late as May 1991. Therefore, the first recalls of children with high dental needs did not commence until early 1992.

Dental Health Services realises that targeting high risk children is a key aspect of its service delivery program and will continue to promote and monitor the targeting of high risk children.

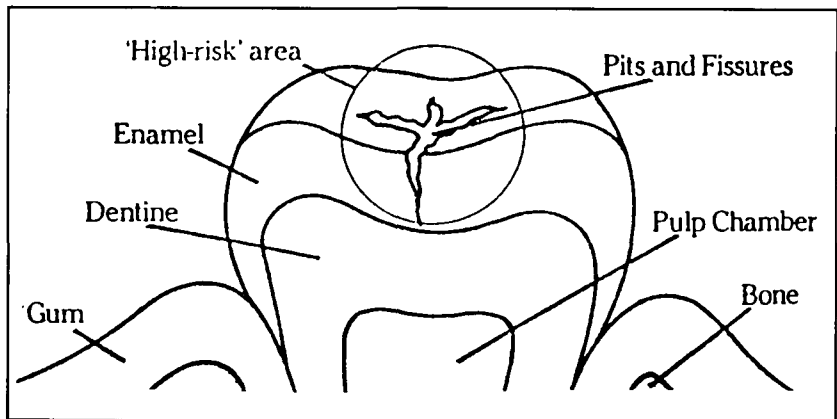
Treatment completion rates are difficult to achieve for high risk children because these children, recalled on a 12 month basis, often have to travel for an appointment to a mobile or fixed clinic at another school. Some other States have a number of fixed clinics logistically located which enables ready access on an appointment basis.

Nevertheless, Dental Health Services has streamlined procedures for recalls and, within resource constraints, will ensure that high risk children are recalled to a clinic as close as possible to their home or school.

Some single vans will be converted to operator drivable vans to ensure more ready access for high risk recalls in rural locations.

Fissure sealant treatment program

3.8.55 The current fluoridation of most water supplies and the advanced development of dental products reduces tooth decay by protecting the smooth surfaces of teeth. However, significant decay occurs in the fissures (pits and grooves) of molars.



Molar teeth profile - high risk surface areas.

3.8.56 Fissure sealants are therefore used as a means of preventing the accumulation of food debris and bacteria in tooth areas where decay most often occurs and, according to clinical research, can prevent decay for up to 10 years.

3.8.57 As a preventive measure, the most critical teeth to protect (seal) are the first and second molars which develop usually at ages 7 and 12, respectively. These ages correspond to grade 2 in primary school and year 8 in secondary school. Clinical research indicates that the application of a *fissure sealant* is more effective at the time of emergence of these teeth when there has been little opportunity for decay to commence.

3.8.58 The SDHS commenced providing *fissure sealant* treatments in 1988. However, from January 1991, these services were specifically directed to grade 2 children so that treatments could be applied to developing first molars. In excess of 395 000 *fissure sealant* treatments were provided to children participating in the program, which was 40 per cent above the established target.

3.8.59 An audit examination of the SDHS *fissure sealant* treatment service provided between January 1991 and December 1992 disclosed that:

- ▶ as a consequence of the SDHS decision to direct services to primary school children, treatment was not provided to secondary school students although second molars generally develop when children are in year 8; and
- ▶ only 63 per cent of grade 2 school children participated in the service.

3.8.60 The low participation rate of grade 2 children was a poor outcome because:

- ▶ the coverage of children in this age group for *fissure sealant* treatment was a major objective of the program;
- ▶ in normal circumstances, services will only be offered once every 2 years, during which time there was a risk that decay may commence in first molars making future sealant treatment ineffective; and
- ▶ services to 12 per cent of grade 2 children were not offered because of the need for 5 dental areas to complete school visitation arrears carried over from a previous program.

3.8.61 To improve the effectiveness of the *fissure sealant* program in reducing the incidence of dental decay in young adults, which is impacted upon by the condition of molar teeth, the SDHS should consider extending its services to those students in secondary schools with untreated second molar teeth. In addition, the implementation of the various strategies outlined in paragraph 3.8.44 will be important to improving participation by grade 2 children in the *fissure sealant* treatment program.

- *RESPONSE provided by Secretary to the Department of Health and Community Services*

It would not be feasible to limit care to secondary students to solely the placement of fissure sealants. The Department considers that services should be available first to children in all primary school grades before it extends dental care to secondary students.

Participation rates of grade 2 children were relatively low in 1991 because the 12/24 month program did not commence in some Areas till up to 5 months from the start of the year, therefore, not all grade 2 children were eligible for care in that year.

MANAGEMENT OF THE KINDERGARTEN PROGRAM

Background

3.8.62 The Office of Preschool and Child Care was established in November 1990 within the former Department of Community Services and was responsible for administering the kindergarten program up to October 1992. Since that date, responsibility for the program has rested with the Children and Family Services Division of the Department of Health and Community Services.

3.8.63 Under government policy established for a number of years, the purpose of the program is to ensure that all 4 year old children in Victoria have access to one year of affordable preschool education.

3.8.64 Expenditure under the program in 1991-92 totalled \$62.7 million (1990-91, \$63.8 million) and principally involved salaries of 3 500 kindergarten teachers and assistants employed in 1 260 preschool centres operated by municipal and community organisations. In line with the aim of the program, these centres provide preschool education to around 60 000 Victorian children in the year prior to their entry to school.

3.8.65 The audit review covered management of the kindergarten program including service delivery arrangements, administrative procedures and accountability of centres.

Overall conclusion

3.8.66 The government policy to ensure that all 4 year old children in Victoria have access to one year of affordable preschool education has been substantially achieved with the current child participation rate in kindergarten services at 94 per cent.

3.8.67 An increase in the level of teacher contact hours and improved flexibility in work arrangements generally would improve the efficiency of kindergarten services. Opportunities would also arise to enhance the usefulness of kindergarten services to parents and to introduce some fee-for-service facilities if the greater work flexibility is utilised to provide combined kindergarten and childcare services. Consequential annual savings of several million dollars of government subsidies should be possible over time.

3.8.68 There is scope for improvement in the assistance provided by the Department to management bodies in terms of curriculum development and evaluation.

3.8.69 The absence of accountability arrangements for kindergartens operated by municipal councils needs to be addressed.

Strategic management of the kindergarten program

3.8.70 Although the Department is responsible for the implementation and administration of the government policy on kindergarten services, it is not involved in the direct operation of these services. The Department's specific administrative responsibilities for the delivery of the program are:

- ▶ State-wide planning and policy development, including negotiation with other government agencies and consultation with service providers and parent management committees;
- ▶ Provision and allocation of funding mainly for salaries of kindergarten teachers and assistants, in accordance with relevant awards and operating cost grants. Funding is based on criteria established by the Department and is regulated by formal funding and service agreements for each centre;
- ▶ Monitoring of kindergarten services to ensure compliance with the Children's Services Centres Regulations 1988 prescribed under the *Health Act* 1958 and to confirm enrolment information; and
- ▶ Provision of support and advice to kindergarten management bodies through regionally located children's service advisers and procedure manuals and guidelines.

3.8.71 Audit discussions with management indicated that the Department had considered strategic issues and future actions in relation to its responsibilities. In addition, the Department has recently finalised specific work plans for 1993-94, designed to address the functional responsibilities of its branches associated with the kindergarten program.

3.8.72 At the time of the audit review, **the child participation rate in kindergarten services was 94 per cent.** Audit acknowledges that this result represents a substantial achievement of the government policy.

3.8.73 The audit review found that the strategic goals of the Department have not been linked to specific performance indicators to enable assessment of the effectiveness of its contribution to the achievement of the government policy. For example, subsidy and administration expenditure had not been compared with measurable program outcomes.

3.8.74 In the absence of appropriate performance measures, it was difficult to establish:

- ▶ the extent to which the high child participation rate can be attributed to the activities of the Department;
- ▶ whether the Department has been efficient in managing its responsibilities for the kindergarten program; and,
- ▶ the impact of the Department's activities on the quality of kindergarten services.

3.8.75 In order to enhance program delivery, the Department should develop an overall strategic plan and establish appropriate performance indicators to enable the effectiveness of management of the program to be progressively measured.

- **RESPONSE** provided by Secretary to the Department of Health and Community Services

The Division has pro-actively addressed strategic issues and has given strong direction about the future development and delivery of the range of children's services, including kindergartens. The mechanisms used to date have included the substantial work on the Children's and Family Services Redevelopment Project, various program reviews and budget strategies.

The Division does not have a formal strategic plan. The recent environmental and structural changes have made it impractical to publish a strategic plan.

The Department recognises the value of formal strategic plans and the Division will move to prepare annually a strategic plan for the Children and Family Services Program.

Service delivery and productivity

3.8.76 Many working parents in Victoria have experienced difficulty arranging for their children to attend kindergartens due to the timing and relatively short duration of sessions provided by centres.

3.8.77 These difficulties have arisen as a result of preschool services for 4 year-old children operating 2 sessions of 10 hours per week for groups of children, with the sessions of 2.5 hours per day spanning 4 days. From the viewpoint of parents, this situation has been exacerbated by session start and end times differing from normal school periods and standard work hours.

3.8.78 Recognising this difficulty, the Department has, over the last 18 months, actively pursued strategies to influence a change in kindergarten centre operations to a more flexible service arrangement. **As a result of the Department's actions, more than 20 per cent of kindergarten centres have changed the conventional 10 hours of weekly service per session over 4 days to a 2 or 3 day arrangement. Audit considered that the move to more flexible kindergarten services was a positive development which would better meet the needs of many parents.**

3.8.79 Notwithstanding these improvements in service flexibility, audit considered that 2 factors, the number of hours teachers spend in direct contact with children and the influence of an award which is sessional rather than hourly based, have precluded achievement of optimum service flexibility.

Problems arising from current work arrangements

3.8.80 One of the key elements in providing flexible kindergarten services is the number of hours per week when teachers have direct contact with children. In this regard, for many years, kindergarten teachers in Victoria have worked 20 contact hours per week (usually 2 groups of 10 hours).

3.8.81 Information gathered by audit on awards relating to kindergarten teacher contact hours within other States indicated that **minimum direct contact hours worked by kindergarten teachers in Victoria were lower than in most other States.**

3.8.82 Audit examination of the Victorian kindergarten teachers' award and related documentation showed that the number of contact work hours and other award provisions, such as time for planning, preparation, cleaning up and a one and a half hour break between sessions, had arisen from many years of "*custom and practice*". In other words, traditional methods of operation have become accepted as the basis for kindergarten teachers' work arrangements in the State.

Negotiations for increased contact hours and improved flexibility

3.8.83 Given the position on teacher contact hours in Victoria, it was pleasing to find that negotiations on the level of hours and other work conditions are currently taking place between the Kindergarten Teachers Association of Victoria and Kindergarten Parents of Victoria, as the employer representative. The Department has assumed the role of an observer at these negotiations.

3.8.84 The aim of the discussions between the parties is to increase the program contact time of kindergarten teachers by 4 hours per week on a cost-neutral basis and to assist with the development of more flexible kindergarten service models. In addition, the talks are focusing on work conditions such as times allocated for planning and session preparation and the one and a half hour session break.

3.8.85 **At the time of preparation of this Report, the Department had assessed that the negotiations were progressing in a positive manner. It expects a final outcome on the matters under discussion in May 1993.**

Scope for savings from the increased hours and flexibility of arrangements

3.8.86 The main difficulty arising from the current level of contact hours and the short duration of sessions is the dependence, often at additional cost, of many parents on other childcare services located away from the kindergarten, in order to have the care of their child extending over a normal working day. In audit opinion, increased teacher contact hours and revision of existing work arrangements would enable kindergartens to offer both preschool and childcare services utilising the 24 hours per week work time frame to provide more convenient services to parents.

3.8.87 Because of the attractiveness to parents, in terms of added convenience and potential lower cost from more flexible services, the opportunity arises to offer the combined preschool and childcare services on a daily basis to parents on a fee-for-service basis. In this way, the additional 4 hours per week could be utilised to enhance the usefulness of services available to parents and, at the same time, reduce the overall level of government subsidies. **An audit analysis of the opportunities presented by this option indicated that, over time, annual savings of several million dollars may be possible.**

3.8.88 In addition, other specific benefits arising from revised arrangements would include:

- ▶ development of additional child care places to meet current unmet needs; and
- ▶ better utilisation of kindergarten centre buildings and infrastructure.

3.8.89 An increase in the level of teacher contact hours and revised work arrangements would enhance opportunities for improving the efficiency of kindergarten services in Victoria and could lead to substantial savings in government subsidies.

- *RESPONSE provided by Secretary to the Department of Health and Community Services*

Service delivery and productivity

The Department concurs with audit recognition of the Department's involvement in the introduction of more flexible current kindergarten services.

Problems arising from current work arrangements

The Department agrees with the audit finding.

The Department notes that the kindergarten sector awards were rolled over into individual employment agreements on 1 March 1993. The composition of employment agreements is a matter of negotiation between employer and employee and the Department does not have a direct role in this process.

Negotiations for increased contact hours and improved flexibility

The Department notes that the increased contact hours represent a productivity improvement of 20 per cent, to be achieved in the first year of operation of the new industrial relations environment. The Department recognises this as a significant step in improving productivity while acknowledging that there is further opportunity for productivity improvement in the kindergarten sector.

Scope for savings from increased contact hours and flexibility of arrangements

The Minister has publicly stated that kindergarten funding would be maintained in the 1992-93 financial year. This has meant that the Department has not been able to participate in the collective employment agreement process as a savings exercise. However, the Department has recognised the productivity improvements and has tabled a strategy with Ministers to realise cash savings. The Department believes that this must be done as part of a redevelopment of the kindergarten program rather than defunding elements of the program. Audit findings will be considered as part of the redevelopment project.

Curriculum development

3.8.90 According to guidelines issued by the Department in May 1991, curriculum is defined as a product which should consist of a written document containing the following elements:

- ▶ *"Planned learning experiences for children, based on clearly articulated goals and values;*
- ▶ *Strategies for implementing learning experiences; and*
- ▶ *Processes for evaluating the impact of these learning experiences on the children".*

3.8.91 An accepted principle held by educators in the early childhood field is that establishment of a comprehensive and developmentally-appropriate curriculum is the single most important ingredient for the operation of a sound educational program.

3.8.92 In the context of the State's current kindergarten program, audit considered that the following elements were necessary to provide an effective framework for the development and establishment of curricula:

- ▶ liaison between the Department of Health and Community Services and the Department of Education to ensure that the development and implementation of curriculum in kindergartens is consistent with the curriculum established in junior primary areas;
- ▶ guidelines to assist management bodies, parents, and teachers in regard to the content, design and periodic evaluation of curriculum;
- ▶ allocation of responsibility for undertaking the development and implementation of kindergarten curriculum at each centre to persons possessing the necessary skills and knowledge; and
- ▶ accountability arrangements which provide assurance that a comprehensive and developmentally-appropriate curriculum has been implemented for each subsidised kindergarten centre.

3.8.93 Under each centre's funding and service agreement with the Department, the management body has the responsibility to ensure that a quality educational curriculum is developed and implemented.

3.8.94 To assist management bodies with their responsibility in this area, the Department provides the following assistance:

- ▶ provision of Early Childhood Curriculum Guidelines for 3 - 5 year olds (the purpose of the Curriculum Guidelines is to provide guidance to management bodies, parents and kindergarten teachers as to the type of curriculum that should be presented in children's service centres); and
- ▶ advice and support to parent committees from regionally-located children's service advisers employed by the Department.

Some shortcomings in the current framework for curriculum development

3.8.95 The audit review of curriculum processes indicated that there was scope in the following areas to strengthen the framework established by the Department for curriculum development:

Widening the interface with the Department of Education

3.8.96 A link between the Department of Health and Community Services and the Department of Education was established in 1992 to review junior primary curriculum.

3.8.97 This link was established as a result of a report entitled the *Ministerial Review of the School Entry Age in Victoria* which was issued in December 1991. Audit viewed this link as a positive step to improve the educational content of curriculum, however, to date, it has not specifically focused on kindergarten curriculum. As such, **it has not been clearly established that curricula implemented by kindergartens are consistent with junior primary school requirements.**

Inappropriate allocation of responsibility

3.8.98 Approximately 60 per cent of kindergarten management bodies, which are responsible for curriculum development and evaluation, are comprised of parents with children attending the kindergarten centre.

3.8.99 In discussions with the representatives of Kindergarten Parents of Victoria, audit was advised that, in many cases, parents represented on management bodies have not had specific training in early childhood education theories and practices which would enable them to effectively develop an appropriate kindergarten curriculum.

3.8.100 Clearly, parents' input to curriculum development and evaluation is an important element of the curriculum process. **The availability of structured training in curriculum development theory and evaluation would help to optimise the contribution made by parents.**

Scope for enhancement of guidelines

3.8.101 Curriculum guidelines issued by the Department in 1991 reflect broad policy objectives and provide users with a set of important overriding principles that need to be considered in the development of curriculum.

3.8.102 Audit examination of the guidelines and discussions with representatives of the Kindergarten Parents of Victoria indicated that while the guidelines have valuable information on social issues such as integration of children of different ethnic and religious backgrounds and children with disabilities, the assistance provided in relation to curriculum development tended to focus on theoretical rather than practical advice.

3.8.103 Accordingly, audit considers that there is potential for enhancement to the guidelines to reinforce the theory with more practical advice on curriculum development.

Lack of curriculum evaluation

3.8.104 Children's service advisers employed by the Department conduct annual inspections to ensure compliance by centres with the requirements of the Children's Services Centres Regulations 1988 as prescribed under the *Health Act* 1958. With regard to curriculum, the responsibility of advisers is limited to ensuring that a curriculum document exists at the centres.

3.8.105 Discussions with a number of advisers indicated that there were marked variations in the content and quality of kindergarten programs across centres. In such circumstances, there would seem to be merit in widening the ambit of advisers' activities to cover qualitative evaluation of curriculum programs.

3.8.106 **If appropriate action was taken on the above issues, the Department would be in a stronger position in terms of assurance of the quality and effectiveness of curriculum programs implemented at kindergarten centres.**

- **RESPONSE** provided by the Secretary to the Department of Health and Community Services

Widening the interface with the Department of Education

In recognition of the importance of early childhood learning principles (used in preschools), the philosophy of early childhood teaching and its appropriateness to children's development in the first years of school, recommendations were made by the Review which related to incorporating early childhood personnel and philosophies into the junior school program, establishing early childhood units and undertaking pre-service and in-services for primary teachers on early childhood.

The Department of Education has responsibility for implementation of these recommendations, with the Department of Health and Community Services involvement.

Scope for enhancement of guidelines

The basic premise and philosophy of early childhood education is founded on careful observation of individual children. The Department considers it appropriate to provide preschools with a broad framework for the development of curricula. Preschool teachers record individual children's behaviour as it relates to the areas of their development, e.g. physical, cognitive, emotional, social, sensory or language. These observations, along with the teachers' specialised knowledge and a minimum of 3 years training in early childhood development and education, form the basis of the program and activities provided within a preschool.

The Curriculum Steering Committee, established in 1992 to advise the Department on curriculum, is focusing its attention on implementation issues arising from the present guidelines including support for teachers in their program development role.

Inappropriate allocation of responsibility

Parents need to have input into the development of individual preschool programs for their children. The Preschool Funding and Service Agreement indicates that "the management body is responsible for ensuring that the teacher develops and implements, in consultation with the parents and management body, a quality educational program which is developmentally appropriate".

Lack of curriculum evaluation

The Department agrees that it does not have a formal process for monitoring the appropriateness or effectiveness of curriculum but sees its role to work with early childhood experts to develop materials to support curriculum and to assist in the distribution of these materials in the field. Preschool provides individual child-focused programs within a group setting and for many children provides the first contact with children of the same age, and provides valuable socialisation as well as educational experiences in the move from the family unit to a school setting. To evaluate the appropriateness of individual programs for 60 000 children would require a total transformation in the role of children's service advisers and the availability of substantial additional resources.

Current insurance exposure to the Government

3.8.107 Under each funding and service agreement, the Department is responsible for insurance cover for all subsidised kindergartens registered under the Children's Service Centres Regulations 1988. The annual insurance cover arranged by the Department includes professional indemnity and public liability cover. Under the regulations, minimum standards require a Children's Service Centre to be registered and that various health, safety, and maintenance standards are in place.

3.8.108 A general condition of the insurance coverage specifies that subsidised kindergartens must ensure that their employees, servants and agents comply with all statutory obligations, by-laws or regulations imposed by any public authority in respect of the safety of persons and property.

3.8.109 At the time of the audit review, 5 funded kindergarten centres had not paid their statutory registration fees. These kindergarten centres included 4 which were in excess of 20 months in arrears.

3.8.110 Audit advised the Department that because the 5 centres were not officially registered under the legislation, doubt existed as to whether the centres were protected under the insurance policy arranged by the Department.

3.8.111 The Government could be exposed to risk of unlimited liability in respect of each unregistered kindergarten centre.

- *RESPONSE provided by Secretary to the Department of Health and Community Services*

The Department concurs with the audit findings and will address the identified risk in insurance arising from non-compliance by these centres with statutory obligations.

Accountability arrangements and monitoring of funding conditions

3.8.112 As previously indicated, subsidies paid by the Department to kindergarten centres in 1991-92 totalled \$62.7 million (budgeted 1992-93, \$65.2 million). Accountability for subsidies is governed by comprehensive annual preschool funding and service agreements developed by the Department. Annual agreements entered into by each centre with the Department are the key elements of accountability arrangements in place for government subsidies.

3.8.113 The specific accountability provisions embodied in the funding and service agreements require centres to submit the following information to the Department's childrens service advisers:

- ▶ a copy of the centre's annual report and audited financial statements; and
- ▶ enrolment data, level of fees, degree of parent participation and other services provided at the centre.

3.8.114 These accountability arrangements are designed to ensure that kindergarten subsidies are utilised for the purposes intended and that other financial and operating requirements have been met. Because the Department's formal agreements are systematically linked to the aims of the kindergarten program and clearly specify the responsibilities of management bodies, audit found the accountability framework to be soundly based.

3.8.115 The Department has experienced some difficulty in establishing an effective accountability framework for municipal councils which operate approximately 31 per cent of kindergartens in Victoria and receive around \$20 million. Audit understands that, **to date, all municipal councils have refused to enter into a funding and service agreement.**

3.8.116 In these circumstances, the Department is not in a strong position to assess the quality of educational programs at municipal council kindergartens, even though large amounts of taxpayers' moneys are provided to subsidise these centres.

3.8.117 In terms of provision of audited financial statements as a condition of funding and service agreements, audit found that central monitoring by the Department to ensure compliance by centres with financial accountability requirements needed strengthening.

3.8.118 The Department has assigned its responsibility for receiving and reviewing financial statements provided by centres to departmental advisers. In this context, there was little evidence that financial statements had been examined, and advisers had not received appropriate training to enable this task to be carried out effectively.

3.8.119 The absence of accountability arrangements for kindergartens operated by municipal councils is a serious matter and needs to be resolved. In addition, the Department should take steps to improve the financial accountability framework to ensure kindergarten centres comply with all funding conditions.

- *RESPONSE provided by Secretary to the Department of Health and Community Services*

The departmental position is that all funding should be governed by a service agreement.

The Division has embarked on a staged approach to the introduction of service agreements to the kindergarten's program. Agreements are now in place for all kindergartens managed by independent committees of management. The Department will pursue service agreements with local municipalities.

The Department recognises some malfunction in the existing accountability arrangements and concurs with the actions recommended by audit.

LOSSES, THEFTS AND IRREGULARITIES

Outcome of institutional investigations program

3.8.120 The Auditor-General's *Report on Ministerial Portfolios, May 1992* provided an outline of the events that led to the establishment of an investigations program within the former Department of Community Services.

3.8.121 The program has now been running for over 12 months with major investigations undertaken at Pleasant Creek, Caloola, Kew Cottages and Janefield. These institutions represent over two-thirds of the resident population of intellectually disabled clients.

3.8.122 A number of residential units within these institutions were selected by the investigations team for detailed examination under the program and the following control weaknesses were identified:

- ▶ over a 3 year period, an amount of \$170 400 which had been recorded as released by the institutions' trust offices but had not been accounted for by the residential units; and

- ▶ for the same period, expenditure amounting to \$312 200 recorded in the cash books of the residential units was not supported by appropriate documentation.

3.8.123 Management has undertaken a series of disciplinary actions and referred matters to the Victoria Police in cases where specific findings indicated charges should be laid.

3.8.124 Policies and procedures have been progressively implemented to overcome the weaknesses identified by the investigations program. A new clients' accounts management system has been introduced at Janefield and is in course of implementation at the other locations. The key features of the new system include improved reporting processes, appropriate attention to separation of non-compatible duties and provision for greater accountability by staff involved.

Loss and thefts of equipment and cash

3.8.125 The Department has advised audit that during 1991-92, losses and thefts of equipment and cash totalling \$22 300 had occurred at various departmental premises.

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

Schedule A. COMPLETED/INCOMPLETE AUDITS
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Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
Completed audits				
ABORIGINAL AFFAIRS				
Department of Aboriginal Affairs (b)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	30 October 1992	30 October 1992
COMMUNITY SERVICES				
Department of Community Services (b)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	27 October 1992	29 October 1992
HEALTH SERVICES				
Health Department Victoria (b)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	28 October 1992	30 October 1992
Alexandra and District Ambulance Service	30 June 1992	No reporting requirements. <i>Ambulance Services Act 1986, s.38</i> provides for the audit of the accounts.	11 December 1992	23 February 1993
Ambulance Officers' Training Centre	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.8.</i>	9 October 1992	30 October 1992
Ambulance Service Victoria -				
Metropolitan Region	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.8.</i>	26 August 1992	29 September 1992 (a)
North Eastern Region	30 June 1992	18 August 1992	25 September 1992 (a)
North Western Region	30 June 1992	18 August 1992	25 September 1992 (a)
South Eastern Region	30 June 1992	24 August 1992	25 September 1992 (a)
South Western Region	30 June 1992	20 August 1992	25 September 1992 (a)
Western Region	30 June 1992	25 August 1992	25 September 1992 (a)
Dietitians Board of Victoria	30 June 1992	30 September. <i>Dietitians Act 1981, s.25.</i>	13 October 1992	30 October 1992

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued				
HEALTH SERVICES - continued				
Mental Health Review Board	30 June 1992	30 September. <i>Mental Health Act 1986, s.136.</i>	29 September 1992	30 October 1992
Optometrists Registration Board	30 June 1992	30 September. <i>Optometrists Registration Act 1958, s.22.</i>	19 October 1992	30 October 1992
Prince Henry's Institute of Medical Research	31 December 1992	30 June. <i>Prince Henry's Institute of Medical Research Act 1988, s.18.</i>	6 April 1993	27 April 1993
Public hospitals and nursing homes	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i> Extension granted to 30 November 1992 for 16 hospitals.	Various dates	Various dates
Psychosurgery Review Board	30 June 1992	30 September. <i>Mental Health Act 1986, s.138.</i>	29 September 1992	30 October 1992
Victorian Health Promotion Foundation	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.8.</i>	8 September 1992	29 September 1992
Victorian Nursing Council	30 June 1992	31 October. <i>Nurses Act 1958, s.40.</i>	30 September 1992	6 October 1992

(a) Qualified audit report issued.

(b) Certain of the functions of these entities have been taken over by the Department of Health and Community Services.

ESTATE AGENTS BOARD

- ▶ The Estate Agents Board has been restricted in allocating sufficient resources to enable it to adequately perform its investigation function.
Paras 3.9.34 to 3.9.39
- ▶ The Board's ability to negotiate more favourable dealings with financial institutions so as to generate additional income is limited by legislation.
Paras 3.9.52 to 3.9.54
- ▶ Consideration should be given to delegating additional powers concerning discipline and the granting of licences to the Chief Executive Officer.
Paras 3.9.26 to 3.9.28

STATE ELECTORAL OFFICE

- ▶ Given the varying cost levels between States relating to the conduct of elections, it is important that the State Electoral Office continues to identify cost-minimisation opportunities and takes appropriate action to further reduce costs.
Paras 3.9.72 to 3.9.76
- ▶ Based on State Electoral Office estimates, cost savings of around \$2.3 million are available to the State for each 4 year election cycle, through the introduction of alternate State electoral roll maintenance processes. However, the Office needs to conclude negotiations with various parties, to confirm the attainment of such savings.
Paras 3.9.77 to 3.9.87
- ▶ The collection of electoral fines relating to the October 1992 State election will result in a net cost to the State of around \$670 000. Given this cost, there is a need to review related legislative provisions, with a view to improving the efficiency of current collection procedures and re-assessing the level of fines imposed.
Paras 3.9.88 to 3.9.92
- ▶ Deficiencies in the current information systems of the State Electoral Office, including associated development and maintenance procedures, need to be addressed to ensure that such systems meet current and future management needs.
Paras 3.9.98 to 3.9.99

RESIDENTIAL TENANCIES FUND

- ▶ Notwithstanding the call for urgent action in 1989 by 2 external reviews to improve interest returns to the Residential Tenancies Fund, progress on negotiations has been slow and the major banks have been able to continue to maximise their profit margins on tenants' bond moneys, to the detriment of the Fund.

Paras 3.9.127 to 3.9.135

- ▶ Using the interest return on tenants' bonds paid to the Residential Tenancies Fund by the second tier banks as a benchmark, the delay in negotiations with major banks has resulted in interest forgone to the Fund of at least \$600 000 since July 1989.

Para. 3.9.136

- ▶ From a longer-term viewpoint, decisive action is necessary in terms of implementation of a more effective framework for the financial management of tenants' bond moneys.

Paras 3.9.137 to 3.9.138

- ▶ In 1991-92, the former Ministry of Consumer Affairs found that approximately \$9 million in tenants' bond moneys had been inadvertently overlooked by the banks in calculating interest payable to the Residential Tenancies Fund and, as a consequence, more than \$2 million in interest arrears was collected from the banks.

Paras 3.9.141 to 3.9.144

- ▶ A minimum of \$750 000 each year in interest is estimated to be lost to the Residential Tenancies Fund on tenants' bonds through non-lodgement of bond moneys, with the bulk of this amount likely to be the result of non-compliance by landlords.

Paras 3.9.150 to 3.9.157

OFFICE OF THE CHIEF COMMISSIONER OF POLICE

- ▶ The Office of the Chief Commissioner of Police does not have a suitable management information system to efficiently manage the recovery of costs from use of police resources deployed at sporting and entertainment events.

Paras 3.9.172 to 3.9.175

- ▶ It was not possible to determine the total costs waived under the discretion not to charge for police services due to the inadequacies of the management information system.

Paras 3.9.176 to 3.9.179

- ▶ Deficiencies exist in the methodology used to determine charge out rates for the use of police members and police transport.

Paras 3.9.187 to 3.9.193

Details of ministerial responsibility within the Justice portfolio are provided in Table 3.9A. In addition to the Department of Justice, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.9A
MINISTERIAL RESPONSIBILITY WITHIN THE JUSTICE PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Attorney-General	Estate Agents Board Guardianship and Administration Board Legal Aid Commission of Victoria Legal Aid Commission Staff Superannuation Fund Office of the Director of Public Prosecutions Office of the Public Advocate Patriotic Funds Council of Victoria State Electoral Office State Trust Corporation of Victoria Victorian Financial Institutions Commission Victorian Institute of Forensic Pathology
Corrections (a)	Victorian Prison Industries Commission
Fair Trading (a)(b)	-
Police and Emergency Services	Country Fire Authority Metropolitan Fire Brigades Board National Institute of Forensic Science Office of the Chief Commissioner of Police
Women's Affairs (a)	-

(a) Minister has responsibility for certain functions of the Department of Justice.

(b) Includes responsibility for Residential Tenancy Fund.

Comment on matters of significance arising from the audit of certain of the above entities is provided below.

ESTATE AGENTS BOARD

REVIEW OF THE BOARD'S OPERATIONS

Background

3.9.1 The Estate Agents Board was established under the *Estate Agents Act 1980* following a wide review of the real estate industry in 1978-79. The Board took over responsibility for prescribing ethical standards, rules of practice, discipline and education standards in the industry from the Estate Agents Committee and was given additional tasks including the administration of licences. The Board is responsible, inter alia, for:

- ▶ licensing all sub-agents, estate agents and corporations operating in Victoria which deal in the real estate industry;
- ▶ promoting the interests of the public and the real estate industry by encouraging high standards of estate agency practice; and
- ▶ providing housing assistance in accordance with section 76 of the *Estate Agents Act 1980*.

3.9.2 The Board is a self-funding body and consists of 8 part-time members. Membership is composed of 4 members nominated by estate industry organisations, the Chairman who must be a barrister and solicitor of the Supreme Court of Victoria of not less than 5 years standing, an accountant, a barrister/solicitor and a government appointee.

3.9.3 All moneys received by the Board are paid into an account named the Estate Agents Guarantee Fund (balance \$23.3 million, 30 June 1992).

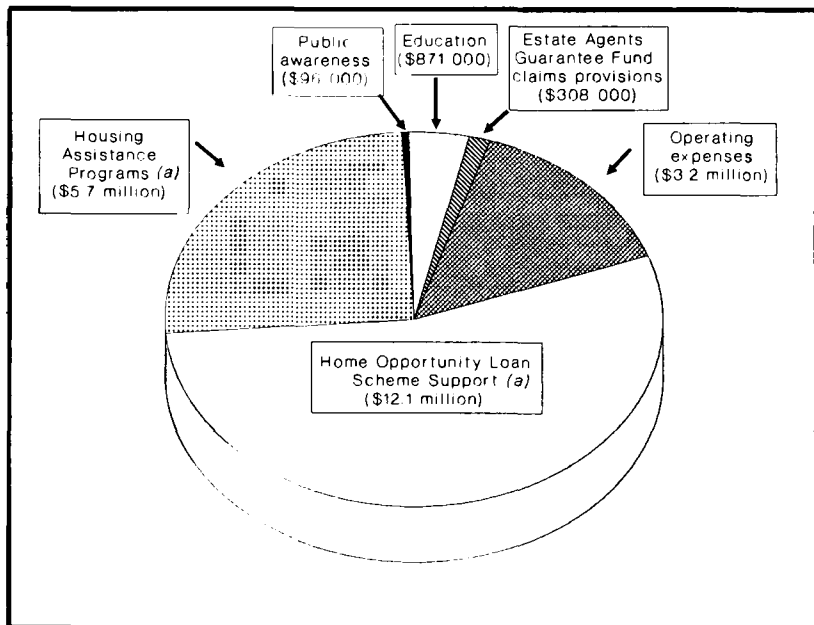
3.9.4 Board income generated in 1991-92 was principally derived from licence fees (\$1.3 million), interest received from financial institutions on balances held by them on behalf of estate agent's trust accounts (\$12.5 million) and interest on investments (\$3 million).

3.9.5 The income referred to above is used to:

- ▶ meet the Board's operating costs;
- ▶ compensate members of the public who have suffered financial loss by reason of misappropriation or defalcation of their moneys while held in trust by estate agents;
- ▶ assist housing programs which encourage home ownership; and
- ▶ assist in the education of the public and the industry in real estate practice and procedures.

3.9.6 Chart 3.9B provides a breakup of expenditure from the Estate Agents Guarantee Fund in 1991-92.

**CHART 3.9B
ESTATE AGENTS GUARANTEE FUND EXPENDITURE, 1991-92**



(a) Payment made to the Department of Planning and Development.

3.9.7 During 1992 audit undertook a review of the Board's operations to determine whether it was meeting its objectives and doing so in an economic, efficient and effective manner. As part of the review, information was sought, by means of a questionnaire, from various estate agents, corporations, sub-agents and real estate associations operating in the industry.

3.9.8 Comments included in the responses related to matters, such as, the confining of the role of the Board to licensing, audit and disciplinary functions and the need for better representation on the Board of practising estate agents. Respondents also considered that licence fees were too high, that the licence period should be lengthened and that there was confusion between the differing roles of the Board and the Real Estate Institute of Victoria.

Overall conclusion

3.9.9 In audit opinion, scope existed for the Board to become more efficient and effective by resolving the following issues:

- ▶ development of a comprehensive corporate plan;
- ▶ enhancement of the licensing system;
- ▶ improvement of the effectiveness of the investigation processes including action to address the increasing arrears in investigations; and
- ▶ the development of quality control processes to be introduced, enabling assessment of the effectiveness of audits conducted on trust accounts operated by licence holders.

3.9.10 Disciplinary powers over licence holders are vested totally with the Board. However, the Board only conducts hearings relating to the more serious breaches of conduct, with the remaining matters being addressed by issuing warnings to agents by the Chief Executive Officer.

3.9.11 Existing legislative provisions inhibit the Board in maximising interest rates applied by financial institutions to estate agent's trust deposits.

3.9.12 In addition, the Board cannot be certain that all interest payable on estate agent trust deposits is actually received.

■ **RESPONSE provided by Chairman, Estate Agents Board**

The Board has considered the suggested improvements contained in the audit report which may assist the Board in further meeting its objectives.

The Board has noted that a number of matters require legislative amendment, particularly processing of licence applications, periods of licences, graded systems of hearings and estate agents' trust deposits. The Board supports these amendments and appropriate recommendations will be forwarded to the Attorney-General if not already submitted.

Corporate plan

3.9.13 The Board's main objectives, as set out in its annual report, include:

- ▶ maintaining an efficient and effective licensing scheme which ensures that licence holders have appropriate skills and experience;
- ▶ monitoring the conduct and activities of licence holders to ensure compliance with the legislation through audit reports, inspections and investigating complaints;
- ▶ conducting disciplinary proceedings and providing compensation following defalcations of trust moneys;
- ▶ managing and accounting for all investment and expenditure of funds; and
- ▶ provide housing assistance in accordance with section 76 of the *Estate Agents Act 1980*.

3.9.14 The Board developed a corporate plan covering the period 1989-1992. An audit review of the plan disclosed that specific strategies had not been established for the achievement of each objective and that the objectives had not been broken down into more meaningful sub-objectives. Audit was advised that the corporate plan had never been approved by the Board as one document but was, in fact, a consolidation of 3 annual plans that had each been independently reviewed by the Board. Each plan had contained a series of prioritised programs or tasks, the progress of which is reviewed at Board meetings.

3.9.15 A new corporate plan, which the Board should approve and adopt as one document, is currently being developed. In addition, the Board should ensure that the corporate plan:

- ▶ includes sufficient details to allow for better monitoring and control of progress towards achievement of each stated objective; and
- ▶ contains adequate targets and performance measures to assess the efficiency and effectiveness of operations.

■ *RESPONSE provided by Chairman, Estate Agents Board*

The Board is well advanced with the development of a corporate plan having conducted, in February 1993, a 2 day seminar of Board Members and senior staff. It is expected that the new corporate plan will include the matters referred to in the audit report.

Grants

3.9.16 Under section 76 of the *Estate Agents Act 1980* the Board may, if the balance held in the Estate Agents Guarantee Fund is in excess of \$500 000, apply money for the purpose of facilitating:

- ▶ community education programs or other programs which promote home ownership or provide housing assistance; and
- ▶ programs for the education of estate agents and sub-agents.

3.9.17 A private or public organisation involved in any of the above mentioned programs may seek funds in accordance with guidelines established by the Board.

3.9.18 The Board has also set out various conditions relating to the acceptance of grants, which include accountability requirements, such as requiring recipients of grants to provide quarterly statements of revenue and expenditure, maintain proper accounting records relating to grants and enforcing compliance with budget proposals approved by the Board.

3.9.19 During 1991-92 the Board provided \$17.9 million in housing grants and \$900 000 in education grants.

3.9.20 In examining documentation held by the Board, audit found the following deficiencies in the application of the accountability requirements:

- ▶ Failure to obtain, from all grant recipients, written acceptance of the Board's conditions;
- ▶ Failure to document all on-site inspections undertaken to determine if grant moneys were being spent in accordance with the conditions set by the Board;
- ▶ Financial statements required to be forwarded, both on application for and after receipt of grants, were not required to be audited;
- ▶ Failure to obtain required quarterly progress reports from recipients of grants for up to 3 months after the close of the relevant quarter;
- ▶ In cases where the provision of original or further grant moneys was conditional on the receipt of financial or progress reports, the moneys were provided by the Board before such conditions had been met;
- ▶ Submissions were required to include a program evaluation strategy to enable measurement of the performance against stated program objectives. Very few strategies had been submitted, or where they had been submitted, there was no evidence of their use as a performance indicator; and
- ▶ The provision of funding for a proposed scheme without first confirming that the scheme was to proceed. In February 1992 the Board forwarded \$5 million to the Department of Planning and Development as a grant towards a proposed Home Opportunity Loan Scheme Pass Through Facility. The Department advised the Board in the following month that the proposed scheme would not proceed and the Board redirected the funds to the Home Opportunity Loan Scheme.

3.9.21 Although no evidence was found of moneys being expended outside the grant conditions, audit considers that the Board's control over grants needs to be improved and the deficiencies identified need to be addressed.

- *RESPONSE provided by Chairman, Estate Agents Board*

The Board noted audit's comments on the guidelines and conditions of grants under section 76 and has already amended its guidelines to incorporate these matters.

Licensing

Adequacy of licence fees

3.9.22 At 30 June 1992 the Board had on issue 1 084 corporation licences, 3 150 individual estate agents licences and 8 047 sub-agents licences. Fees derived from the issue of licences amounted to \$1.3 million in 1991-92 (\$1.2 million, 1990-91).

3.9.23 The Board is responsible for determining the rate of licence fees to be charged, however, it has not reviewed the costing structure of fees since 1989. Audit was informed that, at that time, the Board examined the costs of administering the licensing scheme and developed a structure aimed at matching licensing costs with revenue from fees. The fee structure, according to the Board's Chief Executive Officer (CEO), aimed to recoup 95 per cent of the licensing costs, with the balance to be subsidised from the Estate Agents Guarantee Fund.

3.9.24 Audit was advised that documentation setting out the fee structure had not been retained. Further, documentation comparing actual costs incurred since 1989 with those projected in the fee setting structure had not been retained.

3.9.25 **In the absence of relevant documentation, the Board was unable to substantiate and, consequently, audit cannot comment upon, the adequacy of the cost recovery methodology developed in 1989 and the degree to which current licence fees are recovering licensing costs.**

Processing of licence applications and renewals

3.9.26 Currently the *Estate Agents Act* 1980 provides that the approval of licences has to be made by the Board. This means that approval of a licence or renewal of an existing licence can only take place at a Board meeting. The issue of a licence can take from 2 to 6 weeks depending on how easily details required to be submitted with the licence application can be verified.

3.9.27 The equivalent organisation in New South Wales to the Estate Agents Board, the Real Estate Services Council, has recently achieved improved efficiency by allowing the General Manager to deal with a number of matters which formerly were dealt with by the full Council. With regard to the area of licensing administration it stated in its 1990-91 annual report that, "... *this has significantly shortened the time for the granting of licences*".

3.9.28 **With a view to improving the timeliness of processing licence applications and renewals, the Board should initiate discussions with the Department of Justice on legislative changes which would allow the Board to delegate power to grant licences to the CEO, as is done in New South Wales.**

Period of licences

3.9.29 The maximum period that a licence issued by the Board can remain in force is 2 years. Administrative savings could be achieved by lengthening the life of a licence, as this would significantly reduce the amount of associated documentation that the Board would be required to receive and process.

3.9.30 **In line with the current trend of extending the period of government licences, such as driver licences, consideration should be given by the Board to conducting research into the feasibility of extending the period of its licences.**

3.9.31 A fully documented cost-benefit analysis would, conceivably, determine an optimum period of licences which would greatly assist in future licence management planning and control.

- *RESPONSE provided by Chairman, Estate Agents Board*

The Board supports the suggested improvements concerning licensing and licence processing and appropriate action and/or legislative amendment will be taken or sought as soon as possible. Some of these matters have already been submitted for legislative amendment to the Attorney-General.

Professional standards

3.9.32 The principal objective of the Board is to regulate the real estate industry, so that it provides to the public the highest standards of professional and ethical practice. To achieve this objective, the Board has established a Professional Standards section which monitors, through a number of activities, the conduct of licensed estate agents to ensure they comply with the requirements of the *Estate Agents Act 1980*.

3.9.33 Monitoring of estate agents comprises:

- ▶ examination of public complaints;
- ▶ inspection of the records of licensed estate agents and corporations; and
- ▶ investigation of claims against the Estate Agents Guarantee Fund.

Investigations

3.9.34 The thrust of the Board's objectives is the protection of the public in dealings with estate agents.

3.9.35 In recent times there has been an increasing number of complaints against estate agents referred to the Board, which require investigation. There has also been an increasing backlog of cases awaiting attention, e.g. 57 at 30 June 1991 and 81 at 30 June 1992. Audit was advised by Board management that the delay in undertaking investigations has been due to limited staff numbers and that while additional staff have been redeployed within the administration to investigations, any expansion of staff is limited by government restrictions on staffing levels.

3.9.36 As trends indicate a continuing growth in the number of matters requiring investigation, then the Board needs to ensure that adequate resources are made available. In any assessment of staff numbers required to carry out this function, consideration has to be given to actual times spent in investigating cases so as to ensure that the most effective use of staff time is being achieved. As little analysis has been made of actual time spent on individual cases, the Board has yet to effectively measure the efficiency of work practice in the Professional Standards section.

3.9.37 In 1991-92, expenditure on staff involved in the maintenance of professional standards, represented approximately 15 per cent of the total expenditure of the Board (excluding expenditure on grants of \$18.7 million). With the inclusion of grants it represents only approximately 2.4 per cent of expenditure.

3.9.38 The major grant provided by the Board was \$12.1 million to the Department of Planning and Development to support the Home Opportunity Loans Scheme (HOLS), making a total amount granted since 1987-88 for this purpose of \$31.2 million. Further comment on the operations of HOLS is contained in Section 3.10 of this Report.

3.9.39 **In view of the thrust of the Board's objectives, then it would be expected that the Government would have allowed the Board to allocate sufficient funding to enable the necessary functions of the Board to be performed before it allocated grant funds for external purposes.**

Disciplinary action

3.9.40 In response to the questionnaire forwarded by audit to the industry, concerns were expressed regarding matters relating to investigations.

3.9.41 The industry felt that the growth in unlicensed trading was an issue on which the Board needed to take more action. Although the Board is aware of this issue and has, in recent years, successfully brought action against unlicensed trading in 10 cases, its capacity to do more is restricted by the current legislation. The absence of legislative authority to invoke penalties against, or examine records of, unlicensed traders meant that the gathering of necessary evidence is both difficult and time consuming.

3.9.42 The results of the questionnaire also revealed that many agents felt that the current disciplinary powers were inadequate. Disciplinary powers against estate agents, sub-agents and corporations are currently vested totally with the Board. When complaints from the public and industry have been substantiated by the investigating officers and the CEO, only the more serious cases are referred to the Board. The remaining cases are handled by the CEO and the Professional Standards Manager, but discipline of an agent in these cases is restricted to the issue of a warning. **As a means of allowing disciplinary action to be taken on a greater number of cases, the Board should examine the possibility of delegating some disciplinary powers to the CEO and the Professional Standards Manager.**

Inspections

3.9.43 In any year that an estate agent or corporation operates a trust account, they are required to appoint a private auditor to conduct an audit of such trust account. The auditor is required to forward a report on the results of the audit to the Board.

3.9.44 The Board's inspection team, consisting of a manager and 4 staff, undertake regular inspections of the accounting records of estate agents and corporations, including follow-up, if deemed necessary, where audit reports contain comment on unsatisfactory procedures or non-compliance with Board approved processes.

3.9.45 During the period 1988-89 to 1991-92 a total of 1 485 trust accounts were being maintained of which 1 263 were inspected, an examination rate of approximately 85 per cent. While there was a shortfall in the inspection performance, all of the 378 agents or corporations whose accounts were subject to a qualified audit report in 1991-92 had been subjected to inspection by the Board. This is a significant improvement on the situation which prevailed in 1989-90 when only 31 per cent of agents or corporations whose accounts were qualified were subject to Board inspection. **The Board is to be commended on its performance in this regard and its positive measures to reduce unethical practice.**

Quality of audits

3.9.46 The audit of an estate agent's or corporation's trust account is undertaken by an auditor appointed by the estate agent or corporation and approved by the Board. To meet the Board's requirements the auditor must be a member of an approved accounting body. The Board, in conjunction with the Australian Society of Certified Practising Accountants, conducts training courses in the audit of estate agent's trust accounts.

3.9.47 As mentioned previously, the Board conducts inspections after receipt of a qualified auditor's report. However, the Board does not have in place any process to examine the quality of the audit undertaken, with total reliance being placed on the fact that the person conducting the audit is qualified. The Board should consider implementing a quality control program to ensure that the audits conducted meet appropriate professional standards.

Residential Tenancies Fund

3.9.48 Estate agents also operate a trust account in respect of bond moneys received from residential tenants. The Minister for Fair Trading is responsible for residential tenancy affairs and comment is contained in paragraphs 3.9.106 to 3.9.162 of this Report on the operations of the Residential Tenancies Fund.

3.9.49 Under section 79 of the *Estate Agents Act 1980* the Estate Agents Guarantee Fund is to be applied for the purpose of compensating persons who suffer loss by reason of a defalcation committed by a licensed estate agent, or their employees, in respect of money the agent was entrusted with on behalf of another person.

3.9.50 The Estate Agents Guarantee Fund is, therefore, responsible for compensating defalcations by a licensed estate agent, not only in respect of estate agent's trust deposits but also residential bond moneys.

3.9.51 As a result, the Board is required to monitor the operations of trust accounts holding bond moneys, through the audit reports they receive and their inspection program. It does not, however, receive any funding from the Residential Tenancies Fund for this service.

■ *RESPONSE provided by Chairman, Estate Agents Board*

The Board has already submitted a proposal to the Attorney-General for a graded system of hearings which will require an amendment to the Estate Agents Act 1980. The other suggestions regarding inspections and investigations will be included in future reviews of internal administrative procedures which are, in many instances, dependent on available staffing resources and Board priorities. The Board has noted audit's reference to the Residential Tenancies Fund but does not see the need to seek funding for a function which is provided under the Estate Agents Act 1980. The Board is required under its own legislation to ensure that agents have a security bond trust account and that public trust funds held in such accounts are not misappropriated.

Estate agents trust deposits

3.9.52 Estate agents are required under the Act to deposit moneys, other than tenancy security deposits, held in their trust account with an authorised financial institution. At 30 June 1992 the Board has entered into arrangements with 16 financial institutions (12 banks and 4 building societies) for the payment of interest on deposits in estate agents trust accounts. Interest received for 1991-92 totalled \$12.5 million (\$18 million 1990-91).

3.9.53 In accordance with the Act:

"... the Board must not refuse to enter into an arrangement under section 60 of the Estate Agents Act 1980 with any financial institution which offers the Board terms and conditions no less favourable to the Board than any other existing arrangement".

3.9.54 As details of all financial arrangements with financial institutions entered into by the Board are published in the *Government Gazette*, **the Board's ability to negotiate more favourable dealings with financial institutions and to generate additional income through maximising interest rates is limited. Further, the Board currently has no way of ensuring that interest on all estate agents trust deposits is received from the financial institutions.**

3.9.55 The former Ministry of Consumer Affairs undertook a review of interest earned on bond deposits held in special tenancy trust accounts and paid by banks to the Residential Tenancies Fund. The Ministry concluded that, over a period, in excess of \$2 million interest had not been paid by banks. Further comment on this matter is contained in paragraph 3.9.143 of this Report.

3.9.56 The Board should undertake a similar review on deposits made with financial institutions to determine whether all interest due has been received.

■ *RESPONSE provided by Chairman, Estate Agents Board*

The Board supports audit's proposal regarding legislative changes to section 60 of the Estate Agents Act 1980. A recommendation to change the Act has already been submitted to the Attorney-General.

The other administrative changes recommended will be incorporated in the Board's inspection program or taken up with authorised financial institutions.

STATE ELECTORAL OFFICE

REVIEW OF OPERATIONS

Background

3.9.57 The State Electoral Office has been in existence for over 130 years, having principal responsibility for the conduct of parliamentary and certain non-parliamentary elections. Other responsibilities of the Office include:

- ▶ maintenance of the State electoral roll;
- ▶ annual compilation of voters' lists for use in municipal elections, and jury lists as required;
- ▶ provision of advice to the Government and the Parliament on issues affecting the conduct of parliamentary elections, including administrative issues requiring legislative remedy; and
- ▶ provision of voter information services.

3.9.58 The Electoral Commissioner, as chief executive of the Office, has a direct reporting relationship with the Parliament, which is facilitated through the presentation to the Parliament of Annual Reports, and further reports on the conduct of each parliamentary election and by-election.

3.9.59 The central objective of the Office is to conduct parliamentary elections and by-elections according to law, efficiently, and with unquestioned impartiality.

3.9.60 A 1987 review by the former Public Service Board identified that the efficiency and effectiveness of the Office could be enhanced through, inter alia, the:

- ▶ adoption of a role that was less dependent on the Australian Electoral Commission;
- ▶ development of strategic election plans;
- ▶ establishment of returning officer education programs;
- ▶ maintenance of voter education programs; and
- ▶ improvement of the Office structure and operating arrangements.

3.9.61 The Office has subsequently implemented various strategies and initiatives to address the review findings.

3.9.62 The key legislative requirements governing the operations of the Office, including procedures to be used for the enrolment of electors and the conduct of parliamentary elections, are contained in the *Constitution Act Amendment Act 1958* and the *Local Government Act 1989*.

3.9.63 The Office employs 21 permanent staff during non-election periods, however, this level is significantly increased when a State election is called. During election periods, the Office engages 110 returning officers, approximately 1 200 support staff and almost 14 000 polling officials on election day, to facilitate the conduct of the election.

3.9.64 The operating costs of the Office for the year ended 30 June 1992 totalled \$3.5 million (1990-91, \$2.7 million) while the cost of conducting the October 1992 State election was approximately \$12 million.

3.9.65 Audit carried out a review of the Office in order to assess the efficiency and effectiveness of its operations, including the conduct of the October 1992 State election.

3.9.66 The Electoral Office displayed an open and responsive attitude throughout the review, and reacted positively to the various recommendations proposed by audit.

Overall conclusion

3.9.67 Audit concluded that, given the management and procedural framework established by the State Electoral Office, the Parliament can have confidence in the Office's integrity and impartiality regarding the conduct of elections. Furthermore, its level of cost-efficiency as measured by the cost per elector of conducting State elections improved in 1992, and is consistent with the costs incurred by the State Electoral Offices of New South Wales and Western Australia.

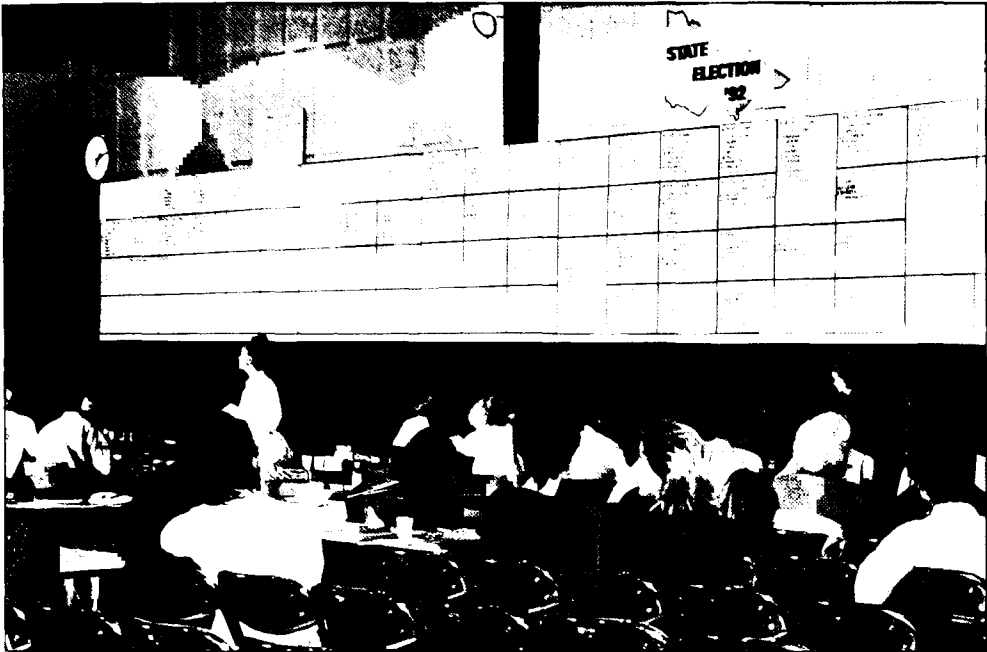
3.9.68 However, notwithstanding the above achievements, the audit review also highlighted a number of strategic issues that need to be addressed by the Office to further enhance the efficiency of its current operations and to ensure that it maintains a high level of performance within the electoral arena.

Conduct of the October 1992 State election

3.9.69 To enable an assessment to be made of the Office's performance in achieving its central objective of conducting elections according to law, efficiently and with unquestioned impartiality, the audit review, inter alia, included an examination of:

- ▶ documented procedures, for compliance with legislative requirements and the existence of adequate controls, particularly relating to the registration and counting of votes, to ensure the integrity of election results;
- ▶ returning officer selection procedures;
- ▶ training and guidance provided to returning officers prior to the election;
- ▶ management of the public information campaign conducted by the Office to raise voter awareness of their electoral rights and responsibilities;

- ▶ candidate responses to a post-election survey conducted by the Office to assist in assessing its performance; and
- ▶ public complaints prior to, and subsequent to the election.



Tally Room, October 1992 State election.

3.9.70 The review also included the observation of Office procedures on election night for the recording of results, and attendance at returning officer debriefing sessions held subsequent to the election to discuss issues relating to the conduct of the election.

3.9.71 On the basis of the above review, it was concluded that **adequate procedures had been established by the Office in relation to the conduct of the State election, to provide the Parliament with confidence in the integrity and impartiality of the election result.**

Cost of conducting 1992 State election

3.9.72 An important indicator that can be used to gauge the operational efficiency of the Office during election periods is the cost per elector of conducting the election, compared with previous elections in Victoria and elsewhere within Australia. However, in using this indicator, it is important that any cost comparisons take account of differences in election campaign lengths, which impact on the level and therefore comparability of election costs.

3.9.73 Audit analysis revealed that the Office had improved its cost-efficiency in the conduct of State elections since the previous October 1988 election. Specifically, the cost per elector of the October 1992 State election was \$4.22, compared with \$4.53, on the basis of constant prices, for the 1988 State election. The improvement in the cost-efficiency of the Office was in fact greater, considering the increased length of the October 1992 election campaign compared with that of the October 1988 election (1992, 50 days; 1988, 33 days), and the higher costs to the Office arising from the earlier engagement of electoral staff.

3.9.74 In addition, the cost per elector for the October 1992 election was consistent with the costs of State elections conducted in New South Wales (1991) and Western Australia (1989). Table 3.9C illustrates this position.

**TABLE 3.9C
COST PER VOTER FOR STATE ELECTIONS**

State	Date of election	Length of election campaign (a)	Amount (b)
		(days)	(\$)
New South Wales	May 1991	20	4.75
Western Australia	Feb. 1989	30	(c) 4.40
Victoria	Oct. 1992	50	4.22
Queensland	Dec. 1989	30	(c) 3.31
South Australia	Nov. 1989	28	3.36
Tasmania	May 1989	25	2.73

(a) As provided by the State Electoral Office.

(b) Costs expressed in September 1992 constant dollars.

(c) Figures unavailable for the September 1992 Queensland and February 1993 Western Australian State elections.

3.9.75 The table also indicates that certain Australian States have achieved lower costs than Victoria. The main contributing factors, according to the Electoral Office, include:

- ▶ lower accommodation costs incurred, resulting from the use in the States concerned of other than rented accommodation, which contrasts with the practice in Victoria; and
- ▶ differing lengths of election campaigns, impacting on overall cost levels.

3.9.76 Given the varying cost levels between States, it is important that the Office, through consultation with other State electoral offices, continues to identify cost-minimisation opportunities and takes appropriate action to further reduce election costs. In this regard, consideration should be given to the use of public offices or court houses for returning officer accommodation, as occurs in certain other States. However, it is recognised that **change should only be implemented where the effectiveness of Office operations and the integrity of the election result are not compromised.**

■ *RESPONSE provided by Electoral Commissioner, Victoria*

The Office will continue to pursue appropriate methods for minimising election costs, including any opportunities for reducing rental charges for returning officer accommodation.

Strategy to contain escalation in electoral roll maintenance costs

3.9.77 Essential to the effective discharge of the Office's electoral responsibilities is the maintenance of an accurate and up-to-date roll of all eligible voters. The primary purpose of the electoral roll is to facilitate the conduct of elections and the detection of instances where eligible voters have failed to cast a vote, or have cast more than one vote.

3.9.78 Under a 1928 agreement (revised in 1953) between the Commonwealth and the State, the electoral roll for Victoria is maintained jointly by the Australian Electoral Commission (AEC) and the Office. The roll is updated by the AEC principally using registration information voluntarily forwarded by voters, and the bi-annual conduct of habitation surveys of all households, which identify additions, deletions and changes to eligible voter details since the previous election. The Office also maintains a parallel version of the Victorian roll in order to fulfil its statutory obligations of producing municipal voters' lists for use in local government elections (for which associated costs are recovered), jury lists for use by the Sheriff's Office, and lists of additions and deletions to the electoral roll for Members of Parliament.

3.9.79 Based on the agreement between the Commonwealth and the State, the annual cost to the Office for the maintenance by the AEC of the Victorian electoral roll, prior to 1991-92, has been a **nominal fee of around \$2 800**, which involved a substantial level of subsidisation by the Commonwealth to the State. However, in 1990-91, the AEC on behalf of the Commonwealth, initiated negotiations with the Office (representing Victoria) for the purpose of revising this arrangement.

3.9.80 Under the financial arrangements proposed by the AEC, all its direct costs relating to the maintenance of the Victorian electoral roll are to be shared equally between the AEC and the Office. In this regard, **the claim on the Office for its share of roll maintenance costs for the 1991-92 financial year amounted to \$1.6 million**, principally comprising costs relating to the conduct of habitation surveys and computer processing and maintenance. This claim is yet to be paid by the Office.

3.9.81 While previously the Office had paid the nominal fee of \$2 800 to the AEC for maintenance of the Victorian electoral roll, in light of the substantial proposed increase in the fees payable, the State Electoral Commissioner has now raised a number of concerns with the AEC in relation to the proposed roll maintenance arrangements, including whether:

- ▶ maintenance of the rolls for each State and Territory, municipality and jury district, on a large central computer is the most efficient strategy;
- ▶ the AEC would be able to provide timely roll products if 2 or more States requested such products at around the same time;

- ▶ procedures employed by the AEC for data capture are the most efficient; and
- ▶ the costs of maintaining the roll can be adequately scrutinised.

3.9.82 Apparently, these matters did not cause the same concern before the substantial increase in AEC costs was broached.

3.9.83 The Office is currently assessing the proposed roll maintenance arrangements and, consistent with its April 1991 Information Technology Plan, is examining an alternate strategy in an effort to address the above concerns. This strategy involves the development of a new computer system which will be used to:

- ▶ Identify additions, deletions and other changes to electoral data, for provision to the AEC for updating the joint State-Commonwealth electoral roll; and
- ▶ Scan electoral rolls subsequent to elections to identify non-voters. This process will eliminate current arrangements under which the AEC undertakes this function on behalf of the Office, at a cost of approximately \$290 000.

3.9.84 As part of the alternate strategy, the Office is negotiating with certain public bodies to establish processes for the regular extraction from their databases of relevant voter information, as a more efficient means of collecting such information. Privacy issues are being addressed by the Office in relation to the proposed data extraction.

3.9.85 The Office has estimated that the development and utilisation of the proposed computerised system will require an initial capital outlay of around only \$85 000. When fully operational, the new system will reduce the annual cost for roll maintenance of \$1.6 million to around \$1.1 million, and will eliminate the cost incurred every election year for electoral roll scanning.

3.9.86 Based on State Electoral Office estimates, the reduced expenditure flowing from a diminished reliance on the AEC for the maintenance of the Victorian electoral roll translates to cost savings of around \$2.3 million per 4 year election cycle.

3.9.87 While the Office estimates substantial cost savings from the introduction of an alternate electoral roll maintenance process, it is important that negotiations with the AEC and relevant public bodies be concluded prior to proceeding with the proposal, to ensure the estimated savings are confirmed.

- *RESPONSE provided by Electoral Commissioner, Victoria*

The Office is pleased that audit agrees with the strategy developed by the Office to contain electoral roll maintenance costs. Audit's conclusion is accepted.

Non-recovery of costs incurred for collection of electoral fines

3.9.88 Under the *Constitution Act Amendment Act 1958*, it is compulsory for each eligible elector to cast a vote at each State election. It is also an offence for an elector to cast more than one vote. On completion of elections, the electoral roll is scanned by the AEC on behalf of the Office in order to identify those eligible electors who have not met their electoral responsibilities and to initiate action to recover fines payable by such electors. Under legislation, the Electoral Commissioner has discretion to impose fines of up to \$50 on defaulting electors.

3.9.89 Following the October 1992 State election, the Office identified around 120 000 electors who had failed to cast a vote. At the date of the audit, around 2 200 of these electors faced fines of \$40. In the majority of other cases, satisfactory explanations were received for the failure to vote.

3.9.90 Audit found that a number of factors adversely impacted on the costs borne by the State relating to the collection of these penalties, namely:

- ▶ lengthy recovery procedures required by legislation, spanning periods up to 12 months and involving numerous communications between the Office and electors;
- ▶ the utilisation of the 110 returning officers after the 1992 State election to initiate the follow-up process, thus extending the period of their engagement by 4 weeks at a cost of around \$570 000; and
- ▶ the decision of the Electoral Commissioner to not impose the maximum fine of \$50 provided for in legislation, in respect of the 1988 and 1992 State elections.

3.9.91 Audit estimates that the cost of recovering fines imposed on infringing electors in relation to the October 1992 State election will be in the order of \$760 000 while revenue recoveries will be around \$88 000. Therefore, the State will incur a net loss of \$672 000 from the collection of these fines, a situation which is unsatisfactory from a financial perspective.

3.9.92 Given the substantial costs incurred by the State from the follow-up of non-voters and the collection of electoral fines, there is a need to review the related legislative requirements, with a focus on improving the efficiency of current procedures and re-assessing the level of fines imposed under legislation.

■ *RESPONSE provided by Electoral Commissioner, Victoria*

The Office acknowledges that revenue from fines for failure to vote does not meet the cost of the Office's non-voter follow-up exercise. A major benefit of the non-voter follow-up process is that it produces significant information which helps "cleanse" the electoral roll (e.g. information on electors who have changed address, died etc.). In reporting to Parliament on the 1992 State election, the Commissioner will comment on the procedures prescribed by legislation for the follow-up of non-voters. Much of the cost associated with the follow-up of non-voters is a direct result of these procedures.

Conduct of non-parliamentary elections

3.9.93 In addition to its responsibilities for the conduct of parliamentary elections, the Office provides a service for the conduct of non-parliamentary elections. These elections, subject to Governor-in-Council approval and due notification to Parliament, are conducted for a variety of statutory and other organisations, including:

- ▶ government organisations, such as the State Superannuation Board;
- ▶ unions with members covered by State Awards, such as the State Public Services Federation; and
- ▶ organisations recognised as having a "public interest", such as the Victorian Canine Association.

3.9.94 These elections are conducted by Office staff with assistance as required from temporary employees. All costs associated with the elections are recovered by the Office together with a small profit margin.

3.9.95 During 1991-92, the Office conducted 11 non-parliamentary elections compared with 17 elections in 1990-91. The reduction in the number of elections conducted in 1991-92 was principally due to the varying election cycles relating to organisations which utilise the service provided by the Office.

3.9.96 The main benefit to the agencies of having the Office conduct the elections is that they are conducted impartially, and are seen to be conducted impartially. The financial benefit to the Office from these elections is the realisation of a profit margin on top of costs incurred, which amounted to \$60 000 in 1992. A further benefit to the Office of conducting non-parliamentary elections is that they provide training for staff in the planning and management of elections.

3.9.97 In view of the benefits derived by the Office from the conduct of non-parliamentary elections, the Office should actively pursue further opportunities in this area, through promotion of its services to other relevant bodies.

- *RESPONSE provided by Electoral Commissioner, Victoria*
The Office agrees with audit's conclusion.

Information systems

3.9.98 In April 1991, the Office developed an information technology plan to address its business needs for the succeeding 3 to 5 years. The plan provides for:

- ▶ implementation of an Elections Management System (EMS) to be used to store information regarding candidates, registered political parties, ballot papers and provide statistical information regarding election results;

- ▶ re-development of the existing parallel electoral roll system, to allow the maintenance of the electoral roll by the Office, with diminishing reliance on the AEC; and
- ▶ installation of appropriate software packages for word-processing, spreadsheet, project management and graph presentation, as required.

3.9.99 The development of this plan and pursuit of the identified strategies will assist the Office in enhancing its overall efficiency and effectiveness. However, to ensure that Office information systems meet current and future management needs, **deficiencies in the current information systems, including associated development and maintenance procedures, need to be addressed** through:

- ▶ development of an improved financial information system, to provide for the regular reporting of financial results for specific expenditure categories, including the performance achieved against established budgets;
- ▶ adoption of a formal system development life cycle, to ensure that new systems are implemented in an efficient and effective manner;
- ▶ development of a disaster recovery plan, to minimise disruption in the event of computer failure; and
- ▶ establishment of off-site storage for back-up data files, to ensure that key information could be recovered in the event of an on-site disaster.

■ *RESPONSE provided by Electoral Commissioner, Victoria*

The Office's financial information system has been somewhat constrained by the fact that financial and personnel services are provided by another agency. Up until October 1992, the Department of Finance provided the service and since November 1992, the Department of Justice. Discussions are taking place with Justice to develop a chart of accounts which accurately reflects the Office's election programs.

The Office will develop an appropriate System Development Life Cycle methodology.

The Office has developed disaster recovery and file back-up procedures for the Election Night Votes System, and the LAN word processing system. The Office has included in its Information Technology Strategic Plan a disaster recovery objective for the State Roll System and the Election Management System. Audit's comment on the need for appropriate disaster recovery procedures, and for off-site storage for back-up data files, are supported by the Office.

Viability of introducing computerised voting processes

3.9.100 The electoral process in Australia has traditionally been a manual one, involving the casting of written votes by electors, and the counting and computation of the results by electoral staff. By nature, this process has been labour intensive and therefore costly.

3.9.101 In times of ever increasing efficiencies resulting from the utilisation of computerised technology, there has been little progress in the use of information technology systems to facilitate the electoral process, although there are key areas which, by their very nature, lend themselves to the introduction of computerised processing. Such areas include the casting and counting of votes.

3.9.102 The introduction of electronic voting and counting processes can provide substantial benefits, including:

- ▶ immediate computation of an election result;
- ▶ potential for staff reductions;
- ▶ elimination of accidental informal voting;
- ▶ elimination of human error in the counting process; and
- ▶ immediate identification of an individual attempting to vote more than once.

3.9.103 Research undertaken within Australia into the viability of electronic electoral processing includes that conducted by the Commonwealth Electoral Commissioner in 1987 and by a New South Wales committee of inquiry in 1989. The research did not favour the introduction of computerised voting for the following reasons:

- ▶ the system development would prove too costly;
- ▶ the system would only be required once every electoral cycle;
- ▶ a computerised network would have to be located across each State and linked to a central database;
- ▶ current legislation requires that elections be manually conducted; and
- ▶ reluctance of the public to accept a computerised system.

3.9.104 The key factor impacting on the above assessments was seen to be the prohibitive costs and logistics of developing new computerised systems to facilitate the electoral process.

3.9.105 **The State Electoral Office considers that, while introduction of computerised voting in Victoria could result in the attainment of the various benefits outlined above, at this time, the costs associated with such an initiative outweigh the potential benefits.**

RESIDENTIAL TENANCIES FUND

FINANCIAL MANAGEMENT OF THE RESIDENTIAL TENANCIES FUND

Background

3.9.106 The Residential Tenancies Fund was established under the provisions of the *Residential Tenancies Act* 1980 and forms part of the Trust Fund within the Public Account. Up to October 1992, the Fund was administered by the former Ministry of Consumer Affairs and since that date its operation has been the responsibility of the Office of Fair Trading within the Department of Justice.

3.9.107 Under the legislation, landlords or their authorised agents (generally real estate agents) are required to lodge tenants' bond moneys, usually equivalent to one month's rent, in tenancy trust accounts held by financial institutions approved by the Treasurer. Interest earned on these trust accounts must be credited to the Fund in accordance with agreements entered into with institutions. Balances within the Fund, which include progressive returns on investment, are available to meet costs of administering the legislation and other authorised outlays to support tenancy services.

3.9.108 Table 3.9D summarises the financial transactions of the Fund over the past 5 financial years.

TABLE 3.9D
FINANCIAL TRANSACTIONS OF THE RESIDENTIAL TENANCIES FUND
('\$000)

	1987-88	1988-89	1989-90	1990-91	1991-92
Receipts -					
Interest on bonds	5 516	6 522	9 862	8 000	5 901
Interest arrears from banks					2 197
Interest on investments	1 743	2 735	3 445	3 341	2 873
Other	217	251	245	340	479
	7 476	9 508	13 552	11 681	11 450
Payments -					
Salaries etc.	1 872	2 762	3 745	4 725	4 845
Grants	575	1 520	1 702	1 873	2 383
Administrative expenses	643	1 110	1 819	2 162	3 660
Section 54 loans (a)	468				2 000
	3 558	5 392	7 266	8 760	12 888
Surplus (Deficit)	3 918	4 116	6 286	2 921	(1 438)
Opening balance 1 July	12 899	16 817	20 933	27 219	30 140
Closing balance 30 June	16 817	20 933	27 219	30 140	28 702

(a) Special bond assistance loans to needy private tenants under authority of the enabling legislation.

3.9.109 Currently, there are 14 financial institutions which have been approved under the legislation to accept tenants' bond moneys. At 31 January 1993, an aggregate amount of \$110 million, involving around 14 700 tenancy trust accounts, was held in this form by 13 institutions. Major banks held \$101.8 million or 92.8 per cent of this amount.

3.9.110 The financial management of the Fund has been the subject of 2 external reviews over the past 5 years, namely:

- ▶ an Auditor-General's review, the results of which were communicated to the Parliament in the *Report on Ministerial Portfolios, May 1989*; and
- ▶ a review covering all aspects of residential tenancy services by a special government steering committee which reported its findings in August 1989.

3.9.111 Audit conducted a recent review of the Fund's operations to assess the nature of action taken by management in response to the matters addressed in the above reviews. Particular attention has been directed by audit towards determining whether:

- ▶ agreements entered into with financial institutions have been conducive to maximising interest returns on bond moneys to the Fund;
- ▶ financial institutions, landlords and their agents have administered tenants' bond monies in accordance with the legislation; and
- ▶ the return on Fund investments has been optimised.

Overall conclusion

3.9.112 A total of \$110 million was held by financial institutions (around 93 per cent by the major banks) on behalf of tenants at 31 January 1993.

3.9.113 Two external reviews of the financial management of the Fund were carried out in 1989, one by audit and the other by a government steering committee. Both reviews found that the financial arrangements then in place heavily favoured the major banks and that management needed to initiate negotiations with the banks to gain the best possible interest return to the Fund.

3.9.114 The latest audit review found that little action had been taken on negotiations with the major banks for most of the period since 1989. Negotiations did not effectively commence until August 1992 and were still in progress at date of preparation of this Report. While agreement in principle has been reached on some points, the most critical issue, establishment of a satisfactory interest return to the Fund, has not been finalised. The delay in commencement of negotiations has meant that the major banks have been able to continue to maximise their profit margins on tenants' bonds, to the detriment of the Fund.

3.9.115 In the short-term, the Department needs to ensure that the present round of negotiations on interest levels is satisfactorily finalised without delay. From a longer-term viewpoint, however, decisive action is necessary in terms of implementation of a more effective framework for the financial management of tenants' bond moneys. Several options have been put forward by audit to assist deliberations in this area.

3.9.116 In February 1991, the former Ministry initiated an exercise to match the records of estate agents with those provided by the banks in support of interest on tenants' bonds paid to the Fund. Through this extensive exercise, management found that approximately \$9 million in bond moneys had been inadvertently overlooked by the banks in calculating interest. As a consequence, more than \$2 million in interest arrears to the Fund was collected from the banks.

3.9.117 In terms of compliance by estate agents and landlords with their legislative obligations to lodge bonds in special accounts, audit has estimated, on the basis of the latest available information on tenanted households contained in the 1986 census, that a minimum of \$750 000 a year in interest is lost to the Fund through non-compliance. Because the activities of estate agents are subject to independent scrutiny by the Estate Agents Board, it is likely that the greater portion of this lost interest would relate to non-lodgement of bond moneys by landlords.

3.9.118 The Department has commenced some preliminary work on monitoring the activities of landlords in relation to the lodgement of tenancy bonds.

Maximising interest returns on tenants' bond moneys

Summary of findings from previous reviews

3.9.119 As illustrated in the earlier Table 3.9D, interest earned on tenants' bond moneys constitutes the major source of income to the Fund (1991-92, around \$6 million or 53 per cent of total receipts). With funds of the magnitude of \$110 million currently placed at credit of special trust accounts across financial institutions, it is vital that adequate steps are taken by those responsible for the Fund's administration to ensure that interest returns on bond moneys are maximised.

3.9.120 The Auditor-General's *Report on Ministerial Portfolios, May 1989*, drew attention to the absence of uniformity of terms and conditions embodied in agreements with financial institutions. In effect, interest rates, methods of interest calculation and timing of interest payments varied from institution to institution, a framework which was not conducive to optimising the interest return.

3.9.121 **Audit recommended at the time that, given the unsatisfactory circumstances, consideration be given to calling tenders from financial institutions with a view to rationalising the overall administration of tenants' trust accounts.**

3.9.122 The August 1989 report of the government steering committee also commented upon several significant weaknesses in the arrangements with institutions from the viewpoint of the Fund, including:

- ▶ inconsistent terms and conditions for interest rates and methods of calculation;
- ▶ the adverse impact on interest calculations from the institutions' treatment of trust accounts as individual accounts, with average interest returns below the *at call rate* paid by savings banks;
- ▶ interest not calculated on minimum daily balances;
- ▶ the capacity of major banks to invest millions of dollars for high yield returns; and
- ▶ institutions holding the largest amounts of bond moneys offered the greatest resistance to change.

3.9.123 **The steering committee recommended** that the approved institutions be persuaded to treat individual tenancy trust accounts as one consolidated account for calculations of interest and that management negotiate with institutions to gain the best possible return to the Fund.

3.9.124 In addition, the steering committee identified the benefits of a Bond Board citing the various advantages of centralised management enjoyed by States which had established such Boards. These advantages included a far better mechanism for optimising investment returns, centralised bond management and improved administration, monitoring and research facilities. As a result of these conclusions, the steering committee recommended that work commence on the implications and impact of a Bond Board system with a view to implementation during 1990-91.

3.9.125 It can be seen that up to 1989, the arrangements in place for tenancy trust accounts heavily favoured the major banks and that the circumstances outlined by the 2 external reviews called for urgent remedial action by management.

3.9.126 Management's responses in 1989 to the reports of both the Auditor-General and the steering committee were along similar lines. Essentially, management advised that it had commenced negotiations with all authorised institutions with the aim of standardising agreements, persuading the banks to consolidate individual accounts into one account for the purposes of interest calculation and, generally, to bring terms and conditions in line with acceptable standards.

Adequacy of management's action in response to the reviews

3.9.127 In November 1989, management commenced action to develop, on behalf of the Government, new tenancy legislation aimed at establishing a Rental Bond Board (the Government's legislative proposal for a Bond Board was subsequently defeated in the Parliament in September 1991). Because of this action, management indicated to audit that it was considered inappropriate to also negotiate a better return to the Fund, within the existing banking arrangements. As a consequence, audit found that virtually no action was taken on negotiations with the major banks for most of the period since 1989.

3.9.128 It was not until August 1992, that management, with consultancy involvement, commenced negotiations with the major institutions on a revision of key terms and conditions covering interest on bond monies. In effect, the major banks had been allowed, without any real challenge, to continue to have the capacity to maximise their profit margins on tenants' bonds.

3.9.129 By February 1993, the Department of Justice, through its Office of Fair Trading, had been involved in 2 rounds of negotiations with the major banks. These negotiations have centred on the level of interest agreed with and paid to the Fund by the more recently approved institutions, namely, second tier banks. This level of interest, which is higher than that paid by the major banks, is tied to the "90 day bank accepted bill rate" although not in the upper percentage limits of that rate.

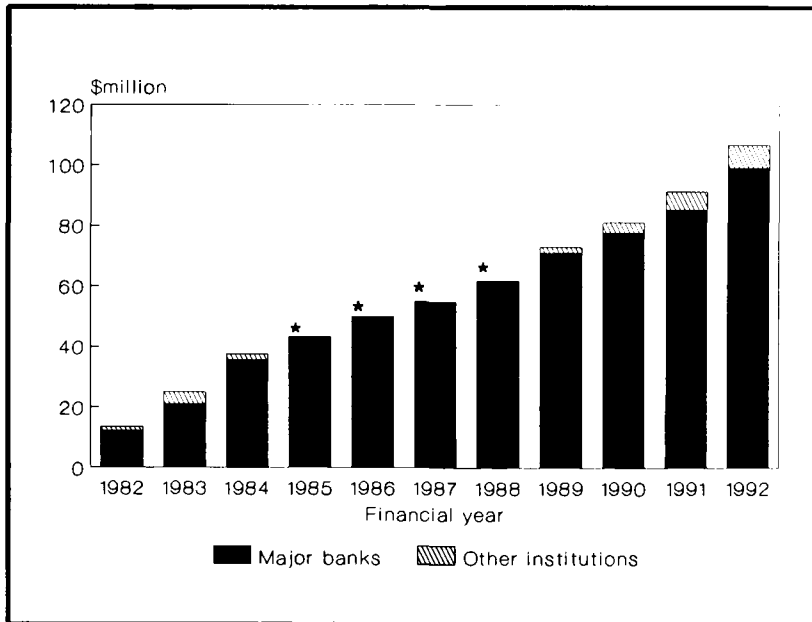
3.9.130 While the Department has reached agreement in principle with the major banks on some points, namely, interest on daily balances, payments on a monthly basis, and an important provision for annual reviews, the most critical area of negotiations, i.e. establishment of a satisfactory interest return to the Fund, has not been finalised. **At the date of preparation of this report, all offers by the major banks on negotiation of interest on bonds have been below the rate paid by second tier banks, with one bank offering less than its current rate.**

3.9.131 It is relevant to point out that past discussions by management with the major banks have sought not to displace the current banking arrangements of estate agents and landlords. This approach has facilitated the negotiating position of the major banks in maintaining the downward pressure on the level of interest rate.

3.9.132 Also, the major banks have contended that their superior credit risk, when compared with second tier banks, justifies the lower interest return paid by them to the Fund. **However, audit considers the differential in credit risk needs to be balanced against the fact that the major banks, as approved institutions holding the greater proportion of bond moneys, have an automatic presence in the real estate industry through which to expand their overall customer base and to market their financial services.**

3.9.133 Some measure of the degree of financial advantage which has been available to the major banks over the years, can be gleaned from the fact that there has been a steady increase in the aggregate level of bond moneys held across institutions since 1981. Table 3.9E illustrates this position and the high proportion of funds held by the major banks.

**CHART 3.9E
RESIDENTIAL TENANCIES
BOND MONEYS HELD AT INSTITUTIONS**



* Less than \$500 000 in total held by other institutions during these years.

3.9.134 Audit recognises the commercial reality of the financial arrangements and respects the legitimate right of the banks to generate a reasonable profit margin from their important role in the process. However, it is reasonable to assume that the consistent annual increase in bond moneys would have enabled the banks to apply maximum flexibility in the use of those funds and to adopt both short and long-term investment strategies in accordance with prevailing market conditions.

3.9.135 In such circumstances, the lack of action taken by management since 1989 on negotiations with the major banks has not been in the best interests of the Fund. **The Department needs to ensure that its present round of negotiations on interest levels are satisfactorily finalised from the Fund's perspective without delay.**

3.9.136 To further illustrate this point, based on the difference between the interest return paid to the Fund by the second tier banks and the average interest paid by the major banks, audit calculated that **the delay in negotiations with major banks has resulted in interest forgone to the Fund of at least \$600 000 since July 1989.**

3.9.137 It is relevant to discussions on this issue that the Rental Bond Board of New South Wales, which receives and centrally manages bond moneys in that State, achieved almost double the interest rate earned by the Fund on bond moneys during 1991-92 (NSW, average 11 per cent; Victoria, 5.9 per cent).

3.9.138 From a longer term perspective, the lack of any meaningful improvement over the years in the Fund's position on interest earnings, relative to that of the financial institutions, calls for a more decisive approach to the issue. In this regard, audit considers that the following options require consideration:

- ▶ central management of all tenancy trust accounts outside of the financial institutions' network;
- ▶ calling of tenders and placement of all existing and future tenancy business with the institution offering the most favourable terms and conditions;
- ▶ calling of tenders for placement of only future tenancy business but incorporating subsequent changes to existing tenancies; and
- ▶ amendment to the legislation to provide the Treasurer with expressed authority to stipulate minimum standards of terms and conditions to be adhered to by all approved institutions.

■ *RESPONSE provided by Acting Secretary to the Department of Justice*

Management considered calling tenders and complied with audit's 1989 recommendation. It decided against this action in favour of pursuing establishment of a Rental Bond Board, as recommended by the Residential Tenancies Review.

The report asserts that virtually no action had been taken on negotiations for most of the period since 1989. This is incorrect. Management initiated discussions with financial institutions in 1989 and then abandoned these discussions because:

- It was apparent that the objective of achieving substantially better returns was not going to be met through this process; and*
- Management had assessed all recommendations for improved management of the Fund and assessed that action to establish a Rental Bond Board was the action most likely to achieve improved returns and better compliance.*

Following the defeat of the Rental Bond Board Bill in Parliament in September 1991, management decided to again attempt a negotiated improvement in rates using consultants experienced in such negotiations, but with independence from the authorised institutions. Expressions of interest were called in December 1991 and closed on 31 January 1992. Following negotiations with tenderers, Effectiveness Review Committee approval was obtained in April. A contract was let to external consultants in July after considerable negotiation on the form of the contract. It is therefore also unreasonable to imply that work did not commence until August 1992.

On the basis of the above information I contend that audit's claim that there was a lack of action from 1989 is incorrect.

Audit has expressed some views about the current negotiations with the banks. These views do not correspond with the professional advice of our consultants. I believe that it is inappropriate and possibly disadvantageous for audit to make public statements about negotiations which are not complete.

The report implies that the completion of the current round of negotiations will lead to an increase in returns to the fund and that delays have lead to a loss in revenue. This is clearly not the case. The report correctly reports that the negotiations are not producing the results which audit asserts are possible. The statement that the figure of \$600 000 has been forgone is therefore misleading. The comparison of the returns with the New South Wales Bond Board returns is also misleading. It compares income only and takes no account of the costs incurred by the New South Wales Bond Board in collecting and administering bond moneys relative to the Victorian system costs.

On the substantive issue of what should be done in future, management will present the options to the current Government for consideration.

Compliance with legislation dealing with lodgement of bond moneys

3.9.139 The Department has the important responsibility of monitoring compliance by approved institutions and the real estate industry (estate agents and landlords) with the provisions of the legislation dealing with lodgement of bond moneys in tenancy trust accounts.

3.9.140 Any non-compliance activity is likely to fall into 2 principal categories, namely:

- ▶ provision of incomplete information by financial institutions on authorised trust accounts and related interest computations; and
- ▶ failure of estate agents and landlords to lodge tenants' bond moneys in authorised trust accounts with approved institutions.

Completeness of information provided by institutions

3.9.141 The Auditor-General's *Report on Ministerial Portfolios, May 1989*, recommended that institutions be required to adhere to specific accountability requirements (e.g. certification by banks' auditors), to provide assurance on the completeness of bond moneys held and the accuracy of associated interest calculations. The August 1989 steering committee report also addressed this issue and recommended that a new management position be created with responsibility for all aspects of the Fund, including ongoing liaison with institutions.

3.9.142 After consideration of these recommendations, a full-time internal Fund Administrator was appointed in February 1991. The key task undertaken since that time by the Administrator has been an intensive exercise to determine the completeness of information provided by the institutions on tenancy trust accounts. This exercise, which commenced in April 1991, has involved detailed matching of information on trust accounts obtained from all registered estate agents with data supporting interest payments to the Fund provided by the banks.

3.9.143 Following this matching process, the Administrator found more than \$9 million in bond moneys, involving 160 trust accounts, had not been taken into account by the banks in calculating interest. As a consequence of this omission, the Department collected more than \$2 million in interest arrears during 1991-92 from the banks. Audit was advised by the Department that it was satisfied that the non-identification of the 160 trust accounts had been the result of administrative problems within the banks and was unintentional.

3.9.144 The Department is to be commended for its positive efforts in this exercise. It will be important that it complements this initiative in the future through similar reviews on a periodic basis.

Extent of compliance by real estate agents

3.9.145 The activities of real estate agents are subject to periodic inspections by the Estate Agents Board and annual audits by private sector auditors conducted under the overview of the Board.

3.9.146 Prior to 1991, management relied totally on the results of the Estate Agents Board's inspections and audits for information on compliance by estate agents with the legislation relating to the placement of tenancy bond moneys into authorised trust accounts.

3.9.147 Since the initial exercise of confirmation of tenancy trust accounts maintained by estate agents and related interest earnings, the Department has determined to place less significance on the need for information to be channelled to it by the Estate Agents Board on the results of periodic audits and inspections.

3.9.148 While ongoing communication between the Department and the Board occurs in relation to information on interest rates achieved in negotiations with banks and updates on listings of estate agents, little exchange occurs in relation to the findings of Board inspections.

3.9.149 The Department should complement its own monitoring activities through periodic feedback from the Estate Agents Board on matters of significance concerning tenancy issues.

Extent of compliance by landlords

3.9.150 In contrast to the position relating to estate agents, the activities of landlords in regard to lodgement of tenancy bonds are not subject to any form of independent scrutiny. It is likely, therefore, that any material non-compliance with legislative provisions would be in the landlord sector.

3.9.151 Traditionally, very little scrutiny had been carried out by management in the area of bond lodgement by landlords until the Administrator commenced an exercise in May 1992. Letters were sent to about 10 000 private landlords seeking tenancy information. These landlords, who were given indemnity by the then Minister to encourage response, were selected by sample from 26 metropolitan municipal rolls.

3.9.152 By 31 December 1992, just under 50 per cent of responses had been received from landlords. **As a result of this initiative, the Department estimates that a further 1 013 tenancy bonds totalling around \$608 000 have been lodged by landlords at financial institutions, with an additional interest return to the Fund of around \$22 000 a year.**

3.9.153 The Department advised audit that the results of its work in the landlord sector should be regarded as preliminary in nature as a number of municipal councils have not been able to provide the information requested while others could only furnish outdated information. As such, the sample of contacted landlords represents an initial step only.

3.9.154 To form some judgement on the total financial impact to the Fund of non-lodgement by landlords of bond moneys, audit examined the latest available Australian Bureau of Statistics data (*1986 census*) on tenanted households in Victoria. Using an average value of current bonds, \$600, and assuming a conservative "no growth" in tenanted properties since 1986, audit calculated that total bond lodgements in financial institutions to 31 January 1993 should be at least \$130 million. **As previously indicated, bond monies held by institutions at that date totalled \$110 million, or \$20 million under the audit estimate. Applying the effective interest rates earned on bond moneys for January 1993, this differential would equate to interest lost to the Fund of a minimum of \$750 000 a year.**

3.9.155 As the Department's approach has, to date, been predominantly manual-based, potential exists for the application of advanced information technology facilities for gathering and matching of key information obtained from banks, estate agents and landlords.

3.9.156 Also, because of the logistic difficulties arising from dealing with many municipal councils across the State, the Department should consider liaison with other external bodies to assist in identifying tenanted households in Victoria.

3.9.157 **Given the potential magnitude of non-compliance by landlords and the opportunity for a greater return to the Fund, it will be important that the Department finalises its current investigative program without delay.**

- *RESPONSE provided by Acting Secretary to the Department of Justice.*

The audit report fails to recognise the parallel strategy of prosecuting landlords who do not comply with bond lodgement requirements. Management believes that substantial improvements in level of landlord compliance can be only achieved if the current system of collection and administration of bonds is altered, however, we will continue to resource the existing strategy to achieve some improvement.

Maximising the return on Fund investments

3.9.158 Interest generated from the ongoing investment of the Fund's accumulated balance constitutes a significant source of income to the Fund. During 1991-92, interest received from investments totalled \$2.9 million.

3.9.159 Since 1984-85, moneys in the Fund have been invested by way of deposits with the Victorian Development Fund (now managed by the Treasury Corporation of Victoria) in accordance with a direction of the Treasurer. The audit review in this area indicated that deposits have been mainly placed for periods of 30 days with an occasional investment for up to 180 days.

3.9.160 The Department now recognises that the steady build up in the Fund's accumulated balance was conducive to a greater mix of short and long-term investment strategies than that applied over the years. **It is currently seeking expressions of interest from external Fund Managers with a view to increasing the interest return on investments.**

- *RESPONSE provided by Acting Secretary to the Department of Justice.*
Management is reviewing the existing strategy.

Recent government review of fair trading

3.9.161 Early in 1993, the current Government commissioned a review of matters relating to fair trading and business affairs, with concentration on 2 key areas, namely:

- ▶ the establishment of an Office of Fair Trading and Business Affairs; and
- ▶ community programs funded by that Office.

3.9.162 The results of the review were reported to the Minister in February 1993. The report included comment and recommendations relating to the management of the Residential Tenancies Fund. At the date of preparation of this Report, the findings of the review were under consideration by the Minister.

OFFICE OF THE CHIEF COMMISSIONER OF POLICE

POLICE FEES AND CHARGES**Background**

3.9.163 A function of the Office of the Chief Commissioner of Police (OCCP) is to provide police services, for which a fee may be charged, at sporting and entertainment events.

3.9.164 The Auditor-General's *Report on Ministerial Portfolios, May 1989*, stated that the failure by the OCCP to enter into formal agreements with outside organisations for the provision of police services, had resulted in disputed claims by the parties involved and delays in the payment of accounts. In response, the OCCP stated that a mandatory user pays policy for the provision of police services could not be enforced until relevant legislation was altered.

3.9.165 Since 1989 there have been 2 amendments made to the regulation governing the levying of charges for police services.

3.9.166 An audit review was undertaken to determine whether the current policies and procedures relating to the provision of police services at sporting and entertainment events were effectively applied.

Legislation

3.9.167 Statutory Rules relating to the charging of fees for police services provided at sporting and entertainment events have been in force since at least 1957. The Police Regulations 1957 provided that, "*The services of police applied for by promoters of entertainment and sporting events for duty within a place where payment is made for admission shall be charged for*".

3.9.168 The Police (Charges, Expenses and Allowances) Regulations 1977 removed the mandatory obligation to charge fees and provided a discretionary power.

3.9.169 In July 1991 the Police (Charges, Expenses and Allowances) (Sporting and Entertainment Events) Regulations 1991 were expanded to provide for the charging of fees for police deployed both within and outside venues used to hold sporting and entertainment events. The regulation removed the requirement of a police presence to have been requested and an admission fee to the event, before an event qualified as one for which a charge may be levied in respect of police services provided. The regulations also allowed for police deployed in planning, supervising and supporting the policing of an event to be charged for.

3.9.170 The Legal and Constitutional Committee of the Parliament conducted an examination of the 1991 Regulations, the results of which were reported to Parliament in the Committee's *Twenty - Third Report on Subordinate Legislation, November 1991*. The Report commented that the regulatory impact statement prepared in connection with the regulations clearly identified that their intention was for charges to be levied, "... *when admission charges are made and/or where events are entrepreneurially/commercially sponsored*". The Committee expressed concern that the Regulations were written in such a way as to confer discretion to apply the charges to any sporting or entertainment event, regardless of the ability to pay. Further, no definition of the circumstances in which charges were to be made was provided. The then Minister for Police and Emergency Services undertook to address the Committee's concerns when redrafting the Regulations which were due to lapse on 30 June 1992.

3.9.171 The Police (Charges) Regulations 1992, which were operative from 1 July 1992, provided that the Chief Commissioner of Police may charge for police services at sporting and entertainment events where either admission charges are made, the event is commercial in nature or the event is commercially or entrepreneurially sponsored.

Management information system

3.9.172 If executive management is to exercise adequate control over the resources entrusted to it, a suitable management information system is a necessity. Audit undertook a review of the existing system relating to the deployment of police at sporting and entertainment events.

3.9.173 The review disclosed that, although certain records are maintained, there is no central management information system maintained which enables an overall review of:

- ▶ the level of police resources provided at sporting and entertainment events and the number and nature of those events;
- ▶ the costs involved and the level of recovery; and
- ▶ the exercise of the discretionary power not to charge and whether it had been applied in a consistent and equitable manner.

3.9.174 From an examination of records relating to certain sporting and entertainment events at which police services were provided, details of which are contained in paragraph 3.9.176, it was evident that substantial costs are incurred and that a significant portion of those costs are not recovered as a result of the use of the discretionary power. It was also found that where the discretionary power had been applied, reasons for its use were not documented.

3.9.175 Audit recognises that the Regulations give absolute discretion to the OCCP to decide what charges, if any, are to be made. **As any costs not recovered represent a subsidy by the State, audit is of the view that management should have in place a system which readily provides details, at the macro level, of the costs of resources provided, the amount recovered and the extent of, and reasons for, the provision of a subsidy.** Management would also be able to ensure that there was consistent application of the discretionary power.

- *RESPONSE provided by Deputy Commissioner (Administration), Victoria Police*

Victoria Police do not consider that the resources needed to establish and operate a centralised management system through the Victoria Police mainframe computer could be justified.

Use of discretionary power

3.9.176 Audit examined the records held by the OCCP relating to a number of events conducted between September 1991 and April 1992, at which police services were deployed. The examination disclosed that, **in a number of instances, the organiser of an event had not been charged for the services provided and that there was no documentation of the reasoning for such decision.**

3.9.177 Based on information available in the files examined, **the discretionary power not to apply any charges had been applied to services provided amounting to approximately \$667 000.** A perusal of highway event permits, issued by the OCCP's Traffic Support Group, indicated that there were at least 20 entrepreneurial or commercial organisations which held a minimum of 400 cycling events annually at which a police presence was required but for which charges were not levied. The cost of the police presence at these events is not known.

3.9.178 As part of the review, records maintained by the OCCP relating to the provision of police resources at the 1991 and 1992 Royal Melbourne Agricultural Shows were examined. Based on information available in the Operational Orders, the cost of the planned police resources to be provided at the 1991 and 1992 shows was estimated by audit to be in excess of \$200 000 and \$186 000, respectively. These estimates did not include the cost of resources used in planning the police presence and the cost of all police vehicles used. The show organiser was charged only \$41 766 and \$48 508, respectively. The charges were based on details of police deployed as provided by the police co-ordinator for the event. Other than a statement by the responsible OCCP officer that the fee to be charged had been agreed with the organiser, there was no recorded explanation as to the disparity between the number of police charged for and the number of police to be provided as set out in the Operational Order.

3.9.179 **The absence of an adequate management information system, as referred to in paragraphs 3.9.172 to 3.9.175, prevented audit from determining the total costs of police deployment to which the discretion not to charge had been applied.**

- *RESPONSE provided by Deputy Commissioner (Administration), Victoria Police*

Victoria Police disagree with the audit findings that a specific number of events totalling \$667 000 had not been charged for in terms of fee for service.

In respect to the Royal Agricultural Show, fees were negotiated which were not intended to recoup fully the provision of public safety for an event that has widespread community support.

Of more concern, the list tabled by audit includes events such as the Hells Angels Annual Festival held at Broadford which is considered a police operational event and others such as Carols by Candlelight and Moomba where there is no intention to consider the event discretionary for charging purposes.

These issues have been fully discussed with audit.

Reporting of subsidies

3.9.180 In November 1991, Parliament's Economic and Budget Review Committee reported, in its Thirty-Second Report to the Parliament, on the cost of community service obligations. The Committee recommended that an organisations annual report should identify the nature, scope and cost of each community service obligation. While the Committee's review concentrated on government business enterprises, audit is of the view that the recommended level of reporting should also be adopted by government departments.

3.9.181 As an objective of government reporting is to fully inform the taxpayer, the OCCP should give consideration to reporting the extent of subsidies provided where police are deployed at sporting and entertainment events.

- *RESPONSE provided by Deputy Commissioner (Administration), Victoria Police*

Victoria Police would comply with any amendment to the Annual Reporting Act to disclose subsidies on a government-wide basis.

Delays in policy implementation

3.9.182 Despite the Chief Commissioner of Police having the discretionary power, since 16 July 1991, to charge a fee where police officers were directly deployed to policing sporting and entertainment events, and the concerns expressed by the Legal and Constitutional Committee as to the lack of definition of the circumstances in which fees will be charged, a Force Circular Memorandum setting out the "Policy For Payment Of Police Services" was not issued until 10 December 1992. This was some 18 months after the original issue of the regulations. Audit found that where fees were charged, the new rates applicable from 16 July 1991 were applied from 23 September 1991 while those applicable from 1 July 1992 were immediately applied.

- *RESPONSE provided by Deputy Commissioner (Administration), Victoria Police*

Victoria Police considered it prudent to delay the Force Circular memo until the outstanding issues recognised by audit were resolved. The 2 month delay in the introduction of the 1991 fees was due to a longer than usual set-up time associated with the introduction of a new rank structured fee. The 1992 fees were implemented immediately.

Impact on user pay policy

3.9.183 As the objective of the Regulations is to enable costs to be recovered from the user of police services, the failure to promptly develop policy guidelines in order to enable consistent application of the Regulations in a rational and equitable manner and the absence of an effective management information system, has reduced the effectiveness of the user pay policy. Police officers were informally advised of the changes to the fee charging policy and the circumstances in which costs were to be recovered. Where the discretion to charge was made, charges were usually raised only in those cases which met the pre-July 1991 criteria of a request having been made by the promoter for a police presence.

■ *RESPONSE provided by Deputy Commissioner (Administration), Victoria Police*

Victoria Police consider that it did not fail to develop or issue policy guidelines nor was the effectiveness of the user pays policy reduced. Operational police were briefed on all aspects of the user pays policy by written instructions and workshops prior to implementation of the new fee for service charges. It should also be noted that the new Act still requires that agreement from promoters is necessary for charges to be enforceable.

Communication of policy

3.9.184 As mentioned above, a Force Circular Memorandum was issued on 10 December 1992. This document states that charges will be levied for those sporting and entertainment events at which police are deployed or involved in planning such deployment. The document also sets out the circumstances where charges are not to be levied or the use of the discretionary power should be considered.

3.9.185 In determining the amount of police services required and the fees payable, the Force Circular Memorandum suggests that negotiations take place between the promoter and police prior to the event and that the promoter be requested to enter into a contractual arrangement. It is also required that, unless mutually agreed to, payment should be made 7 days before the event.

3.9.186 Adherence to the matters mentioned above should result in increased revenue to the State from the use of police services and a consistent and equitable use of the discretionary power.

Cost recovery methodology

3.9.187 In the financial year 1991-92, fees collected from the provision of police services amounted to \$1.2 million. As previously referred to, audit was unable to determine the total costs of police services provided and the extent of those costs not recovered as a result of the use of the discretionary power.

3.9.188 An examination of the basis for the charge out rates found that there were, in audit's opinion, deficiencies in the methodology used, details of which are set out below.

Salary charge-out rates

3.9.189 The hourly charge-out rates to be used in calculating the cost of police services is set out in the Regulations. Audit examined the basis for the rates applicable from 1 July 1992 and found that they had been calculated by dividing the total annual hours that a police member could be employed into the total average annual cost of employing the police member. The total employable hours included times when a police member was undertaking training, therefore, under the methodology used training costs were not included in the charge-out rate. It was also found that in determining the charge-out rates used prior to July 1992 the costs incurred when a police member was on annual leave and sick leave were not included.

3.9.190 The average annual cost of employing a police member was made up of base salary plus penalty loading and on cost for each rank. Each rank was classified into one of 3 classifications, i.e Officer, Sub-officer and Other ranks, and the average hourly rate for each classification taken as the charge-out rate.

3.9.191 **Audit is of the view, that where full cost recovery is to be achieved, it is necessary to base the hourly charge-out rate on the number of hours for which the police member's services could be chargeable rather than the total employable hours.**

- *RESPONSE provided by Deputy Commissioner (Administration), Victoria Police*

The current charge-out rates exclude annual sick leave and accrued time off to properly reflect the annual available working hours (19.6 per cent reduction), which is a contributing factor for the varying increases in rates effective from 1 July 1992.

It is not intended to attempt to identify training costs as this is considered a normal police operating cost.

Transport charge-out rates

3.9.192 The regulations provide for additional hourly rates for each police member where the member's services include the control of transport. The additional hourly rates range from \$5 (mounted police) to \$1 709 (twin-engine helicopter).

3.9.193 Audit examined the basis of the charge-out rate for the provision of a police motor boat. The rates currently applicable are \$31 an hour for a single engine craft and \$157 an hour for a twin-engine craft. The examination disclosed that in determining these rates, only certain operating costs, such as the cost of fuel and repairs and maintenance, had been taken into account. No allowance had been included for the cost of depreciation or cost of capital.

- *RESPONSE provided by Deputy Commissioner (Administration), Victoria Police*

Victoria Police does not intend to change the historical manner of charging until the full implementation of accrual accounting within departments.

Schedule A. COMPLETED/INCOMPLETE AUDITS
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<i>Entity</i>	<i>Financial period ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
ATTORNEY-GENERAL				
Attorney-General's Department	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	27 October 1992	29 October 1992
Accident Compensation Tribunal (b)	30 September 1991	31 October. <i>Accident Compensation Act 1985, s.69.</i>	23 September 1991	21 November 1991 (a)
.. ..	31 December 1991	31 January. <i>Accident Compensation Act 1985, s.69.</i>	18 February 1992	10 March 1992 (a)
.. ..	31 March 1991	30 April. <i>Accident Compensation Act 1985, s.69.</i>	30 April 1992	29 May 1992 (a)
.. ..	30 June 1992	30 September. <i>Accident Compensation Act 1985, s.69.</i>	23 September 1992	30 September 1992
Estate Agents Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	10 September 1992	18 September 1992
Guardianship and Administration Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	22 September 1992	29 September 1992
Law Reform Commission of Victoria (c)	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	12 October 1992	15 October 1992
Legal Aid Commission of Victoria	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	30 September 1992	30 September 1992
Legal Aid Commission Staff Superannuation Fund	30 June 1992	30 September. <i>Legal Aid Commission Act 1978, s.42.</i>	30 September 1992	30 September 1992
Office of the Director of Public Prosecutions	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	28 August 1992	22 September 1992
Office of the Public Advocate	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	29 September 1992	30 September 1992

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued				
State Electoral Office	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i> Extension granted to 12 March 1993.	21 December 1992	5 January 1993
State Trust Corporation of Victoria	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	8 October 1992	9 October 1992
Victorian Institute of Forensic Pathology	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	25 September 1992	30 September 1992
Building Societies Reserve Board (d)	30 June 1992	30 September. <i>Building Societies (Prudential Standards) Act 1990, s.25M.</i>	24 December 1992	31 December 1992
Credit Co-operatives Reserve Board (d)	30 June 1992	30 September. <i>Co-operation (Credit Co-operatives) Act 1991, s.22B</i>	24 December 1992	31 December 1992
Friendly Societies Reserve Board (d)	Period 1 February 1992 to 30 June 1992	30 September. <i>Friendly Societies (Reserve Board) Act 1991, s.101 V</i>	24 December 1992	31 December 1992
Senior Master of the Supreme Court (e)	31 December 1990	No statutory requirement	11 November 1992	25 November 1992
Senior Master of the Supreme Court (e)	31 December 1991	No statutory requirement	11 November 1992	25 November 1992
CORRECTIONS				
Office of Corrections (f)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	19 October 1992	21 October 1992
Victorian Prison Industries Commission	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	21 September 1992	28 September 1992 (a)

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued				
POLICE AND EMERGENCY SERVICES				
Ministry for Police and Emergency Services (f)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	28 September 1992	22 October 1992
Country Fire Authority	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	28 September 1992	30 September 1992
Metropolitan Fire Brigades Board	30 June 1992	30 September. <i>Annual Reporting Act 1983 s.9.</i>	6 October 1992	7 October 1992
National Institute of Forensic Science	Period 5 March 1991 to 30 June 1991	No date specified. <i>Audit Act 1958, Section 3.</i>	2 February 1993	8 February 1993
National Institute of Forensic Science	30 June 1992	No date specified. <i>Audit Act 1958, Section 3.</i>	2 February 1993	8 February 1993
Office of the Chief Commissioner of Police	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	27 October 1992	30 October 1992 (a)

- (a) Qualified audit report issued.
- (b) Accident Compensation Tribunal was abolished on 30 November 1992.
- (c) The Law Reform Commission was abolished on 24 November 1992.
- (d) The Act establishing the Victorian Financial Institutions Commission was proclaimed on 1 July 1992. The Act dissolved the Building Societies Reserve Board, the Friendly Societies Reserve Board, and the Credit Co-operatives Reserve Board.
- (e) Senior Master of the Supreme Court produces financial statements which are not a statutory requirement but are audited by arrangement.
- (f) The Office of Corrections and The Ministry for Police and Emergency Services were absorbed into the Department of Justice in October 1992.

DEPARTMENT OF PLANNING AND DEVELOPMENT

- ▶ Due to the Department of Planning and Development's failure to adopt a pro-active approach to the provision of property maintenance, through the implementation of a preventative maintenance program, financial benefits in the form of reduced property costs have been forgone.

Paras 3.10.8 to 3.10.14

- ▶ Until such time as the Department of Planning and Development determines the physical condition of all its properties, which may take another 7 years, it will not have a sound basis for prioritising the allocation of its scarce maintenance funds, nor for determining its future funding requirements

Paras 3.10.15 to 3.10.20

- ▶ The potential for the Department to recover maintenance costs from tenants has not been fully realised due, in part, to the non-completion by the Department of condition reports upon the change of tenants and infrequent property inspections.

Paras 3.10.24 to 3.10.27

- ▶ The exclusion by the Department of certain vacant properties from its external reporting of rental property vacancy rates, results in incomplete parliamentary and public assessments of the Department's overall performance in minimising vacancies.

Paras 3.10.33 to 3.10.37

- ▶ At September 1992, Victoria had the second highest overall public rental property vacancy rate, when compared with 3 other Australian States, proportionate to rental stock.

Paras 3.10.43 to 3.10.46

- ▶ The State's net financial contribution to the Home Opportunity Loan Scheme (HOLS) at December 1992 totalled \$28.9 million. A further \$45 million was set aside by the Department to meet any cash flow difficulties that may be incurred by the Scheme.

Paras 3.10.61 to 3.10.64

- ▶ There has been a significant increase in the incidence of loan arrears and repayment arrangements, relating to the HOLS Scheme, as a result of an increasing level of hardship experienced by borrowers.

Paras 3.10.66 to 3.10.70

- ▶ Since the inception of the Home Opportunity Loan Scheme (HOLS), 166 loans have been discharged due to purchasers defaulting on loan repayments, resulting in losses of almost \$3.3 million. The increasing incidence of losses has the potential to become a significant factor impacting upon the level of State financial support that may be required in future years, to ensure the financial viability of the HOLS Scheme.

Paras 3.10.71 to 3.10.75

Details of ministerial responsibility within the Planning and Development portfolio are provided in Table 3.10A. In addition to the Department of Planning and Development, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.10A
MINISTERIAL RESPONSIBILITY WITHIN THE
PLANNING AND DEVELOPMENT PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Housing (a)	
Local Government	City of Melbourne Superannuation Fund Trustees
Major Projects	Docklands Authority Office of Major Projects
Planning	Architects Registration Board of Victoria Geelong Regional Commission Historic Buildings Council Latrobe Regional Commission Loddon-Campaspe Regional Planning Authority Plumbers, Gasfitters and Drainers Registration Board Upper Yarra Valley and Dandenong Ranges Authority Urban Land Authority

(a) Minister has responsibility for certain functions of the Department of Planning and Development.

Comment on matters of significance arising from the audit of certain of the above entities is provided below.

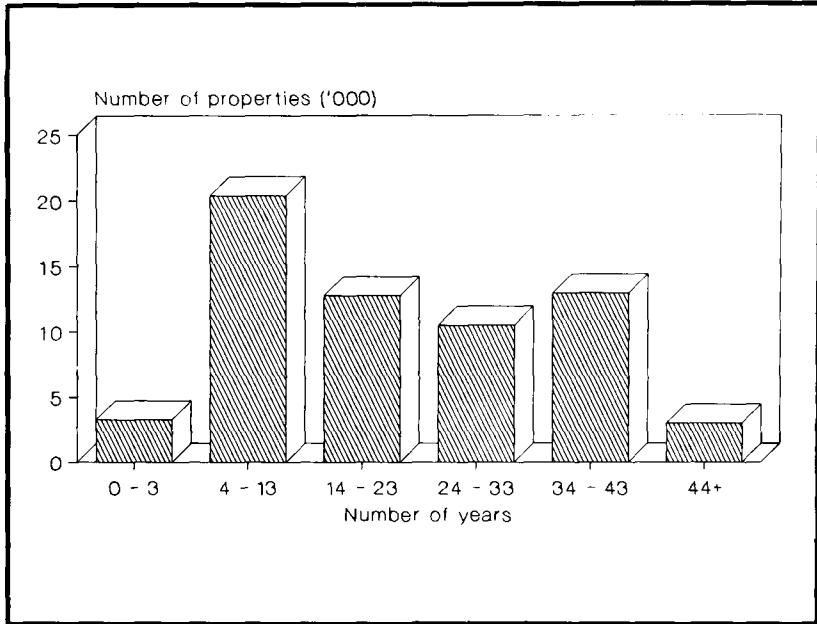
DEPARTMENT OF PLANNING AND DEVELOPMENT

MAINTENANCE OF RENTAL HOUSING PROPERTIES

3.10.1 The Department of Planning and Development is the largest owner and manager of residential properties in Victoria, having responsibility for a portfolio comprising in excess of 65 000 properties located throughout the State, which are currently valued at around \$4.5 billion. These properties cater for the rental needs of families, youth, elderly, single and supported persons.

3.10.2 Chart 3.10B presents the age profile of the Department's rental properties at 30 June 1992. Further analysis by audit highlights that almost 40 per cent of properties are now over 25 years old.

CHART 3.10B
AGE PROFILE OF RENTAL PROPERTIES AT 30 JUNE 1992 (a)



(a) Excludes 2 290 properties for which ages are unknown.

3.10.3 The development and implementation of comprehensive maintenance policies and practices are critical in ensuring that the lives of property assets are prolonged, holding costs are minimised and that benefits derived from their utilisation are maximised.

3.10.4 Audit conducted a review to assess the efficiency and effectiveness of the procedures followed by the Department for the maintenance of its properties.

Overall conclusion

3.10.5 Expenditure by the Department on the maintenance of its property portfolio in 1991-92 amounted to \$68 million, and was an integral part of its activities relating to the provision of public rental housing.

3.10.6 The review found that the Department's failure to adopt a proactive approach to the provision of maintenance resulted in it forgoing financial benefits in the form of reduced maintenance costs. Had the Department implemented an effective preventative maintenance program, costs would have been reduced through the early detection and addressing of property maintenance requirements. A major contributing factor to this deficiency has been the Department's failure to maintain adequate records on the physical condition of its properties.

3.10.7 In recognition of the consequences of current deficiencies, the Department in 1992-93 has placed a greater focus on the provision of preventative property maintenance. However, until such time as the quality of information maintained on the condition of properties is improved, the Department's ability to enhance the effectiveness and efficiency of its maintenance programs will be limited.

Ineffective maintenance processes

3.10.8 Property maintenance is provided by the Department in the following 3 ways:

- ▶ responsive or ad hoc maintenance, relating to urgent and essential repairs requested by tenants;
- ▶ restoration of vacated properties to a tenantable condition; and
- ▶ programmed or cyclical maintenance, relating to works not of an urgent or essential nature which are prioritised and undertaken by contractors.

3.10.9 Property upgrades, in the form of minor capital works, are also undertaken by the Department.

3.10.10 Since the mid-1980s, the Department has relied primarily on advice from tenants and inspections of vacated properties to identify maintenance requirements. As a result of adopting this approach rather than undertaking a preventative maintenance program on an on-going basis, the potential for avoiding excessive capital costs in future years, through the early detection and addressing of maintenance problems, has not been realised.

3.10.11 The Department's focus on responsive maintenance is highlighted in Table 3.10C, which details the maintenance expenditure of the Department over the past 2 years and the budget for the current year.

TABLE 3.10C
PROPERTY MAINTENANCE EXPENDITURE (a)
 (\$million)

<i>Item</i>	1990-91	1991-92	<i>Budget</i> 1992-93
Responsive maintenance	23.1	22.3	19.7
Vacated maintenance	14.2	15.6	14.8
Programmed and cyclical maintenance	4.0	7.8	12.0
Total	41.3	45.7	46.5

(a) Excludes \$21.5 million relating to administration costs such as salaries, on-costs and overheads associated with maintenance activities, building services maintenance and certain minor maintenance works.

3.10.12 As a result of the Department expending maintenance funds mainly on urgent and essential repairs, less funds have been available for programmed maintenance and, consequently, non-urgent works have been deferred.

3.10.13 Estimates provided by the Department indicate that, based upon known requirements, around \$16.4 million of programmed maintenance works such as re-painting and re-fencing have not been undertaken due to insufficient funding. **However, since the Department does not undertake regular inspections to assess the physical condition of its properties, the extent and therefore the value of all required maintenance works is unknown.**

3.10.14 The Department recognises the need for maintenance expenditure to be more cost-effective and, for 1992-93, proposes to increase the level of programmed maintenance. This will be achieved by eliminating current inconsistencies which exist in the application of departmental policies, relating to the conduct of urgent and essential repairs.

Incomplete property information

3.10.15 In recognition of a need to improve the extent and quality of information maintained on the condition of its properties, in December 1991, the Department developed a process for recording the physical condition of these assets.

3.10.16 Under this process, each property was to be inspected and assessed in terms of the good, fair or poor physical condition of such things as *structures, services and fittings*, and the results recorded in its property database. The estimated cost and the appropriate time frame for undertaking any required works was also to be assessed and recorded. It was envisaged by the Department that this information would assist in the identification and quantification of maintenance workloads, and would improve management decision-making and financial resource allocations.

3.10.17 Audit commends the above departmental initiative. However, it was found that implementation of the inspection process had, to date, been poorly planned and managed, in that:

- ▶ completion time frames and performance targets had not been developed to monitor its progress; and
- ▶ costings had not been developed to establish program budgets.

3.10.18 Notwithstanding that the process has been in place since December 1991, at the date of preparation of this Report, only 7 740 or 11.9 per cent of the Department's properties had been inspected for the purpose of assessing their physical condition. Furthermore, the Department advised that, as such inspections have proven to be both costly and time consuming, the compilation of this information was unlikely to be completed for some time. In this regard, based on progress to date, audit estimated that the full implementation of this initiative may not be completed for another 7 years.

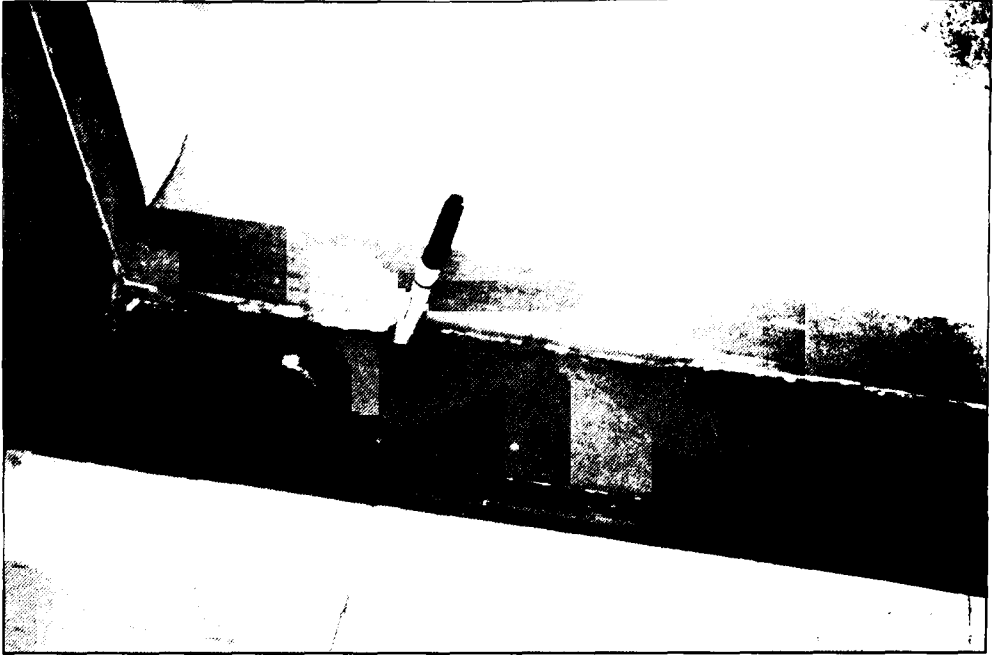
3.10.19 Audit also noted that completed inspections and property assessments were deficient in that they did not provide all information necessary for the development of maintenance programs. For example, although 7.4 per cent of completed inspections had assessed the condition of certain property components, such as doors and windows, as poor, details of the costs and the time frames for undertaking the required works were not documented.

3.10.20 While audit recognises that conducting inspections of 65 000 properties may be an onerous task, without complete and up-to-date records of the condition of its properties, the Department does not have a sound basis for prioritising the allocation of its scarce maintenance funds nor for determining its future funding requirements.

Need for frequent inspections of properties

3.10.21 Given the poor standard of departmental property records, a selection of properties which had not been inspected by the Department for up to 10 years were visited by audit, in the company of departmental officers. This inspection, which was undertaken to gain further insight into the condition and extent of maintenance required to be undertaken by the Department on such properties, revealed that:

- ▶ Most of these properties required immediate works which the Department estimated would cost, on average, in excess of \$2 000 per property;
- ▶ Some property structures, such as window frames and guttering, had deteriorated to such an extent that, as acknowledged by the Department, replacements were now required. Other properties required immediate action to remove the tenant's exposure to health and safety risks from faulty electrical wiring and rotting carpet;
- ▶ One property, currently valued at \$58 400, was in such poor condition that the Department estimated \$40 000 would be required to fully restore the property. According to the Department, the most economical course of action in these circumstances, albeit at a higher cost, would be to re-develop the property; and
- ▶ Damage caused by tenants had, in some instances, not been repaired.



Deterioration of window frame due to lack of maintenance.

3.10.22 The Department acknowledges that, had it undertaken regular maintenance of these properties and attended to problems at an earlier stage, the cost of the works now required would have been reduced, and the useful life of the structures extended.

3.10.23 Audit recognises that the sample of properties visited may not necessarily be representative of all properties not regularly inspected by the Department. However, **the results did reinforce the need for the Department to expand its property inspection program to identify maintenance requirements, as a basis for developing an effective preventative maintenance program.**

Recovery of maintenance costs

3.10.24 Under the Department's public rental occupancy conditions, tenants are responsible for meeting any costs incurred by the Department in repairing damage caused by them during occupancy of its properties. For the 7 months to January 1993, the Department raised charges amounting to \$1.2 million in respect of damage caused by tenants (1991-92, \$1.2 million).



Property damage caused by tenants.

3.10.25 Due, in part, to the failure of the Department to complete reports on the condition of properties upon the change of tenants, and infrequent inspections of properties to assess their condition, this occupancy condition was not consistently enforced throughout the Department. The problem was also compounded by tenants vacating properties without notifying the Department. **Consequently, the potential to recover maintenance costs payable by tenants has not been fully realised.**

3.10.26 Audit was advised that the Department was aware of this deficiency and was addressing the matter in conjunction with its current review of asset management policies and procedures.

3.10.27 Given the need to conduct inspections for determining both tenant induced property damage and the overall physical condition of properties, in the interests of improved efficiency and resource utilisation, consideration should be given to conducting these inspections concurrently. The current departmental review of asset management policies and procedures provides the opportunity to address this matter.

■ *RESPONSE provided by Secretary, Department of Planning and Development*

In general, the Department accepts the report's conclusions. Action is being taken immediately on health and safety issues such as faulty wiring when these are reported by tenants or found during inspections.

In response to the type of issues raised in the report, the Department is currently adopting a much more pro-active approach to planned programs for the delivery of maintenance services.

A common Policy, Procedures and Standards Manual is currently being developed. The objective of this Manual is to adopt best practice across the State and to ensure that properties are managed in a cost-effective and planned way.

The Department recognises that a property condition audit is a central element in improved forward planning and budget forecasting of maintenance activities. A State-wide program for a combined property condition audit and tenancy condition report for every public rental housing property of the Department is being developed to commence next financial year.

The condition reports will provide a basis for agreements and negotiations with tenants to enable improved recovery of costs from tenancy damage during occupancy.

In summary, the Department considers the steps that it is currently taking are consistent with audit's recommendations and will enable the delivery of an improved planned maintenance service to all public rental properties.

PUBLIC RENTAL PROPERTY VACANCY LEVELS

3.10.28 As outlined in paragraph 3.10.1 of this Report, the Department currently owns and manages in excess of 65 000 public housing properties, including rooming houses, community facilities and moveable units, which cater for the rental needs of families, youth, elderly, single and supported persons. In total, the Department's properties have the potential to generate gross annual rental income in excess of \$330 million.

3.10.29 A major focus of the Department in managing its rental property portfolio is to optimise property utilisation and minimise vacancy periods. Specifically, the Department aims to ensure that the management and administration of rental housing is efficient, effective and responsive to the needs of tenants. The achievement of this objective will in turn assist in alleviating the public housing waiting list, which currently stands in excess of 52 000 applicants, compared with 36 700 in June 1989.

3.10.30 Audit carried out a review to assess the Department's performance in minimising the level of public rental property vacancies, including the adequacy of measures for the monitoring and reporting of vacancies.

Overall conclusion

3.10.31 Audit found that while the level of vacant rental properties was relatively low when compared with the Department's total property portfolio, it had nevertheless steadily increased over recent years and was proportionately higher than that of other Australian States. Management therefore needs to ensure that the extent of vacant properties is minimised, primarily through reducing the number of properties which cannot be tenanted due to re-letting restrictions.

3.10.32 The Department has established a number of satisfactory indicators to gauge and report its performance in managing property vacancies. However, greater attention needs to be given to the development and reporting of performance indicators specifically relating to properties with re-letting restrictions.

Deficiencies in the formal reporting of performance

3.10.33 The Department assesses and publicly reports its performance in managing property vacancies on the basis of *standard* vacancies, which are those properties available for immediate occupancy. The remaining vacant properties, categorised by the Department as having re-letting restrictions such as *hard-to-let*, *requiring general upgrade*, *no eligible applicant*, *awaiting conversion*, *demolition*, *replacement etc.* are excluded from calculations of vacancy rates and are not formally reported.

3.10.34 The Department's 1991-92 Annual Report highlighted that the vacancy rate of its rental property portfolio had declined since July 1991 (820 vacancies at that time) due to the introduction of more efficient property management processes. However, audit found that, when those properties with re-letting restrictions were included in the calculation of this rate, the total number of vacant properties compared with the portfolio had in fact steadily increased in recent years.

3.10.35 Specifically, total property vacancies had increased from 1 130 at 30 June 1990 to 1 360 at 30 June 1991 and to 1 630 at 30 June 1992. Furthermore, at 30 September 1992, over 1 765 departmental properties remained unoccupied, of which only 735 (42 per cent) represented *standard* vacancies, while the remaining 1 030 (58 per cent) were categorised as having re-letting restrictions and were not subject to external reporting by the Department.

3.10.36 The exclusion of properties which are internally classified as "restricted", from the Department's external reporting processes, result in incomplete parliamentary and public assessments of the Department's overall performance in minimising property vacancies.

3.10.37 The level of "restricted" properties remaining unavailable for public housing, and the Department's timeliness in making these properties available for occupation, need to be externally reported to facilitate assessments of the Department's performance in managing its property portfolio.

- **RESPONSE** provided by Secretary, Department of Planning and Development

The figures quoted in this section are accurate and the deficiencies in current external reporting arrangements are accepted. It should be noted that re-letting restrictions are reported internally. In the future, properties with re-letting restrictions will be included in external reporting. Work is currently underway to develop performance indicators for properties with re-letting restrictions, and procedures will be reviewed for the application and removal of re-letting restrictions.

Under-utilisation of housing properties

3.10.38 The Department has established the following performance targets to assess its performance in managing the level of rental property vacancies:

- ▶ 75 per cent of *standard* vacancies not to exceed 4 weeks;
- ▶ 90 per cent of *standard* vacancies not to exceed 6 weeks;
- ▶ the vacancy rate on properties without re-letting restrictions not to exceed 1.4 per cent; and
- ▶ vacancies with re-letting restrictions classified as *hard-to-let, requiring general upgrade* or *not having an eligible applicant* to decline over time.

3.10.39 Performance targets relating to the remaining properties with re-letting restrictions such as *awaiting conversion, demolition, replacement etc.* had not been established because the Department considered that the removal of such restrictions was influenced by factors, such as funding, which were largely outside its control.

3.10.40 Audit considered that the established targets relating to *standard* vacancies were satisfactory measures of performance, and found that they had been met since they were first introduced in June 1991.

3.10.41 However, the performance target relating to properties with re-letting restrictions classified as *hard-to-let, requiring general upgrade, or not having an eligible applicant*, was considered inadequate as it did not specify a required rate of vacancy reductions or a time frame for achieving such reductions. Furthermore, an adverse trend had developed in respect of properties covered by this target. Specifically, the number of vacant properties in this category increased from 170 at 30 June 1991 to 340 at 30 June 1992, and 384 at September 1992, of which 62 per cent had been vacant for periods greater than 3 months. Major factors contributing to the above situation, identified by the Department, were inadequate maintenance of properties over a number of years, high levels of inappropriate properties and the changing needs of clients.

3.10.42 Audit acknowledges that the extent of property vacancies is minimal when compared with the Department's total property portfolio. Nevertheless, the increasing number of vacant "restricted" properties should be closely monitored to ensure that prompt action is taken to remove re-letting restrictions to enable the re-tenancing of such properties in a timely manner.

■ **RESPONSE** provided by Secretary, Department of Planning and Development

The audit report asserts an adverse trend had occurred in respect of properties with re-letting restrictions. As noted above, it is the Department's view that the increase in properties vacant due to re-letting restrictions is a result of the Department's increasing commitment to improving the appropriateness of public rental housing stock through stock redevelopment. Indeed, this is recognised by audit in paragraph 3.10.45.

As audit may be aware, the process of redevelopment is a complex one involving relocation of large numbers of tenants. Vacancies in excess of 3 months, while undesirable, are often very difficult to avoid.

The Department accepts, however, the need to manage the process such that properties, including those involved in redevelopment or rehabilitation, are vacant for the shortest possible period.

A number of properties identified on the Department's property database as vacant and subject to redevelopment are being used for emergency and community housing. In addition, a review of properties identified for redevelopment is underway and some will be returned to stock due to an expected reduction in the capital program for 1993-94.

Comparison of Victoria's performance with other States

3.10.43 Audit analysis of public rental property vacancy levels across other major Australian States indicates that scope exists for improvement in the Department's performance.

3.10.44 At September 1992, Victoria had the second highest overall property vacancy rate when compared with 3 other States, for which relevant information was publically available, proportionate to rental stock. Furthermore, notwithstanding that the level of rental properties in New South Wales was double that of Victoria, the public housing vacancy rate in that State, at September 1992, was only 0.9 per cent, compared with Victoria's rate of 2.9 per cent. Table 3.10D illustrates this position.

**TABLE 3.10D
COMPARISON OF PUBLIC RENTAL HOUSING PROPERTIES
AND VACANCY RATES AT SEPTEMBER 1992 (a)**

<i>Item</i>	Vic.	NSW	SA	WA
Total housing properties	60 460	122 429	62 993	35 316
Total vacant properties	1 765	1 079	965	1 241
Vacancy rate (per cent)	2.9	0.9	1.5	3.5

(a) Based on information provided by State public housing authorities, with vacancy rates including all untenanted properties.

3.10.45 According to the Department, the key factor contributing to Victoria's higher property vacancy rate was that many of its properties were either undergoing redevelopment or were unsuitable for clients, and therefore unable to be occupied or tenanted. This was also reflected in the increasing number of departmental properties with re-letting restrictions from 540 at June 1991 to 1 030 at September 1992.

3.10.46 Given the results of the above interstate comparison, audit considers that scope exists for the Department to further reduce the overall level of property vacancies.

■ *RESPONSE provided by Secretary, Department of Planning and Development*

The comparison of property vacancy figures between different State housing authorities should be approached with caution. Two factors in particular merit mention as factors which create difficulties in making such comparisons. These are:

- *Differences in stock profiles and the condition of the dwellings. New South Wales, for example, has a far greater proportion of its rental housing in brick construction and consequently the problems of poor thermal efficiency and structural defects are not as pressing as in Victoria with its large proportion of concrete panel stock. This reduces the requirement in NSW for major upgrade and redevelopment.*
- *Differences in the definition of what constitutes a "vacant dwelling" for reporting purposes. The audit report itself is evidence of the difficulties in defining vacancy rates. It would be helpful if the table were annotated to provide a description of how vacancy rates are derived in each State.*

As noted before, the vacancy rate referred to in paragraph 3.10.44 is a direct result of the Department's strategy to improve the quality and utilisation of its housing stock. In many cases this involves replacing family stock under-utilised by elderly tenants with purpose-built older persons accommodation. The conclusion reached in this section should apply more widely to improvement of the utilisation of our stock both in terms of reduced vacancies and a decrease in the extent of under-utilised (although occupied) stock.

Inaccurate property information

3.10.47 The Department annually reports within its financial statements the value of rental income forgone as a result of property vacancies. This information is derived from reports generated from the Department's property database which quantify the rental forgone on each property based upon the number of weeks that a property remains vacant.

3.10.48 For the first 6 months of the 1992-93 financial year, the loss of rental income attributable to vacancies amounted to \$3.3 million or 1 per cent of the estimated gross rental income for the 1992-93 financial year (1991-92, \$5.8 million or 1.8 per cent of rental income).

3.10.49 An audit review of vacancy reports at December 1992, covering approximately 1 700 properties, revealed a number of inaccuracies with respect to occupancy dates. Major discrepancies included 3 properties recorded as vacant since 1974, and a further 13 properties listed as vacant for more than 20 years, which had been occupied during these periods. In addition, it was identified that community facilities comprising neighbourhood houses and communal rooms, although largely utilised, were recorded on the property database as vacant.

3.10.50 These inaccuracies have directly impacted on the Department's calculations of rent forgone, which is reported within its financial statements.

3.10.51 **As property data recorded on the Department's information systems is utilised by management for decision-making purposes, action needs to be taken to improve its accuracy.**

■ *RESPONSE provided by Secretary, Department of Planning and Development*

The report's finding that inaccuracies exist within the Department's property data is accepted, particularly in recording vacancy rents against some community facilities. The Department agrees that the cost of making flats available to community groups should be properly recorded as rent forgone under the relevant program.

Changes to both the property management system and associated procedures are underway and will eliminate such inaccuracies in the accrual of vacant rent in these instances.

FINANCIAL OPERATIONS OF THE HOME OPPORTUNITY LOAN SCHEME

3.10.52 The Home Opportunity Loan Scheme was established by the Government in 1988 to provide housing finance to low to middle income earners who normally would not have access to traditional sources of housing finance.

3.10.53 The Scheme is administered by Home Opportunity Loans Limited through the Home Opportunity Loans Trust, with the Department of Planning and Development having responsibility for monitoring the Scheme's performance on behalf of the Government. A second private company has been engaged by the Trust to manage the Scheme's loan portfolio.

3.10.54 The predominant type of assistance available under the Scheme is Standard Home Opportunity Loans, which offer fixed and inflation indexed interest finance, 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 (maximum terms 25 to 30 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.

3.10.55 Since the inception of the Scheme, approximately 15 500 loans with a value of \$980 million, secured by residential mortgages, have been provided. At 31 December 1992, the Scheme had 14 090 current loans with a value in excess of \$878 million (December 1991, 12 340 loans, \$813 million).

3.10.56 The *Report on Ministerial Portfolios, May 1992*, commented on the cost of the Scheme to Victorian taxpayers and raised the following concerns:

- ▶ notwithstanding that the Scheme was effectively controlled by the State, its financial operations were not reported to the Parliament; and
- ▶ the provision for doubtful debts of the Scheme had increased from \$400 000 at 30 June 1990 to \$5.6 million at 30 June 1991 and could increase further pending completion of a detailed assessment of the loan portfolio.

3.10.57 Audit carried out a review during the year of the Department's progress in addressing the matters previously reported, and the current financial operations of the Scheme.

Improved public accountability of the Scheme

3.10.58 The Scheme's accountability to the Parliament improved in 1991-92, following consolidation of its financial transactions with those of the former Department of Planning and Housing.

3.10.59 In addition, the Department, in June 1991 and September 1992, engaged consultants to review, inter alia, the management and accountability arrangements relating to the Scheme. The consultants recommended that improvements to management could be achieved through the Government establishing a company or statutory authority to assume control of all aspects of the Scheme.

3.10.60 Due to uncertainty relating to the future structure of the Scheme, the Department is currently considering the recommendation regarding the establishment of a separate body to control the Scheme.

Contributions to the Scheme by the State

3.10.61 Contributions made by the State to the Scheme, comprising interest subsidies and operating support, from its inception to 31 December 1992, are detailed in Table 3.10E. After deduction of profit distributions by the Trust to the Department, net contributions totalled \$28.9 million.

TABLE 3.10E
STATE CONTRIBUTIONS TO THE SCHEME
(\$million)

<i>Item</i>	<i>1988-89</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1-7-92 to 31-12-92</i>	Total
Contributions-						
Interest subsidies	1.4	4.2	4.6	6.1	(a) 3.6	19.9
Operating support	0.2	2.3	1.2	7.3	(b) 0.1	11.1
Total annual contributions	1.6	6.5	5.8	13.4	3.7	31.0
Less distributions from Trust	0.2	1.6	0.2	0.1	-	2.1
Net contribution (c)	1.4	4.9	5.6	13.3	3.7	28.9

(a) Budget for 1992-93 year is \$6 million.

(b) Budget for 1992-93 year is \$4.4 million.

(c) These figures exclude the cost of the Department's Home Finance Division's activities relating to the administration of the Scheme.

3.10.62 Under the Scheme, certain borrowers are eligible for loans at concessional rates of interest for the first 3 years of the loan period. These interest subsidies, which are paid for by the Department from funds provided under the Government's Social Justice Strategy, have totalled \$19.9 million to 31 December 1992.

3.10.63 The Department is also required to provide operating support if the Scheme is unable to meet its debt servicing obligations or operating costs from the cash flow generated from loan repayments. Since the Scheme's inception, \$11.1 million has been provided for this purpose, including \$5.5 million in 1991-92 to cover anticipated shortfalls arising as a result of borrowers defaulting on the repayment of outstanding loans.

3.10.64 In addition to the above contributions, funds provided predominantly by the Estate Agents Board, have been set aside by the Department within a specific purpose account to meet any cash flow difficulties incurred by the Scheme. During 1991-92, consultants advised the Department that the level of funds set aside should be increased in line with guidelines issued by the Reserve Bank for lending institutions. Accordingly, the level of funds set aside by the Department was substantially increased from \$20 million at December 1991 to \$45 million at December 1992.

3.10.65 Comment on the key factors necessitating the provision of operating support by the State to the Scheme is provided in the following paragraphs.

Escalation in the level of doubtful debts

3.10.66 Following a detailed assessment of the Scheme's loan portfolio in August 1992, the Department adopted a provisioning policy which was more closely aligned to industry standards, and increased the 1990-91 provision for doubtful debts of the Scheme by 100 per cent to \$11.1 million. The need for this increase was also reflected in the greater incidence of loan arrears and repayment arrangements which have occurred as a result of an increasing level of hardship experienced by borrowers. Table 3.10F highlights the increase in the incidence of loan arrears and repayment arrangements over the past year.

**TABLE 3.10F
INCIDENCE OF LOAN ARREARS AND REPAYMENT ARRANGEMENTS**

<i>Item</i>	<i>31-12-1991</i>	<i>31-12-1992</i>
Arrears -		
Number of loans	941	1 265
Value of loans (\$million)	63.7	82.8
Number of loans greater than 3 months	150	230
Arrangements -		
Number of loans	238	325
Total arrears and arrangements	1 179	1 590
Percentage of total portfolio	9.3	11.3

3.10.67 As previously mentioned, the Scheme's loan portfolio is managed by a private company on behalf of the Trust. This company has engaged a network of organisations, including the Department, to undertake day-to-day administration of the Scheme's loans.

3.10.68 At 31 December 1992, the Department had direct responsibility for managing in excess of 3 300 loans, representing 23 per cent of the Scheme's total loan portfolio, which were valued at \$158.7 million.

3.10.69 The audit review disclosed that, during the 6 month period to December 1992, the Department's performance in containing the number of loans in arrears and subject to repayment arrangements was worse than that of most other agents. Over this period, on average, 11.2 per cent of the loans managed by the Department were in arrears or subject to arrangements, compared with an average of 8.6 per cent for all agents. Audit also identified that, at December 1992, 31 per cent of the loans in arrears managed by the Department had been outstanding for greater than 3 months.

3.10.70 In recognition of this problem, which the Department attributed to a lack of experienced internal resources, the Department has recently appointed a credit controller who will undertake a review of its arrears management procedures and monitor the level of loan arrears. The Department has also increased its monitoring of the performance of other agents to facilitate regular assessments of the management of loan arrears.

Losses arising from property sales

3.10.71 Borrowers who are unable to meet their loan repayments are able to voluntarily discharge their mortgage. Alternatively, the Trust may discharge mortgages if repayments fall into arrears by more than 3 months and a repayment arrangement has not been entered into between the borrower and the Trust.

3.10.72 The extent of losses sustained following the discharge of mortgages financed by the Scheme has increased significantly in recent years, particularly in the 1992-93 financial year. These losses have occurred due to the decline in the property market, resulting in the current value of properties, which represent the security for loans provided, falling below the value of outstanding loans, including interest. Since the Scheme's inception, 166 loans have been discharged due to purchasers defaulting on loan repayments, resulting in losses of almost \$3.3 million. Of these, 65 properties were sold during 1992-93, realising an average loss of \$21 600 on each sale. At December 1992, a further 40 mortgages were expected to be discharged, with estimated losses of around \$460 000.

3.10.73 **The number of mortgages discharged is relatively low compared with the total loan portfolio. However, the increasing incidence of losses has the potential to become a significant factor impacting upon the level of State financial support that may be required in future years to ensure the financial viability of the Scheme.**

3.10.74 During 1992, the Department introduced a repayment support policy to assist borrowers of the Scheme whose income had been reduced and were experiencing difficulties in meeting their loan repayments. Options available to borrowers under this policy include reduced repayments for periods up to 12 months, conversion of loans to a shared ownership arrangement with the Department or relinquishment of property ownership through the purchase of houses by the Department with the occupants reverting to tenants.

3.10.75 **While this policy aims to alleviate the hardship experienced by many of the Scheme's borrowers, the Department has estimated that these arrangements will increase the level of financial support provided to the Scheme by approximately \$4.5 million in 1992-93.**

Cost of Scheme's borrowings

3.10.76 Loans provided under the Scheme are funded through the issue of Housing Bonds by Victorian Housing Bonds Ltd., an unlisted special purpose public company. The funds raised by this company are on-lent to the Home Opportunity Loans Trust. Victorian Housing Bonds Ltd is indemnified by the Government for any shortfall in repayments by the Trust.

3.10.77 An independent review, undertaken in April 1992 on behalf of the Department, identified that borrowing costs totalling around \$3 million could have been saved annually by the Scheme if funds were raised through the State's central financing agency, now the Treasury Corporation of Victoria, rather than through the existing mechanism.

3.10.78 The Department is presently exploring the scope for changing its current borrowing arrangements with a view to realising the potential savings.

■ *RESPONSE provided by Secretary, Department of Planning and Development*

The comments and observations of audit, presented in bold type, are not disputed. All major costs associated with the Scheme have been under systematic review both by departmental officers and consultants engaged by the Department over the past 12 to 18 months. Currently, a major review is being undertaken on the funding of the HOLS portfolio, following a series of major reviews which have focused upon asset origination, reporting and management of the portfolio. These have resulted in additional experienced resources being directed to key areas (primarily arrears management, information services and systems development) and major changes in policy in areas such as provision for doubtful debts and capitalisation of the Scheme.

Schedule A. COMPLETED/INCOMPLETE AUDITS

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
HOUSING				
Department of Planning and Housing (b)	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	30 September 1992	30 September 1992
LOCAL GOVERNMENT				
City of Melbourne Superannuation Fund	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 31 January 1993.	25 January 1993	10 February 1993
MAJOR PROJECTS				
Docklands Authority	30 June 1992	30 September. <i>Docklands Authority Act 1991.</i>	18 September 1992	22 September 1992 (a)
Victorian Government Major Projects Unit	30 June 1992	30 November. <i>Urban Land Authority Act 1979, s.13.</i>	29 December 1992	7 January 1993
PLANNING				
Architects Registration Board of Victoria	Period 18 September 1991 to 30 June 1992	30 September. <i>Architects Act 1991, s.61.</i>	5 February 1993	9 February 1993
Geelong Regional Commission	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	25 September 1992	30 September 1992
Historic Buildings Council	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 15 October 1992.	14 October 1992	14 October 1992
Latrobe Regional Commission	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	18 August 1992	11 September 1992
Loddon-Campaspe Regional Planning Authority	30 September 1992	31 December. <i>Loddon-Campaspe Regional Planning Authority Act 1987, s.30.</i>	15 December 1992	17 December 1992

Schedule A. COMPLETED/INCOMPLETE AUDITS - continued
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<i>Entity</i>	<i>Financial period ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>	
<table border="1"> <tr> <td>Completed audits - continued</td> </tr> </table>					Completed audits - continued
Completed audits - continued					
PLANNING - continued					
Plumbers, Gasfitters and Drainers Registration Board	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	15 September 1992	15 September 1992	
Upper Yarra Valley and Dandenong Ranges Authority	30 September 1992	31 December. <i>Annual Reporting Act 1983, s.9.</i>	23 December 1992	30 December 1992	
Urban Land Authority	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	29 September 1992	29 September 1992	

(a) Qualified audit report issued.

(b) Certain functions of this entity were taken over by the Department of Planning and Development.

KEY

FINDINGS

3.11

PREMIER AND CABINET

DEPARTMENT OF PREMIER AND CABINET

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

Details of ministerial responsibility within the Premier and Cabinet portfolio are provided in Table 3.11A. In addition to the Department of Premier and Cabinet, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.11A
MINISTERIAL RESPONSIBILITY WITHIN THE PREMIER AND CABINET PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Premier	Victorian Auditor-General's Office (b) Victorian Relief Committee

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

Schedule A. COMPLETED/INCOMPLETE AUDITS

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
PREMIER				
Department of the Premier and Cabinet	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	21 October 1992	30 October 1992
Office of the Public Service Board (a)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	7 September 1992	30 September 1992
Victorian Auditor-General's Office (b)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	8 October 1992	15 October 1992
Victorian Relief Committee	30 June 1992	30 September. <i>Victorian Relief Committee Act 1958, s.7A.</i>	28 September 1992	29 September 1992
ETHNIC AFFAIRS				
Ministry of Ethnic, Municipal and Community Affairs (c)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	6 October 1992	7 October 1992

(a) The Public Service Board was abolished on 24 November 1992.

(b) The Victorian Auditor-General's Office was audited by a firm of private auditors.

(c) Under an Administrative Arrangement Order, elements of the operation of the Ministry of Ethnic, Municipal and Community Affairs were subsumed under a number of different departments.

PUBLIC TRANSPORT CORPORATION

- ▶ At 31 March 1993, the Public Transport Corporation held 63 light rail vehicles in excess of requirements. Since 1990, around \$126 million has been prematurely outlaid by the State to acquire vehicles in excess of the Corporation's immediate needs.

Paras 3.12.19 to 3.12.27

- ▶ The contract for the purchase of light rail vehicles lacked sufficient flexibility to adequately cater for subsequent variations in government policy on the replacement of W class trams.

Paras 3.12.28 to 3.12.30

- ▶ A program to implement necessary modifications to the tram infrastructure to accommodate light rail vehicles was not developed until 12 months after the first vehicle was delivered and 2 years after the contract was signed.

Paras 3.12.31 to 3.12.33

- ▶ The Public Transport Corporation could not account for or locate Met Ticket equipment with a value of \$508 500 purchased for the conversion to driver-only trams.

Paras 3.12.36 to 3.12.46

PORT OF GEELONG AUTHORITY

- ▶ The Authority has taken positive measures to improve efficiency and provide an improved level of services to Port users.

Paras 3.12.56 to 3.12.63

- ▶ The Government's requirement for the Authority to fund the losses of Associated Ports imposes a significant financial drain on the Authority's resources. At 30 June 1992 Associated Ports losses funded by the Authority totalled \$2.1 million.

Paras 3.12.64 to 3.12.67

- ▶ There is low utilisation of the Port of Geelong Authority's multi-purpose berths and the Authority should identify and decommission those berths no longer required for Port purposes.

Paras 3.12.68 to 3.12.73

PORT OF GEELONG AUTHORITY - continued

- ▶ To achieve its target return on its proposed channel deepening program the Authority will need to increase its tonnage and berth hire charges by 20 per cent.

Paras 3.12.74 to 3.12.81

- ▶ The Authority will need to secure firm financial commitments from Port users on proposed Port charges or sharing of capital costs before funds are committed to the channel deepening program.

Paras 3.12.74 to 3.12.81

ROADS CORPORATION

- ▶ In the 4 year period to June 1992, there has been a reduction, in real terms, of over 20 per cent in funds allocated to road maintenance functions for roads under the direct control of the Roads Corporation. For the same period, there has been a noticeable deterioration in the overall condition of freeways and highways.

Paras 3.12.131 to 3.12.149

- ▶ The Roads Corporation's declining funding position for roads has been exacerbated by the assumption of new responsibilities and associated funding obligations from the Public Transport Corporation. In the 3 years since 1989-90, the total loss of funds to the Corporation has been approximately \$94 million in constant 1991-92 terms.

Paras 3.12.135 to 3.12.138

- ▶ Because of less than optimum road conditions, vehicle owners are now carrying a greater financial burden than necessary for the operation and maintenance of their vehicles.

Paras 3.12.150 to 3.12.157

- ▶ If current funding patterns for road maintenance continue, the overall costs of road maintenance in future years will increase markedly.

Paras 3.12.143 to 3.12.149

- ▶ The Corporation has made substantial progress in the development of a roads maintenance strategy.

Paras 3.12.150 to 3.12.172

- ▶ Significant safety and funding implications could emerge if action is not taken to address the general deterioration in the condition of many bridges.

Paras 3.12.173 to 3.12.183

- ▶ The Roads Corporation has estimated that removal of the majority of restrictive work practices would result in savings in outlays on road activities of \$7.5 million per year, with a significant portion of this amount likely to relate to road maintenance operations.

Paras 3.12.184 to 3.12.186

Details of ministerial responsibility within the Transport portfolio are provided in Table 3.12A. In addition to the Department of Transport, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.12A
MINISTERIAL RESPONSIBILITY WITHIN THE TRANSPORT PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Public Transport	MTA Investments Pty Ltd MTA Superannuation Fund Public Transport Corporation
Roads and Ports	Marine Board of Victoria Port of Geelong Authority Port of Geelong Authority Superannuation Fund Port of Melbourne Authority Port of Portland Authority Roads Corporation

Comment on matters of significance arising from the audit of certain of the above entities is provided below.

PUBLIC TRANSPORT CORPORATION

UPDATE OF 1992-93 BUDGET POSITION

3.12.1 A review of the Corporation's financial position at 6 March 1993 showed that the Corporation's operating revenue was below budget by \$22.9 million and operating expenditure had exceeded budget by \$9.3 million, and in-excess-of-budget position at that date of, \$32.2 million compared with \$49.2 million at the same time in 1992. Relevant details on the major variances for this budget position are presented below.

Passenger revenue

3.12.2 The Corporation's revised 1992-93 forecast for passenger revenue was \$341.4 million, after inclusion of a 10 per cent fare increase from 1 January 1993. At 6 March 1993, passenger revenue was \$20.3 million below budget as a result of lower than expected patronage.

Freight revenue

3.12.3 The Corporation's freight revenue target for 1992-93 was \$163.9 million. At 6 March 1993, revenue from freight was below budget estimates by \$2.5 million. The Corporation advised that the downward trend in freight revenue was due to lower than expected level of grain freighted to ports.

Labour costs

3.12.4 The Corporation's labour-related expenditure for 1992-93 was estimated to be \$632.7 million. At 6 March 1993, labour costs were \$3.1 million over the budget estimates.

3.12.5 In October 1992, the current Government announced targeted reductions in staff numbers of 3 400 by 30 June 1993. From 1 July 1992 to 31 March 1993, staff numbers have fallen by 2 566. The Corporation expects that the achievement of its downsizing target should result in a "below budget" position on these costs by year-end.

Non-labour expenditure

3.12.6 The Corporation's non-labour expenditure budget for 1992-93 was \$273.4 million. At 6 March 1993, non-labour expenditure exceeded year-to-date budget estimates by \$7.1 million. The Corporation advised that this budget overrun was the result of several factors including additional unplanned locomotive maintenance, and increased road freight contracts.

Recent initiative of the current Government

3.12.7 Since October 1992, the current Government has introduced a range of strategies aimed at achieving savings of \$66 million for 1992-93 and total savings of \$245 million by June 1996 as confirmed in the May 1993 Autumn Statement. These strategies have included:

- ▶ Introduction of major workplace efficiency reforms in the Corporation's workshops (an area which was the subject of a major audit review in 1991-92) following recommendations by a private consulting firm commissioned by the former Government to review workshop operations. These reforms are expected to lead to savings of \$95 million by 30 June 1996;
- ▶ Adoption of driver-only operations for trams and suburban trains;
- ▶ Phasing in of automated ticket vending machines;
- ▶ Reductions in staff numbers by 3 400 in 1992-93, with further reductions of approximately 3 300 in 1993-94 and 1 300 in 1994-95;
- ▶ Greater emphasis directed to the existing fare evasion program;
- ▶ Contracting of the MET bus fleet (an area also the subject of an earlier audit review);
- ▶ Replacement of 3 country rail services with buses; and
- ▶ Outsourcing of a number of non-core activities including information technology and internal audit.

3.12.8 The Corporation anticipates that the early beneficial impact of those measures commenced since October 1992 will be reflected in an improved year-end budget position, compared with the previous year.

- *RESPONSE provided by Acting Secretary, Department of Transport*

The Department agrees with audit's observation that the PTC's budget performance in 1992-93 will be considerably better than it was in 1991-92.

LIGHT RAIL VEHICLES

Background

3.12.9 A light rail vehicle is a double-ended 2 unit articulated tram car.

3.12.10 In December 1983, the then Minister for Transport approved the calling of tenders for 200 new trams, with purchase options to include acquisition of a number of light rail vehicles.



A light rail vehicle operating in Bourke Street, Melbourne.

3.12.11 In a capital works budget submission to the former Ministry of Transport (now Department of Transport), the Corporation's predecessor, the Metropolitan Transit Authority, supported the purchase of 130 light rail vehicles. A major factor underlying this recommendation was that the vehicles were to be used as replacements for the ageing W class tram fleet. It was recommended that the proposed contract be in 2 parts with the first to be confirmed immediately and the second to be subject to confirmation when the success of the first deliveries had been assessed.

3.12.12 A subsequent evaluation showed that the cost of splitting the contract would require a 15 per cent premium if only 80 vehicles in total were purchased or a 10 per cent premium if initially 80 vehicles were ordered and there was an option for acquisition of a further 50 vehicles at a later date. Due to the added costs, it was recommended that 130 vehicles be purchased under the contract (the submission to the Minister requesting approval to purchase 130 vehicles could not be located by the Corporation or the Department of Transport for audit examination).

3.12.13 In November 1986, the then Treasurer wrote to the Minister confirming his agreement for the placing of an order with a contractor to purchase 130 light rail vehicles at a then estimated cost of \$184.3 million (actual cost to date for the purchase of 114 vehicles has been \$198 million). On 26 November 1986, a memorandum of agreement for the delivery of 130 light rail vehicles was entered into and a formal contract was signed in May 1987.

3.12.14 During the period between December 1989 and June 1990, 50 of these vehicles were subsequently sold for \$83.3 million and leased back by the Corporation.

3.12.15 At the date of preparation of this Report, the Corporation held 114 light rail vehicles, of which 110 were available for service and 4 were awaiting final fittings and testing at the Corporation's workshop. A further 16 vehicles were scheduled for delivery by December 1993.

■ *RESPONSE provided by Acting Secretary, Department of Transport*

The 50 light rail vehicles referred to in paragraph 3.12.14 were sold and leased back under the direction of the former Government and the transaction was beyond the control of the PTC. Sales proceeds from the transaction were remitted to the Consolidated Fund.

Overall conclusion

3.12.16 Since 1990, the Corporation has held increasing numbers of light rail vehicles in excess of its immediate service needs. At 31 March 1993, it held 63 surplus vehicles. After taking into account interest or opportunity costs on funds provided from the Consolidated Fund, audit estimates that around \$126 million has been prematurely outlaid by the State since 1990 to acquire these vehicles.

3.12.17 In audit opinion, the contract for the purchase of the vehicles lacked sufficient flexibility to adequately cater for subsequent variations in government policy on the replacement of W class trams. Significant cost penalty clauses for early termination of the contract effectively locked the Corporation into the acquisition of 130 vehicles and was the principal reason for the gradual build up of surplus vehicles. Other contributing factors were a significant delay in development of a program to implement modifications to the tram infrastructure to accommodate light rail vehicles, and a 1990 government decision to defer conversion of the Upfield railway line to light rail usage.

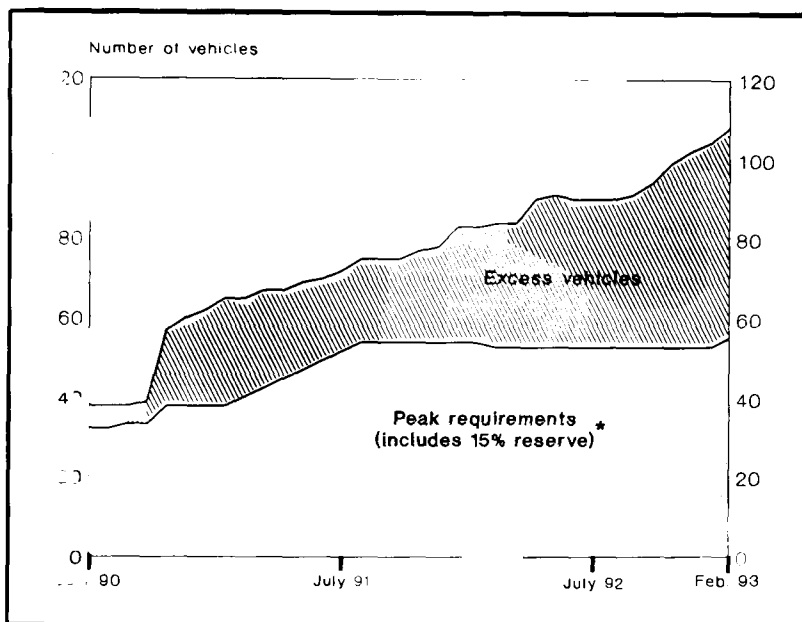
3.12.18 The financial implications of an inflexible contract on light rail vehicles and subsequent variations to government policy on replacement of W class trams have been substantial. The costly lesson which can be learned from the Corporation's experiences with this project is the importance of adequate flexibility in contractual arrangements where sensitive issues (in this case, the replacement of W class trams) may give rise to subsequent shifts in the direction of government policy during the term of the contract.

Vehicles on hand in excess of service requirements

3.12.19 The Corporation determines its light rail vehicle fleet needs by the number of vehicles required to run peak service together with a reserve of approximately 10 to 15 per cent to cover vehicles under maintenance and repairs.

3.12.20 An audit analysis of the Corporation's official records relating to usage requirements for light rail vehicles found that, since 1990, there has been an increasing number of idle vehicles on hand. The following chart compares the Corporation's light rail vehicle requirements (morning peak service needs supported by a 15 per cent reserve) and the number of vehicles on hand during the period 1 July 1990 to 6 February 1993.

**CHART 3.12B
EXCESS VEHICLES HELD BY THE CORPORATION**



* Derived from official tram availability schedules maintained by the Corporation which are based on the Corporation's operating requirements for morning peak service.

3.12.21 The Corporation advised audit that, in November 1992 it held 48 surplus light rail vehicles. In addition, another 9 vehicles which had been delivered to the Corporation were awaiting final fit-out. At that time, it determined to substitute Z class trams with light rail vehicles for particular routes. Under this strategy, replaced trams were moved into storage. While this action had the effect of bringing more light rail vehicles into service, the overall level of excess vehicles held by the Corporation remained unchanged.

3.12.22 By 31 March 1993 a further 6 vehicles had been delivered to the Corporation, which brought the total number of vehicles which had been purchased in advance of the Corporation's immediate needs to 63.

■ *RESPONSE provided by Acting Secretary, Department of Transport*

As acknowledged by the Auditor-General in paragraph 3.12.21 of this Report, the 48 LRVs not in operational use at 14 November 1992 are now being used in service. It has been necessary to deploy LRVs on the Bundoora and North Coburg routes and on the extended Airport West route which opened in December 1992. The 2 vehicles currently not in service and the remaining LRVs (16 vehicles at 31 March) to be delivered to complete the contract will all be deployed on the East Burwood route which is currently being extended to Blackburn Road. The LRV fleet will be fully utilised with other classes of trams being surplus to requirements for the time being.

Deliveries of LRVs since that date which have been commissioned ready for service are being deployed except for 2 which are not currently allocated to service operations.

Financial implications of high levels of idle vehicles

3.12.23 The purchase of light rail vehicles has been funded from the Consolidated Fund through its annual Works and Services allocation to the Corporation. These funds primarily represent borrowings by the Consolidated Fund and, together with the related interest or opportunity costs, constitute the main outlays by the State in the purchase of the vehicles.

3.12.24 Up to 31 March 1993, capital costs of \$112 million had been incurred by the Corporation in the acquisition of vehicles in excess of immediate requirements. **In addition, audit has estimated that interest or opportunity costs to the Consolidated Fund associated with the above funding have been around \$14 million to that date.**

3.12.25 In total, therefore, around \$126 million of scarce financial resources have been prematurely outlaid since 1990 to acquire assets in excess of the Corporation's immediate needs.



Excess light rail vehicles in storage at one of the Corporation's depots (February 1993).

3.12.26 Audit has estimated that if the 63 vehicles, in excess of the Corporation's immediate needs at the date of the audit review, were available for immediate use as replacement vehicles for W class trams, the Corporation could achieve **annual savings of about \$12 million**, on lower crewing and maintenance costs and a further once off saving of \$11.5 million from avoided costs of refurbishing works.

3.12.27 At date of preparation of this Report, the Corporation was expecting the delivery of the remaining 16 light rail vehicles under the contract. Additional capital costs of \$31 million will be incurred up to December 1993 for these vehicles. In addition, further interest costs are likely to be met by the Consolidated Fund on the borrowings associated with this final delivery.

■ *RESPONSE provided by Acting Secretary, Department of Transport*

The estimate of interest cost (\$14 million) associated with the funding of the LRV contract cannot be verified as the contract could have been funded from funds available through assets sales, taxation etc. on which no interest is paid by government.

Factors contributing to high levels of idle vehicles

Contract lacked adequate flexibility to cater for changes in government direction

3.12.28 The 1987 decision to purchase 130 light rail vehicles was premised on the basis that the acquired vehicles would be used to progressively replace the State's ageing W class tram fleet. Because replacement of W class trams involved significant capital outlays and was a very sensitive and controversial subject (sections of the community regard highly the historical importance of W class trams and view them as a fundamental part of Melbourne), in audit opinion, the likelihood existed in 1987 that current or future governments may determine to vary or even turnaround the policy in this area.

3.12.29 In audit opinion, the contract entered into for the purchase of light rail vehicles lacked the necessary flexibility to adequately cater for the above contingency. The penalty clauses of the contract relating to early termination effectively locked the Corporation into acquisition of 130 vehicles or face heavy cost penalties. The following 2 events reinforce this point:

- ▶ In July 1990, the Government advised the Corporation to seriously re-assess the need for future deliveries of light rail vehicles. After an analysis of potential options and penalties for termination of the contract, the Corporation decided to continue with the delivery of 130 vehicles. At the time of that decision (April 1991), the Corporation held 24 vehicles in excess of service requirements; and
- ▶ In August 1991, the Government determined, after consideration of the views of special interest groups, that the planned retirement from service of W class trams would not proceed and the trams would be retained for use in the inner suburbs and the central business district of Melbourne. Because of the lack of flexibility in the 1987 contract, this key decision meant that the intended use of light rail vehicles as replacements for W class trams required urgent review so that vehicles could be brought into service on delivery by the contractor.

3.12.30 An important lesson can be learned from the Corporation's experience with the implementation of light rail vehicles. It is important that adequate flexibility is built into the contractual arrangements wherever possible to cover the possibility of a change in government direction during the course of a major capital contract, as occurred in this instance.

■ *RESPONSE provided by Acting Secretary, Department of Transport*

As acknowledged by the Auditor-General in other parts of this Report, a substantial cost penalty would have been incurred if a more flexible contract had been negotiated in the first place. The contract was entered into consistent with the policy of the Government at the time to modernise the tram fleet, and there was no reason to add to the cost of the contract by providing for flexibility as at that stage it was not envisaged that a capacity for early termination would be required.

While it is the opinion of audit that there was a likelihood in 1987 that the government policy in relation to "W" class trams might vary in the future, there is no evidence available to support the supposition.

At the time the decision was taken to complete the contract (April 1991) there were 7 LRVs surplus to operational requirements, not 24. This difference has occurred through audit reference to tram maintenance targets rather than fleet operational requirements.

Other contributing factors

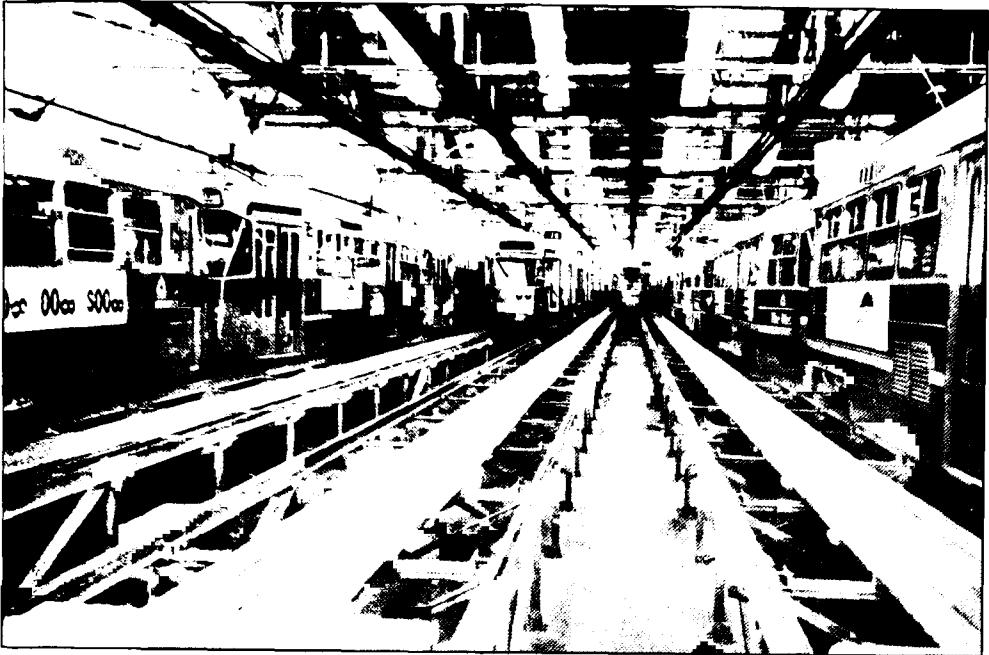
3.12.31 Fundamental to effective management of a major capital project is the need for adequate planning to ensure that the acquired capital asset can be fully utilised to provide intended services as soon as possible after delivery or construction.

3.12.32 The audit review found that a program for modifications to tram infrastructure (such modifications which include overhead system conversion, power supply alterations and extension of safety zones are necessary before light rail vehicles can be utilised) was not developed until May 1989, 12 months after the first vehicle was delivered and 2 years after the contract was signed. **The late commencement of this program set an early pattern for the holding by the Corporation of high-cost idle vehicles.**

3.12.33 In addition to the late development of the program for modifications to the tram infrastructure, the Corporation advised audit that, because of other priority projects announced by the Government, the modifications program did not proceed as scheduled. Also, in April 1990, the Government announced that conversion of the Upfield railway line to light rail usage would be deferred, **These circumstances placed further pressure on the Corporation's capacity to utilise light rail vehicles as they were delivered by the contractor.**

How is the Corporation currently addressing the dilemma?

3.12.34 Early in March 1993, the Corporation increased deployment of light rail vehicles by approximately 17 (as replacement for Z class trams with replaced vehicles put in storage).



Idle Z class trams replaced by light rail vehicles, April 1993.

3.12.35 The Tram and Bus Strategic Review Committee was established by the Minister in April 1991 to formulate a 5 year forward plan for delivery of "high-class, street-based" public transport. In May 1992, the Committee recommended that the number of W class trams be reduced by approximately 150. In view of this recommendation, the Department of Transport has provided funding to the National Trust to undertake an options and feasibility study for the future of these 150 W class trams should they be withdrawn from service. **The results of this study will impact on the future deployment options for the Corporation's fleet of light rail vehicles.**

■ *RESPONSE provided by Acting Secretary, Department of Transport*

The current Government is committed to retaining as many "W" class trams as possible and is awaiting a review of the "W" class tram fleet. This has not yet been completed and is not a reason in itself to terminate the LRV contract. Because of the acquisition of LRVs and improvements in rolling stock management, the PTC now has 227 more trams than is required for operational needs. On this basis the Government will have to review tram fleet numbers which will have an impact on its composition. This will not necessarily result in LRVs being made surplus to total fleet requirements.

Since the date of the audit report, the number of LRVs surplus to fleet operational requirements has reduced to 2 through deployment of LRVs to the extended Airport West route. The deployment of LRVs will continue during 1993 with the extended East Burwood route converted to LRV operation. Full deployment of LRVs will be completed early in 1994 following delivery of the last vehicles.

The full deployment of LRVs is not affected by current studies related to future deployment of "W" class trams. In the East Burwood and Airport West cases, LRVs are displacing "Z" class trams. The displacement of "Z" class trams is allowing the PTC to defer half life overhauls of the oldest of these vehicles while awaiting the Government's decision on the overall make-up of operational tram fleet.

MET TICKET EQUIPMENT

3.12.36 Met Ticket was a 1989 government program designed to achieve micro-economic reform in transport, principally by means of driver-only operated trams and a new ticketing system.

3.12.37 The management procedures undertaken by the then Ministry of Transport (now Department of Transport) and the Public Transport Corporation in developing and implementing the Met Ticket program were examined in the Auditor-General's *Special Report No. 15 - Met Ticket* tabled in the Parliament in November 1990.

3.12.38 During 1990, the Government determined not to proceed with Met Ticket. Following this decision, the Public Transport Corporation placed in storage a range of equipment, valued at around \$1.8 million, which had previously been acquired for Met Ticket.

3.12.39 An audit review of the control exercised by the Corporation over this equipment revealed that items acquired for conversion to driver-only trams, with a value of \$508 500, could not be adequately accounted for or located by the Corporation. Audit concluded that the Corporation's management control over this equipment, after the abandonment of Met Ticket, was less than satisfactory.

Equipment for conversion to driver-only trams

3.12.40 Doors and fittings purchased for the conversion of trams to driver-only operations and valued at \$510 000 were moved after Met Ticket to a steel-shuttered vault owned by Vic Roads located under the Westgate Bridge.

3.12.41 The Corporation was unable to provide audit with documentation to support the subsequent movement of these assets. The limited information available to audit came from discussions with the Corporation's Acting Chief Executive.

3.12.42 In July 1990, a Corporation team consisting of a senior project manager and tram and bus inspector physically inspected the equipment and recommended its disposal. Over 12 months later, in August 1991, the Corporation's assets disposal group commenced action to dispose of the equipment.

3.12.43 The audit was again inhibited by lack of key documentation at the Corporation (see similar comments in paragraph 3.12.12 above). Audit was unable to determine how much equipment the disposal group was able to locate at the time in the Westgate Bridge vault. However, whatever quantity was located, it attracted a scrap metal merchant to outlay only \$1 500 to acquire the located items.

3.12.44 Questions such as whether all of the equipment placed in storage was sold for \$1 500 or a significant portion was removed by persons without authority cannot be answered by the Corporation because of inadequate management records.

3.12.45 In June 1992, the Corporation found it necessary to write-off from its financial records the equipment's total cost value of \$510 000 and, as such, recorded a loss of \$508 500 from its handling of these assets.

3.12.46 As indicated in the response provided by the Acting Secretary, Department of Transport a full investigation of this matter is listed as the first priority task of the soon to be restructured PTC internal audit division. It is my intention to follow-up the outcome of this investigation and if considered appropriate implement surcharge action.

■ *RESPONSE provided by Acting Secretary, Department of Transport*

Equipment, including doors and fittings, was identified as surplus and of no further use and placed in storage for disposal. Efforts to sell the doors and fittings were unsuccessful due to their particular design and they were subsequently sold as scrap. The Corporation has strengthened procedures for disposal and sale of surplus assets through its Assets Disposal Section.

A full investigation of this matter is listed as the first priority task of the soon to be restructured PTC internal audit division.

LOSSES, THEFTS AND IRREGULARITIES

3.12.47 The Department of Transport has advised audit of losses and thefts totalling \$3.5 million, including wilful damage of \$2.5 million, that occurred at the Public Transport Corporation during the period 1 January 1992 to 31 December 1992. Some of the more significant losses and thefts were:

- ▶ In April 1992 the Corporation received information which alleged that stolen Met Tickets had been sold on the "black market" by its sales representatives. A thorough investigation culminated in the recovery of tickets valued at \$125 000 and other items from the home of one employee.

The employee subsequently resigned on 16 April 1992 and has been charged with theft. Investigations are continuing to ensure all matters are resolved. Reconciliation of stocks are proceeding and related systems are under review to improve control.

One of the key findings of the Auditor-General's *Special Report No. 15 - Met Ticket* was that the Corporation could not be assured that it had accounted for all fare revenue as the unused tickets had not been reconciled with cash collections at the end of July 1990. A positive response by the Corporation to this finding would have lessened the likelihood of the above irregularity occurring;

- ▶ In March 1992 the Victoria Police charged a Corporation employee with theft of track maintenance equipment to the value of \$15 000. In October 1992, the offender was sentenced in the Melbourne Magistrates' Court and directed to be subject to community-based orders;
- ▶ On 12 August 1992, a motor vehicle and equipment valued at \$48 376 were stolen from the Corporation's North Melbourne workshop. The motor vehicle was subsequently recovered and inquiries are pending on the missing equipment;
- ▶ A motor vehicle valued at \$50 000 was stolen on 16 or 17 November 1992, from Gate E, Footscray Road store, North Melbourne. The vehicle was recovered in Mooroopna on 19 November 1992 and the offender was apprehended by the Police. Recovery costs of \$2 558 were incurred;

- ▶ On 10 December 1992, Ripponlea railway station was damaged by fire allegedly started by unknown person(s). Damage was estimated at \$30 000. The Victoria Police is investigating the matter, however, no suspects have been apprehended to date;
- ▶ Various items of computer equipment valued at \$15 000 were stolen on 27 December 1992 from the carriage maintenance depot, West Melbourne. To date, the equipment has not been located;
- ▶ A motor vehicle valued at \$10 000 was stolen on 11 or 12 April 1992 from the overhead construction compound, Jolimont. To date the motor vehicle has not been recovered; and
- ▶ A backhoe valued at \$46 000 was stolen from Gate 7, Batman Avenue over the December 1991-January 1992 Christmas break and is still missing.

3.12.48 The Department has advised that, where circumstances warranted, remedial action has been taken to strengthen control and security measures as a consequence of the above cases.

- *RESPONSE provided by Acting Secretary, Department of Transport*

As noted by audit, remedial action has been taken to strengthen controls over assets. The thefts and irregularities reported by audit, however, do need to be considered as minor issues in an Authority which has an expenditure budget in excess of \$1.3 billion a year and has assets in excess of \$2.8 billion.

PORT OF GEELONG AUTHORITY

REVIEW OF ASSET UTILISATION

Background

3.12.49 The Port of Geelong Authority is constituted under the *Port of Geelong Authority Act 1958* and dates back to 1905 when it was originally established as the Geelong Harbour Trust.

3.12.50 The Authority has jurisdiction over the waters, seabed, port facilities and works in Corio Bay and the Geelong outer harbour, along with the foreshore and certain other land. Together these comprise the Port of Geelong operations. In addition, the Authority has responsibility for the Associated Ports of Queenscliff, Barwon Heads, Lorne and Apollo Bay.

3.12.51 The Authority's revenue for 1991-92 was \$17.9 million and the written-down historical cost of assets at 30 June 1992 totalled \$101.4 million. For 1991-92 the Port of Geelong recorded a profit of \$1.8 million after payment of \$1.4 million in redundancy costs and the Associated Ports recorded a loss of \$2.2 million after redundancy costs of \$390 000.

3.12.52 During the year an audit review was undertaken of the activities of the Authority with specific focus on the level of asset utilisation and the return on assets.

Overall conclusion

3.12.53 The Authority has taken positive measures to improve efficiency and to provide an improved level of service to port users.

3.12.54 Past investment in wharf and pier construction has left the Authority with excessive multi-purpose berths and, as a result, the Authority is unable to achieve its target of a 4 per cent return on the written-down current cost of those assets.

3.12.55 In addition, audit found that for the Authority to achieve the target 6 per cent return on its proposed channel deepening program it will need to increase its tonnage and berth hire charges by 20 per cent.

Management initiatives

3.12.56 In line with other waterfront sectors, the Authority has become increasingly aware of the need to implement cost saving reforms in order to improve its efficiency and to provide an improved level of service to port users.

3.12.57 A summary of the major initiatives undertaken by the Authority to improve its efficiency are set out below.

Downsizing of workforce

3.12.58 As part of efforts to ensure optimum use of resources the Authority is progressively implementing a major strategy aimed at achieving a significant downsizing of its workforce. The strategy has included offers of redundancy and early retirement packages to employees, under the Authority's Voluntary Redundancy Program, and voluntary redeployment and retraining.

3.12.59 Over the period June 1991 to December 1992 the Authority reduced its workforce by 27 per cent. Of the departures, some 47 employees accepted offers under the Voluntary Redundancy Program at a total cost to the Authority of \$2.3 million.

New pricing structure

3.12.60 Traditionally, port authorities levied a wharfage charge on shippers which was calculated on cargo tonnage and not related to the cost of providing particular port services. The wharfage charge formed part of cross-subsidising policies that worked to the disadvantage of the shipper.

3.12.61 From 1 July 1992 the Authority introduced a new pricing structure which eliminated wharfage and imposed a charge on berths and channels that is based on the costs of providing each facility. The new pricing policy enables the Authority to match revenue against its cost centres and allows shippers to identify exactly where costs have been incurred. The Authority claims to be the first Australian port to remove the wharfage charge.

Enterprise Based Agreement

3.12.62 As part of the drive towards improved labour productivity the Authority has negotiated an Enterprise Based Agreement to cover its employees. The Agreement is applicable for 1 year from 11 September 1992 and allows for a rationalisation of classifications which should increase flexibility in work practices, reduce demarcations and establish career paths for employees. The Agreement details several agreed performance indicators and targets, provides for a consultative committee to be established to monitor and review progress in performance improvement arising from the Agreement, and provides for a total increase of 6 per cent in wage/salary levels provided efficiency measures are implemented.

3.12.63 The Authority has estimated net savings of approximately \$341 000 will arise from the Agreement.

Associated Ports

3.12.64 The Associated Ports facilities mainly comprise piers and foreshore which service the commercial fishing industry, minor commercial shipping and recreational activities. Responsibility for the facilities was transferred to the Authority from the Ministry of Transport in 1986.

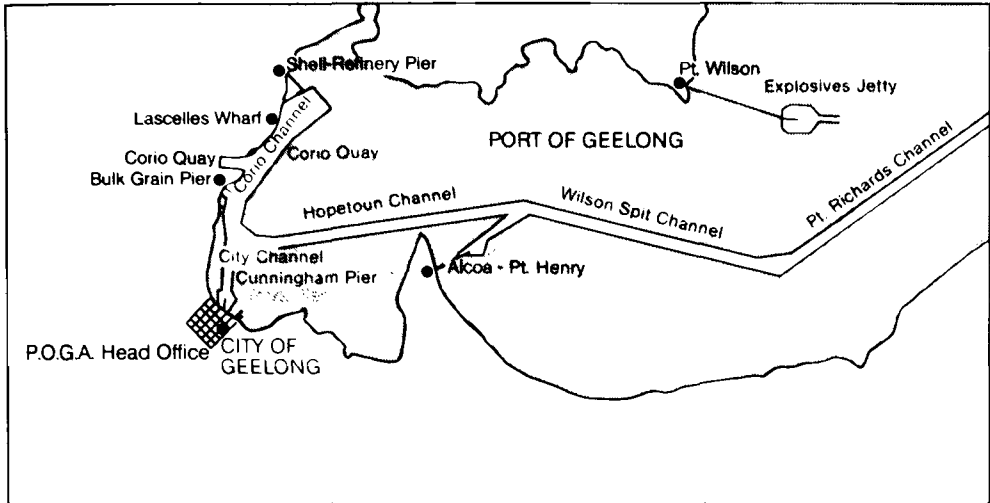
3.12.65 Under the original transfer arrangements, the Authority received government funding to cover the shortfall between revenue collected from users and the capital and recurrent expenditure incurred on Associated Ports facilities. However, government funding was withdrawn in 1991-92 and the Authority is now required to fund the Associated Ports' shortfall from Port of Geelong operations. At 30 June 1992, the Authority's funding of Associated Ports activities totalled \$2.2 million.

3.12.66 Over the last 2 years the Authority has taken steps to improve Associated Ports' operations by reducing employee levels through the Voluntary Redundancy Program, rescheduling capital works and selling surplus assets. The Authority's strategy is to make Associated Ports' operations as cost-efficient and service-effective as possible so as to facilitate their divestment to other agencies.

3.12.67 Notwithstanding these initiatives the Associated Ports' operations continued to impose a significant financial drain on the Authority's resources.

Utilisation of berths

3.12.68 The Authority's main berth facilities comprise specialist berths at the Bulk Grain Pier and Refinery Pier together with multi-purpose berths at Cunningham Pier, Lascelles Wharf and Corio Quay. Other facilities at Point Henry and Point Wilson service the aluminium and explosives industries respectively. A map of the Port of Geelong, indicating the location of the Authority's main berth facilities, is shown on the following page.

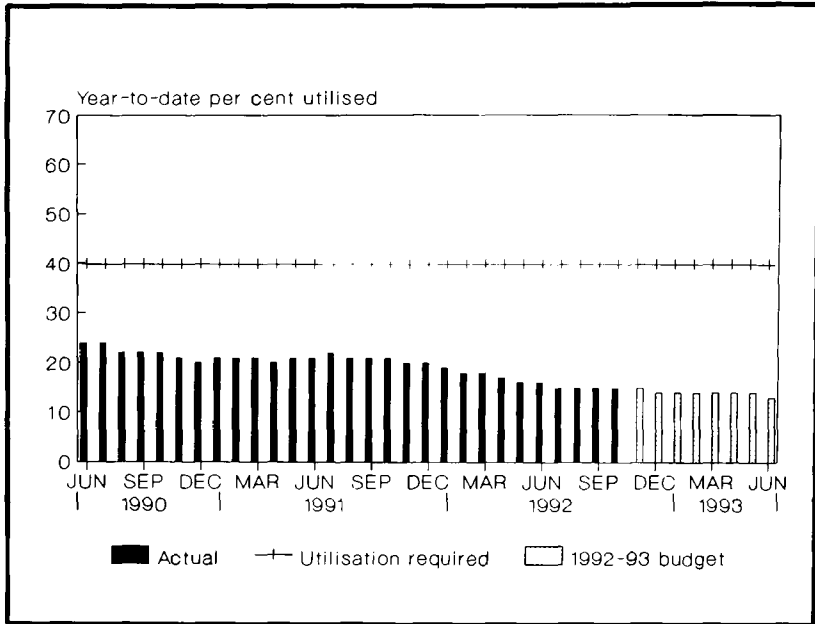


Port of Geelong.

3.12.69 The Authority has a long-term objective to achieve a 4 per cent return on the written-down current cost of assets as disclosed in the rate of return reporting financial statements, which is in line with government targets. However, due to the low overall return on its berths, the Authority is not achieving the required target. In 1991-92, the Authority obtained a negative 3.2 per cent return on assets compared with a negative 1.2 per cent return obtained in 1990-91. Audit estimated that on a current cost basis the Authority's main berths will incur a loss of \$1.7 million in 1992-93.

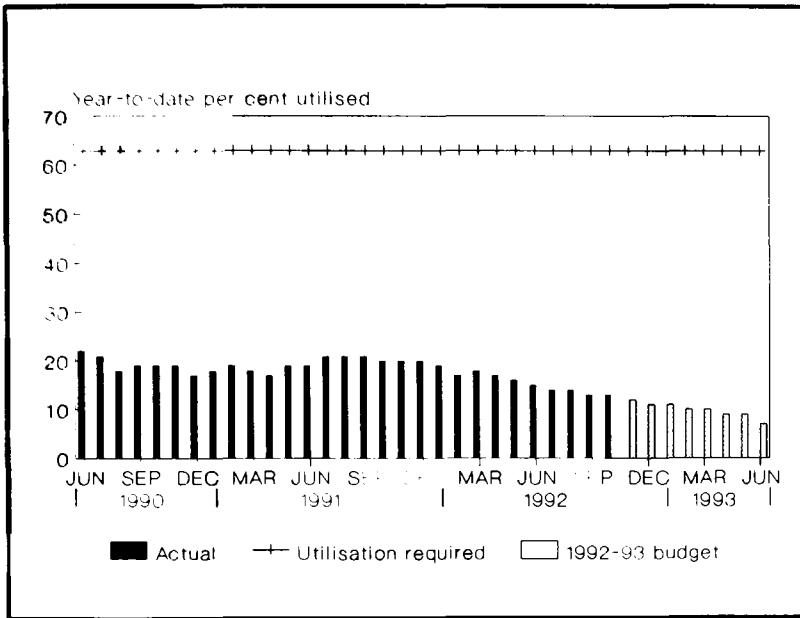
3.12.70 Chart 3.12C below shows the actual level of utilisation of the Port's main berths and, as calculated by audit, the level of utilisation required in order to achieve a 4 per cent return on those assets. Utilisation levels are expressed as a percentage of total available berth hours and actual usage averaged over the preceding 12 months.

**CHART 3.12C
UTILISATION OF MAIN BERTHS**



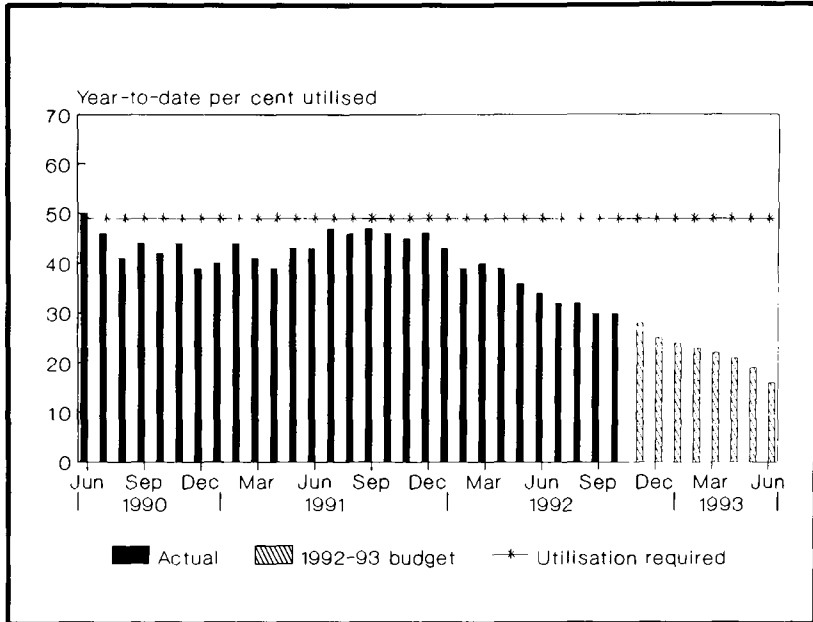
3.12.71 The chart indicates a downward trend in the utilisation of the Authority's main berths and shows that overall utilisation of berths is well below the level necessary to achieve the required rate of return. However, further analysis indicated that it is the low return on the Authority's multi-purpose berths that is the main cause of the Authority not achieving the target rate of return. Chart 3.12D shows the actual level of utilisation of the Authority's multi-purpose berths and the level of utilisation required to achieve the 4 per cent target return.

**CHART 3.12D
MULTI-PURPOSE BERTH UTILISATION**



3.12.72 Audit analysed actual and budgeted utilisation of the multi-purpose berths for the period July 1989 to June 1993. While the current economic climate has had a strong influence on berth utilisation, the analysis indicated that the removal from service of the Cunningham Pier berths and all but one of the Corio Quay berths would improve the viability of the remaining berths. Chart 3.12E shows the utilisation levels of multi-purpose berths for the period, if the berths identified above had been removed from service.

CHART 3.12E
BERTH UTILISATION IF BERTHS REMOVED FROM SERVICE



3.12.73 It is clear that the Authority has too many multi-purpose berths. **The Authority needs to identify berths no longer required for Port purposes and consider ceasing maintenance on those berths, with a view to their future decommissioning, or take action to improve their viability.**

■ *RESPONSE from the Chairman, Port of Geelong Authority*

The Port of Geelong Authority recognises the need to wind down the operations of some berths in order to increase overall utilisation. With this in mind, 2 of the 4 Corio Quay berths will have maintenance wound down and action will be taken to divest or lease Cunningham Pier to private enterprise. In addition, the Authority's Marketing Plan has identified target markets for Corio Quay in an effort to increase volume through that berth.

The Authority has formed a project team using consultants to evaluate opportunities for cost savings and possible leasing out opportunities for the Authority's berths and other facilities. The results of this project will be available in mid-1993.

Channel improvement program

3.12.74 As part of a strategy to underpin Geelong's future as a bulk port, and to achieve its full potential as an international bulk port, the Authority plans to deepen channels and certain berths from the existing 11 meters to 12 meters. The program is expected to cost \$36 million.

3.12.75 The Authority believes that the immediate benefits of the dredging will be that it will enable existing vessels to be loaded to deeper drafts rather than attracting larger vessels to the Port. In particular, the deeper channels and berths will benefit the Port's 2 major shippers of petroleum products and bulk grains by reducing the need for ships to "top up" or part discharge at neighbouring ports.

Environment Effects Statement

3.12.76 In accordance with the *Environment Effects Act 1978* the Authority is preparing an Environment Effects Statement (EES) for the dredging program. The EES will include studies of the environmental, social and economic effects of the Port deepening and a cost-benefit analysis. The EES is expected to be available for public exhibition during May 1993.

3.12.77 The Authority will not make its final decision on the dredging program until the EES has been completed.

How are the costs of the program to be recovered?

3.12.78 While the majority of shippers favour deepening of the Port there is no agreement as to who should bear the costs. The views of shippers include recovering costs from those shippers wanting the extra depth, those vessels using the extra depth or from all users. No firm financial commitments have been received from any of the shippers.

3.12.79 A management presentation to the Authority in February 1992 on recovery of costs from port users proposed that:

- ▶ the cost of berth dredging be recovered from the users of those berths by way of an increase in the berth hire rate; and
- ▶ the cost of dredging the approach channels be recovered by way of an increase in the tonnage rate levied on port users.

3.12.80 The Authority has a policy of achieving a 6 per cent rate of return on new channel works. Audit has calculated that for the Authority to achieve the required rate of return using the estimated cost of \$36 million and the above cost recovery proposal, it would need to **increase its tonnage and berth hire charges by 20 per cent**. In this context, audit notes that the Authority had proposed to increase 1992-93 tariffs by an average 3.5 per cent, however, the then Minister responsible for Ports authorised an increase of only 2.5 per cent.

3.12.81 **Unless the Authority is able to secure firm financial commitments from port users, in the form of an undertaking to meet the estimated substantial increase in port charges and/or a sharing of the capital cost of the program, there is a risk that substantial funds will be invested in a project that will add to the Authority's under-performing asset base.**

■ *RESPONSE from the Chairman, Port of Geelong Authority*

The consultants engaged to prepare the economic analysis have estimated the annual benefits (cost savings) to the Port's 2 main users total \$4.3 million. The cost of the program annualised at 6 per cent real is \$2.2 million.

The Australian Wheat Board and Shell Australia have been kept informed with regards to the progress of the project since its beginning. Both were given some idea of the likely costs prior to the appointment of consultants and Shell Australia are represented on the EES consultative committee.

Following some extensive modelling of costs associated with volumes and discussions with Port users, the Authority has formulated a pricing system based on user pays for the recovery of the cost of the program. The charge for the extra depth in the approach channels is likely to be levied on vessels using the extra depth rather than on all ships. This system has the strong support of the Authority's Shipper Consultative Group who make up approximately 90 per cent of the Port's total volume. Both the Australian Wheat Board and Shell Australia have publicly acknowledged their willingness to bear their share of the total costs of the project.

It goes without saying that the investment will not take place without a secure, firm financial commitment from Port users. This cannot take place until the EES is complete, tender prices evaluated and the requirements/commitments of the major users updated.

Lascelles Wharf dry bulk handling facility

3.12.82 The Authority is undertaking a 2 stage redevelopment of Lascelles Wharf to provide a new dry bulk handling facility. The estimated cost of the project is \$20.5 million.

3.12.83 The first stage, planned to cost \$8.3 million, involves the construction of a hopper and conveyor system and large bulk cargo shed, mainly to cater for self-unloading vessels. Work on Stage 1 is largely completed.

3.12.84 The second stage includes the purchase of 2 new grab cranes and conveyor system, to connect with Stage 1, and will replace the Authority's poorly performing bulk unloader currently in use. Stage 2 of the project is estimated to cost \$12.2 million.

3.12.85 The Authority decided to proceed with Stage 2 of the project on the basis of a feasibility study completed in August 1992. The study concluded that a 2 crane service would provide a lower total port cost to users, due to faster ship turnaround, compared with the use of the present bulk unloader or ship's gear to discharge cargo. The Authority noted that the faster ship turnaround would adversely affect berth and tonnage revenue, but did not factor these effects into the analysis as it takes the view that each section of port business should stand alone and there should not be any cross-subsidisation between sections.

3.12.86 Audit is of the view that the reduction in berth and tonnage revenue should have been included in the rate of return calculation used in making the investment decision. Based on the Authority's estimates of hire rates, lost berth and tonnage revenue arising from faster ship turnaround, and the reduced operating and maintenance costs of the new facility, audit calculated that the project will only return 3.8 per cent rather than the Authority's target of 8 per cent for such infrastructure. Alternatively, the forecast hire rate would need to be increased by 24 per cent to recover the net lost berth and tonnage revenue.

3.12.87 In addition, audit found that the purchase of only one crane would have resulted in a better economic outcome for the Authority than the 2 crane option selected. While providing significant savings to port users compared with the present bulk unloader, the purchase of only one crane would have provided:

- ▶ a higher real return of 6.7 per cent to the Authority compared with 3.8 per cent for a 2 crane scenario which represents an additional \$1.6 million in net present value terms; and
- ▶ a saving of \$4.4 million on capital outlays.

3.12.88 Given that the expected main user of the cranes expressed a preference for a one crane facility due to pricing considerations, there is potential for under-utilisation of the 2 cranes.

■ *RESPONSE from the Chairman, Port of Geelong Authority*

The whole waterfront reform process revolves around the need to turn ships around faster, in other words, to facilitate trade. The "main user" referred to is a shipper who has a substantial vested interest in capital equipment bought for traditional discharge of bulk vessels. The major beneficiaries of this investment initially will be the shipowner who can expect to achieve at least a 60 per cent improvement in vessel turnaround using 2 cranes. (There would be little or no advantage to the shipowner if only one crane was used.) These benefits should reflect in lower freight rates thus passing the benefit to the shipper. It is important that this project is viewed in a wider economic sense, not on the relatively narrow basis of a financial return to PGA. That will follow as the 2 crane system gains acceptance. Shipowners support 2 cranes in preference to one because of the faster turnaround and therefore greater utilisation they achieve from their vessels. While the Port Authority's charges for this project are high, the savings resulting from faster ship turnaround, reduced stevedoring costs and lower maintenance costs far outweigh the additional charges. The estimated savings to Port users of a single crane is only \$3.12 per tonne compared with \$4.45 per tonne for a 2 crane scenario. For a 20 000 tonne vessel, a common occurrence for Lascelles Wharf, this amounts to a saving of \$27 000 to Port users. The total economic benefit of the project is estimated at over \$600 000 a year.

The PGA does not agree with audit's rate of return calculations. The loss of berth hire and tonnage revenue should not be recovered from the cranes project. The issue of berth revenue is related to the problem of berth under-utilisation, as a result of overall improvement in waterfront productivity, not just the purchase of 2 cranes. This is being dealt with separately (see previous discussion). A private sector crane operator would not have taken berth hire or tonnage into the analysis, nor should the Authority.

PORT OF MELBOURNE AUTHORITY

REVIEW OF THE MANAGEMENT OF FLOATING PLANT

3.12.89 In recent times there has been increased industry and government attention on the need for cost saving reforms in the various waterfront sectors, including port authorities. As part of its cost saving initiatives, the Port of Melbourne Authority has embarked on a program of developing a more commercial emphasis and improving the efficiency of its core activities.

3.12.90 During the year, audit reviewed the Authority's progress in achieving efficiency gains in its floating plant operations which have historically been responsible for a large proportion of the Authority's costs. The Authority's Floating Plant section is responsible for the maintenance of the declared minimum depth of channels and docks together with the maintenance of buoys in Port Phillip and Western Port Bays.

Overall conclusion

3.12.91 Audit found that the Port of Melbourne Authority has achieved significant savings in its floating plant operations over the 5 years to 1992 through the introduction of workplace reforms, adoption of new technologies and identification and sale of surplus assets. As a result of these actions, there had been significant reductions in the cost of operations and in the number of vessels and crew engaged in dredging and associated operations.

Details of floating plant operations

3.12.92 Details of floating plant operations over the period 1990 to 1992, together with comparative figures for 1986 are set out in Table 3.12F.

**TABLE 3.12F
FLOATING PLANT OPERATIONS**

<i>Item</i>	1986	1990	1991	1992
Number of vessels	31	28	23	15
Number of crew	164	75	59	40
Recurrent budget	(\$m) 22	6.6	5.6	5
Cost of dredging/cubic meter	(\$) 15	6	6	5

3.12.93 Comment on the major initiatives and reforms that have led to cost savings follow.

Workplace reforms

3.12.94 Over many years, floating plant operations had been characterised by restrictive work practices and inflexible working conditions. In particular, vessels had fixed crewing complements regardless of workload, and crews permanently allocated to one vessel could not be used on any other vessel.

3.12.95 In the last 2 years significant achievements have been realised in award restructuring and the negotiation of an Enterprise Based Agreement. Benefits arising from these arrangements include:

- ▶ increased multi-skilling and removal of many demarcation barriers;
- ▶ improved workforce flexibility and rotation of crews across vessels with consequential rationalisation of vessel usage and crew numbers; and
- ▶ reduction in administrative costs with the introduction of a streamlined wages system including standard working hours for all crews, uniform wage base, a simplified wage band structure and payment of wages by Electronic Funds Transfer.

Adoption of new technologies

Dredging operations

3.12.96 The Port of Melbourne, as a river port, is subject to silting from the Yarra and Maribyrnong Rivers. Since the turn of the century, the main shipping channel and the lower Yarra River have been dredged to allow the safe passage of ships in and out of the Port.

3.12.97 By introducing new technologies to dredging operations, the Authority has substantially reduced the costs of dredging. The purchase of the vessel "*AM Vella*" represented a change-over from bucket dredging to trailing suction dredging. This dredging technique, together with the installation of computerised ship-based survey equipment which allows more accurate dredging, has reduced the costs of dredging from \$15 per cubic meter in 1986 to \$5 per cubic meter of spoil in 1992.

Buoy maintenance

3.12.98 In recent years, the Authority has undertaken a program to replace gas light buoys with fixed solar powered beacons. As a consequence, the vessel "*MV Rip*", which maintained 112 buoys per year in 1986, now changes 50 buoys every 2 years.

3.12.99 The Authority is preparing to sell the "*MV Rip*" and use smaller locally based vessels for buoy exchange.

Utilisation and sale of assets

3.12.100 With the Authority's capital dredging program of deepening shipping channels and major berth development work close to completion, future dredging will be mainly limited to maintenance work.

3.12.101 The reduced capital dredging, together with the changed crewing and work arrangements and technological improvements, left the Authority with a number of vessels surplus to requirements. At 31 December 1992, the Authority had sold 16 vessels with proceeds totalling \$700 000.

3.12.102 The reduced dredging workload has also meant that the Authority's main dredging vessel, "AM Vella", will not be fully utilised. In this regard, the Authority has been successful in arranging a \$3 million contract for the charter of the vessel and key personnel for 6 months work overseas. The Authority believes there is further scope for future commercial charter of its dredgers within Australasia.



ROADS CORPORATION

MANAGEMENT OF ROAD AND BRIDGE MAINTENANCE

3.12.103 Audit carried out a review of the Corporation's road and bridge maintenance management practices during 1992. Given the specialised nature of road and bridge maintenance operations and a number of technical matters which arose during the review, specialist advice was obtained through the engagement of an expert in road management, from Dobinson and Associates Pty Ltd.

Background

Functions

3.12.104 The Corporation is responsible for the management of the road network, which under its governing legislation includes bridges. In this regard, the Corporation's activities involve planning, designing, constructing and maintaining roads.

3.12.105 More specifically, in relation to road maintenance, the Corporation's responsibilities include maintenance of:

- ▶ the State's declared road network;
- ▶ traffic signals and other facilities for the purposes of traffic management and control;
- ▶ roadside reserves; and
- ▶ other roads in conjunction with municipalities.

Victorian road network

3.12.106 Victoria's road system comprises approximately 160 000 kilometres of both declared (or classified) roads and unclassified roads. In addition, there are approximately 10 200 bridges and major culverts throughout the State's road network.

3.12.107 The network of declared roads comprises, in broad terms:

- ▶ 7 100 kilometres of **State highways**, which are classified as principal arterials that provide interstate connection and links between larger centres in the State. Some highways form part of the national route system;
- ▶ 500 kilometres of **freeways** providing high standards of safe and efficient road transport. Usually these freeways have dual carriageways and no direct access from properties or side roads. Most crossings are by underpass or overpass with traffic entering or exiting by ramps;
- ▶ 13 000 kilometres of **main roads**, which link major centres and include roads within areas of industry, commerce or settlement;
- ▶ 1 500 kilometres of **tourist roads** giving all-weather access to places of interest; and
- ▶ 200 kilometres of **forest roads** providing access to timbered, mountainous or underdeveloped areas.

3.12.108 The declared road network had an estimated gross current replacement value at 30 June 1992 of \$11.7 billion, consisting of \$9.9 billion for roads and \$1.8 billion for bridges. The written-down value of these assets, as disclosed in the Corporation's unaudited supplementary financial statements, was approximately \$5.7 billion.

3.12.109 The Corporation has ultimate responsibility for all declared roads in the State. However, municipal councils directly manage maintenance and construction activities on main roads.

3.12.110 There are also approximately 2 600 bridges on the declared road network, of which approximately 1 400 are located on roads under the direct responsibility of the Corporation, with the balance on main roads.

3.12.111 Beyond the classified road network, there are approximately 138 000 kilometres of unclassified roads, generally referred to as local roads, within the State. These roads, which are not declared or proclaimed under legislation, are the responsibility of municipal councils. However, funding is provided by the Corporation for a limited number of specific activities on local roads, such as road safety and traffic management at the points of interface with the declared road system.

Maintenance of the road network

3.12.112 Roads and bridges are designed to varying standards and built from natural or processed materials to meet the needs of the communities they serve. Road deterioration refers to the gradual worsening of the condition of any part of the network due to the effects of traffic and other factors. In essence, maintenance activities relate to the repair of defects and attention to the structure and associated facilities to *preserve* the road in a reasonable condition for the convenience and safety of users.

3.12.113 The Corporation has identified that *road preservation* consists of the following 3 types of work:

- ▶ *Routine maintenance* - the day-to-day work done by road patrols which involves minor road pavement and bridge repairs together with other off-pavement or roadside activities such as attention to drainage, grass cutting and the maintenance of roadside reserves;
- ▶ *Periodic maintenance* - involves the resurfacing of pavements to maintain a durable waterproof seal and skid resistant surface. In the case of bridges, this maintenance is undertaken by road maintenance patrols or specialist bridge maintenance gangs and often requires special tools and equipment and the ordering of special materials; and
- ▶ *Rehabilitation* - an activity which lies somewhere between construction and maintenance. It is characterised by major repairs which are remedial in nature, more costly and less frequent than those undertaken for maintenance. Rehabilitation is the reconstruction of pavements and the replacement of bridge components or major repairing of bridges. Rehabilitation extends the life of the assets at a standard close to their original condition. It does not include reconstruction to a higher standard than the original condition.

3.12.114 The ambit of the audit review encompassed both maintenance and rehabilitation activities of the Corporation.

3.12.115 The major factors affecting the condition of road pavements are traffic loads and weather. Regular maintenance to keep road surfaces watertight, regulate surface shape and strengthen failing materials, is a cost-effective way of reducing pavement deterioration and postponing more expensive repairs. This process involves all 3 elements of road preservation. However, in due course, more expensive reconstruction will become necessary. The aim of a maintenance system is to minimise these collective costs, in economic terms, over the life cycle of the road pavement from the point of initial construction through to ultimate rehabilitation.

3.12.116 Maintenance of the road network also includes maintenance of traffic facilities and their operations - traffic lines, signs, guide posts, guard rails, traffic signals and street lighting. The audit review did not cover this aspect of maintenance in detail.

Current road transport environment

3.12.117 The Corporation has estimated that the Victorian road network now carries 27 per cent of Australia's road travel and 35 per cent of the national interstate road freight activity. The expansion in demand for road use is outstripping the growth in both population and the economy. According to Corporation statistics, road travel in Victoria has been rising by 3 to 4 per cent annually since the 1970s. More importantly, in relation to road maintenance, the Corporation anticipates freight traffic will grow at a rate of approximately 6 per cent a year over the next 10 years. This projection is of particular significance as it is generally acknowledged that heavy vehicles are one of the major causes of pavement deterioration and contribute to community concerns over the social, environmental and safety impacts of road transport.

3.12.118 The increases in traffic volume have compounded the pressure on the State's road infrastructure which is already severely strained as a result of the ageing of the road network. Much of the road network, including bridges, was constructed in the 1950s and 1960s and was not designed to carry the traffic flow volumes presently experienced.

Total road user costs

3.12.119 Each year, the Corporation spends approximately \$400 million, in Commonwealth and State funding, on the network in construction, maintenance, repairs and operating facilities. The Commonwealth provides about half of this funding, mainly for construction activities. In 1991-92 approximately \$190 million in Commonwealth funding was allocated to construction with some \$10 million provided for maintenance. **State Government funding of road pavement maintenance in 1991-92 was approximately \$90 million.**

3.12.120 In addition to the Corporation's expenditure on roads, there are wider community "costs" associated with road conditions. These costs include vehicle operating costs (fuel, tyres, maintenance, repairs and depreciation) as well as less tangible costs such as environmental effects, safety aspects and travel times.

3.12.121 In summary, effectively managed road maintenance results in reduced wear and tear on vehicles, lower transport costs for goods and services, improved road safety, greater comfort and amenity, and lower long-term costs to preserve the network's condition.

Overall conclusion

3.12.122 The condition of the State's road network directly impacts on most members of the community in terms of personal safety and cost.

3.12.123 In the 4 year period to June 1992, there has been a reduction, in real terms, of over 20 per cent in funds allocated to road maintenance functions from the annual budget process for roads under the direct control of the Roads Corporation. For the same period, the Corporation's records show there has been a noticeable deterioration in the overall condition of freeways and highways.

3.12.124 The consequences of a combination of diminishing funding for road maintenance and deteriorating road conditions are:

- ▶ substantially higher levels of taxpayers' funds will need to be allocated by the Government in future years for road maintenance; and
- ▶ in the meantime, vehicle owners carry a greater financial burden than necessary for the operation and maintenance of their vehicles (because of less than optimum road conditions).

3.12.125 If current funding patterns for road maintenance continue, the overall cost of road maintenance in future years will increase substantially.

3.12.126 To its credit, the Corporation has made substantial progress in the development of a road maintenance strategy to guide its future decision-making for this key area of its responsibilities. Audit has assessed this strategy to be generally soundly-based. However, a significant weakness of the strategy is that it is premised on one annual funding level for road maintenance. The Corporation has not yet established the optimum level which produces, over time, road conditions that minimise the community's vehicle operating costs and taxpayers' contributions to road maintenance. Nevertheless, it has estimated that net savings of approximately \$75 million can be achieved over 10 years under the strategy.

3.12.127 In terms of workforce management, the flexibility of the Corporation has been constrained by an in-house routine maintenance labour force. As such, in times of diminishing funding, more attention is automatically directed to the less effective routine maintenance tasks at the expense of systematic periodic maintenance. This pattern of resource usage inevitably leads to progressive deterioration of the road network.

3.12.128 The Corporation currently has contract maintenance trials in progress in both urban and rural areas. The general experience of international and interstate road organisations has shown that maintenance by contract is cost-effective and contributes to enhanced resource management. If interstate experience can be translated to the Victorian environment, audit estimates that significant savings could be achieved by the Corporation from an expansion in contracting for road maintenance activities.

Overall conclusion - *continued*

3.12.129 The Corporation has estimated that removal of the majority of restrictive work practices would result in annual savings of approximately \$7.5 million in outlays on road activities, with a significant portion of this amount likely to relate to road maintenance operations.

3.12.130 While the Corporation is well advanced in its strategic management of road maintenance, it needs to upgrade the quality of maintenance planning and operations for bridges on the road network. Significant safety and funding implications could emerge if action is not taken to address the general deterioration in the condition of many bridges.

Road network condition and funding

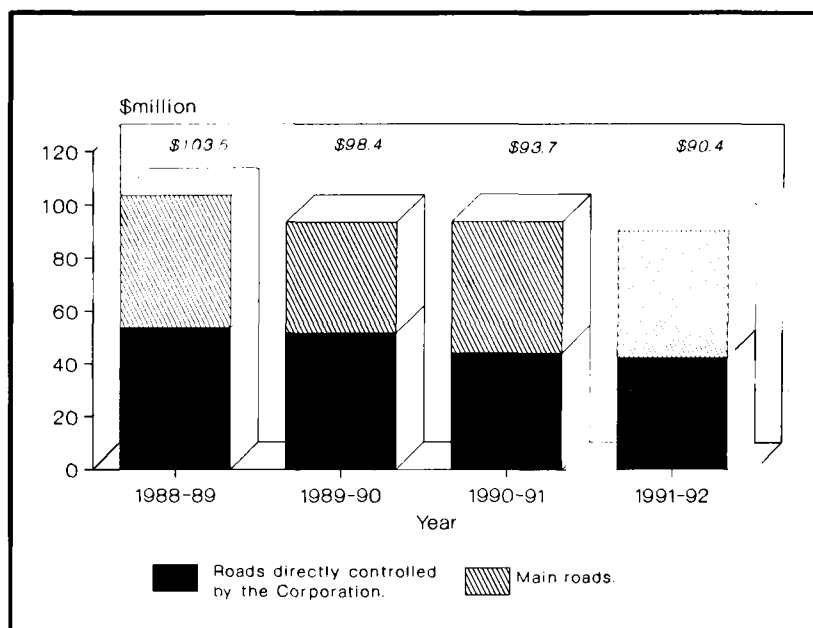
3.12.131 Evaluation of the manner in which the Corporation manages its road maintenance operations requires consideration of trends in funding levels allocated to the task from the Government's annual budgetary process and associated trends in the condition of the road network.

Trends in maintenance funding

3.12.132 As part of the review, audit completed an analysis of trends in government maintenance funding allocations during the period 1988-89 to 1991-92 and changes in the condition of road pavements over the same period. The analysis was based on budget allocation information supplied by the Corporation and road condition data recorded in the Corporation's Pavement Management System. Audit was unable to compare funding levels in excess of 4 years as the Corporation did not have records available for earlier periods.

3.12.133 Chart 3.12G shows details of the level of road pavement maintenance funding (expressed in constant 1991-92 prices) allocated to the declared road network over the past 4 financial years.

CHART 3.12G
ROAD PAVEMENT MAINTENANCE FUNDING
(In constant 1991-92 dollars)



3.12.134 The chart indicates that there has been a downward trend in funding over the period, with funds provided for pavement maintenance works falling in real terms from \$103.5 million in 1988-89 to \$90.4 million in 1991-92. This reduction represents a drop of approximately 13 per cent in funding in real terms. The reduced level of funding has been more acute for pavement maintenance tasks on roads under the Corporation's direct control, i.e. excluding main roads, with funding decreasing by 21 per cent in real terms, from \$53.6 million in 1989-90 to \$42.5 million in 1991-92.

Transfers of financial responsibilities from the Public Transport Corporation

3.12.135 The Corporation's declining funding position for roads has been exacerbated by a 1989-90 Department of Transport policy which determined that particular works of the Public Transport Corporation (PTC) are to be funded annually by the Roads Corporation. Under this policy, the additional financial responsibilities transferred to the Corporation from the PTC since 1989-90 have included:

- ▶ testing of level crossing alarms and maintenance of level crossing protection equipment;
- ▶ construction and maintenance of railroad carparks;
- ▶ protection and repair of rail bridges and associated crash beams damaged by motor vehicles; and
- ▶ road maintenance along tram tracks.

3.12.136 Several of the above activities are actually performed by the PTC which is reimbursed by the Corporation after completion of works. Because the Corporation was unable to verify the level of PTC costs it does not, in practice, settle any invoices until a direction under the Transport Act has been received from the Secretary of the Department of Transport. Although, over time, there has been an increasing number of responsibilities transferred from the PTC, the Corporation has not been allocated an equivalent increase in funding.

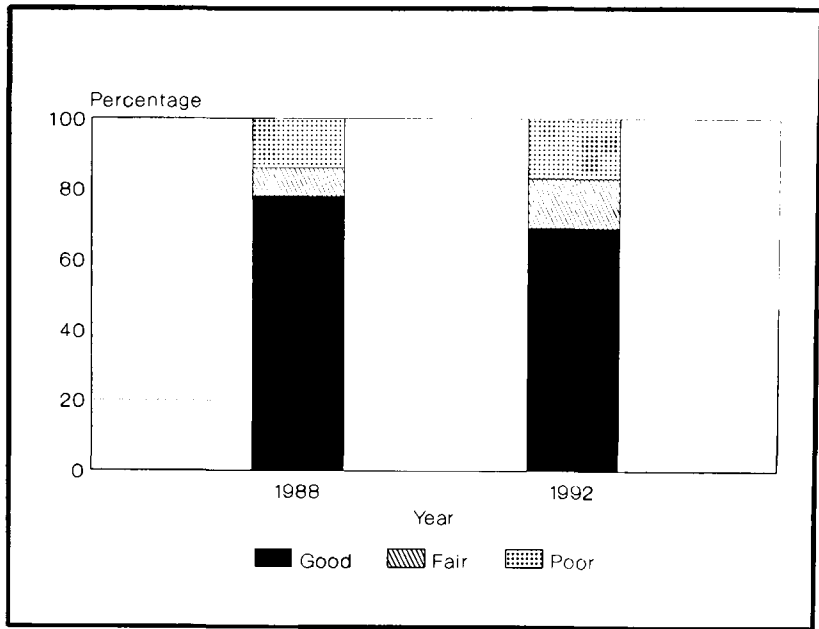
3.12.137 In 1991-92, funds transferred to the PTC were in excess of \$10 million. A review by the Corporation on the impact of that transfer determined that payment could only be made at the expense of curtailing maintenance works. As a result, maintenance funding was reduced by \$8.6 million to cater for the 1991-92 payment to the PTC.

3.12.138 The Corporation has estimated the total loss of funds as the result of the assumption of new responsibilities and related funding obligations from the PTC, in the 3 years since 1989-90, to be approximately \$94 million in constant 1991-92 dollars.

Condition of road network

3.12.139 An audit review of road condition data, covering the period since 1988-89, recorded within the Corporation's Pavement Management System disclosed that there has been deterioration in the condition of the road pavement. The road condition data reviewed by audit was limited to State highways and freeways, the more important roads in the State, as historical information on other declared roads had not been recorded on the system. Chart 3.12H illustrates the downward trend in the condition of these roads based on the Corporation's assessment criteria, **road roughness, cracking, rutting and texture** in the 4 years to 30 June 1992.

**CHART 3.12H
ROAD CONDITION DETERIORATION ON STATE HIGHWAYS
AND FREEWAYS BETWEEN 1988 AND 1992**



3.12.140 The chart shows that the percentage of highways and freeways assessed by the Corporation to be in good condition has fallen from around 78 per cent to about 69 per cent over the period, with a consequent increase in roads assessed to be either in fair or poor condition.

3.12.141 The Corporation has, for some time, been concerned at the declining condition of the State's declared road network and reduced funding levels. Its 1992-93 budget bid to the Department of Transport expressed the organisation's concern on this subject in the following terms:

"Maintenance of Victoria's arterial road system has been given very high priority in the budget bid. Maintenance expenditure has been reduced in recent years to accommodate other priorities within tightly constrained budgets. This reduction is now reflected in widespread adverse comment on road conditions (particularly in rural areas) and in the results of annual road condition surveys which are showing a significant deterioration in network condition which will require an unattainable investment in reconstruction in the near future unless this trend is corrected now."

3.12.142 The budget bid sought a road maintenance allocation of \$120 million for 1992-93. The final approved allocation under the current Government's 1992-93 budget was \$103 million.

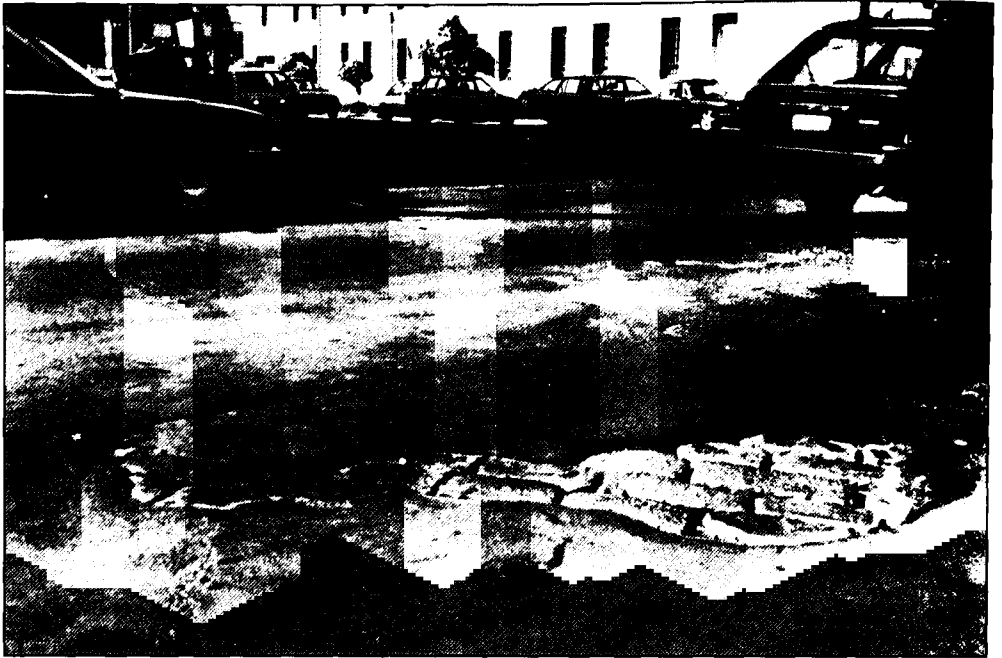
Impact of reduced funding on road condition

3.12.143 The progressive decline in the Corporation's road maintenance funding has resulted in reductions in the levels of periodic maintenance (i.e. resurfacing) and rehabilitation work carried out on the road network. An analysis of relevant performance indicators contained in the Corporation's Annual Reports from 1988-89 to 1991-92, showed that the coverage of periodic resurfacing on freeways and highways had decreased from 12.3 per cent to 6.7 per cent of the total pavement area, while pavement rehabilitation had fallen from 1.6 per cent to one per cent.

3.12.144 The Corporation has established that, on average, the most cost-effective rate of pavement resurfacing is 8 per cent annually (which enables total resurfacing of the network every 12 years). At the current rate, the network will be resurfaced once every 15 years. Further, the required rate of rehabilitation is 1.25 per cent of the network per year (network covered every 80 years) while at the current rate the network would be totally rehabilitated every 100 years. Audit found that the preferred rates of pavement resurfacing and rehabilitation established by the Corporation are generally comparable to targets set by other Australian road authorities.

3.12.145 Because the Corporation has an in-house routine maintenance labour force, it has found it necessary to direct the diminishing levels of funding predominantly to routine maintenance tasks. The major problem with this approach is that routine maintenance is primarily a short-term measure which involves day-to-day minor road pavement and bridge repairs. By postponing the more cost-effective periodic maintenance and rehabilitation activities, the pavement deterioration accelerates and there emerges an ever-increasing need for more expensive reconstruction treatments. In addition, the pressure on routine maintenance work increases with the requirement for more crack repairs and pothole patching in order to maintain safe travel in the absence of higher-level maintenance.

3.12.146 The Corporation has conservatively estimated that the continued deferral of the above periodic maintenance and rehabilitation will lead to substantial increases in the overall cost of road maintenance in future years.



Deteriorating road surface on a busy main road in central Melbourne.

3.12.147 Some further indication of the consequences of funding limitations for road maintenance was provided from responses received to an audit questionnaire where municipal councils identified that necessary maintenance works on main roads totalling \$75 million have had to be deferred due to insufficient funding.

3.12.148 Also, a survey conducted by the RACV in 1989 found that there was a significant level of concern among rural motorists over the deteriorating condition of roads. In particular, these motorists were concerned with the presence of potholes, broken edges and rough riding road surfaces.

3.12.149 In summary, there has been a general downward trend in funding for road maintenance over recent years and the condition of the road pavement has declined over the same period. Continuation of such circumstances will lead to substantially increased maintenance costs to the Government and the community in the longer-term.

Analysis of the Corporation's strategic approach to road maintenance

Development of road maintenance strategy

3.12.150 Strategic planning is an essential management function which provides a framework for guiding an organisation towards achievement of its corporate goals and objectives.

3.12.151 The Corporation, in recognising a need to improve maintenance operations during a period of declining funding, has, to its credit, moved in recent years to build a sound strategic management framework. **The main element of this initiative has been the progressive development of a road maintenance strategy which it has titled "A Stitch in Time".**

3.12.152 At the date of preparation of this Report, the strategy was still in draft form, with the latest draft prepared in November 1992. However, it was used for the purposes of formulating the Corporation's 1992-93 road maintenance budget bid.

3.12.153 During development of *A Stitch in Time*, the Corporation conducted a market research survey to assess user perceptions of the road network and, where possible, to quantify those aspects of road condition which affect user acceptance. This survey found that *road roughness* was the principal pavement condition which correlates with user acceptability.

3.12.154 Because road roughness also impacts on vehicle operating costs, such as fuel, tyre wear and maintenance, the Corporation determined that the most desirable roughness condition for a road was one which satisfied user acceptability, with any improvement above this level undertaken only if net economic benefits were likely to result, i.e. the value of vehicle operating cost savings to the community would exceed, over time, the required additional maintenance costs.

3.12.155 A key objective of the strategy is to reduce overall community costs arising from maintenance expenditure. These community costs, as identified under the strategy, consist of:

- ▶ Vehicle operating costs including fuel consumption, maintenance and repair, tyre wear and depreciation;
- ▶ Economic impacts resulting from vehicle operating costs, which affect the transportation costs of goods and services by road. Transport costs typically account for approximately 5 per cent of total product costs in the manufacturing sector. Other economic costs which are influenced by road condition include damage to goods in transit and the impact on tourist activity;
- ▶ Environmental effects such as dust and noise; and
- ▶ Road safety implications. There is a high economic cost associated with road accidents. The Commonwealth Bureau of Transport and Communications Economics in 1989 determined that road crashes cost Victorians more than \$1.5 billion each year in economic terms. Every fatality costs the community approximately \$560 000 and each injured person requiring admission to hospital costs on average \$55 000. According to Corporation statistics, the road condition and environment are direct factors in 4 per cent of crashes and are a contributing factor in 30 per cent, when combined with high risk behaviour, such as excessive speed. **Based on the above statistics, road accidents as a result of poor road condition and other environmental factors are a substantial cost on the Victorian community.**

3.12.156 The strategy basically determines which roads warrant maintenance expenditure by taking into account the factors of road pavement roughness and consequent user acceptability, maintenance costs, user costs and daily traffic volumes. Under the strategy, roads are classified into groups based on traffic volumes. Road roughness targets have been set for these road groups with maintenance works prioritised according to those groups where pavement roughness improvements would produce net savings in user costs, (where savings to the community in terms of lower vehicle operating costs exceed the additional maintenance costs).

3.12.157 The strategy determines that annual expenditure of \$120 million is the optimal level required for maintenance of the road network over the 10 year period from 1992-93. The progressive improvements to the condition of the road network which would result from annual maintenance funding of \$120 million would, under the strategy, create net savings to the community from lower vehicle operating costs of \$75 million over the 10 year period, based on the 1991-92 funding level. In addition, the Government would save approximately \$90 million over the period by avoiding increased maintenance costs.

Some limitations of "A Stitch in Time"

3.12.158 The audit review identified some aspects of *A Stitch in Time* where further developments would enhance the Corporation's strategic approach to maintenance.

Minimisation of total community costs not yet clearly established

3.12.159 As mentioned in the above paragraphs, the Corporation's *A Stitch in Time* strategy recognises the principle that vehicle operating costs could be reduced by decreasing the level of roughness of road pavement. However, the strategy questions the credibility of total application of this principle to relatively smooth roads. The Corporation has, as a consequence, modified its use of the road roughness criteria and has determined that the desirable funding level is one which reduces roughness on busier roads (i.e. where net savings in total community costs would occur) but which allows roughness on other declared roads to increase without falling below community acceptability.

3.12.160 In developing this approach, the Corporation has used the best information available in Australia regarding the roughness and user cost relationship. Also, the Corporation is continuing work in conjunction with AUSTROADS, an association of Australian road and traffic authorities, and the Australian Road Research Board to address any limitations in the above relationship that may enable refinement of its strategy.

3.12.161 The Corporation has advised audit that its strategy achieves the minimisation of community costs while providing road conditions which are community acceptable and economically warranted (i.e. where there are net vehicle operating cost savings). **However, the Corporation has only calculated these costs at one funding level and has not clearly established that its strategy has best determined the economically-justified funding level that minimises total community costs.**

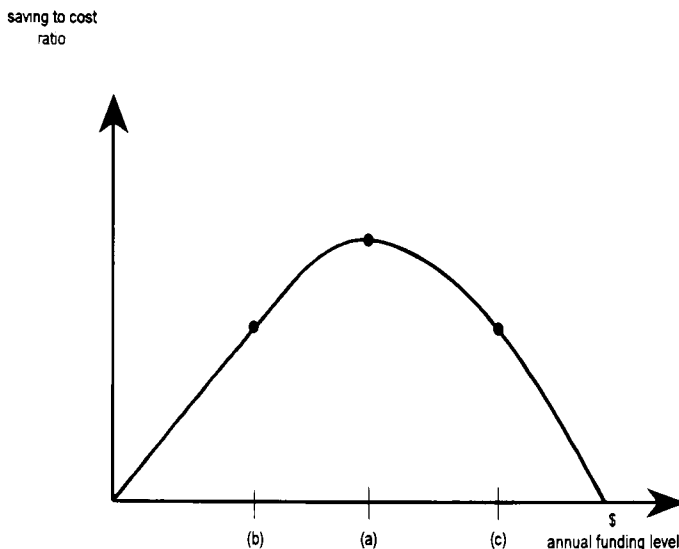
3.12.162 Minimisation of total community costs in the above context requires identification of the optimal annual road maintenance funding level which, over a defined period, produces road conditions which minimise the aggregate of:

- ▶ outlays by vehicle owners on the range of costs associated with operating a motor vehicle; and
- ▶ the portion of taxpayers' funds actually incurred on road maintenance.

3.12.163 The implications of the Corporation's current approach is that it cannot be completely assured that the community is not incurring excessive vehicle operating costs because of the condition of roads and that the Government is outlaying sufficient maintenance expenditure on roads or vice versa. Either way, the State, represented by both government and the community, may be incurring a greater than necessary financial burden.

3.12.164 To assist in illustrating this point, Chart 3.12I demonstrates the principle of minimising total community costs by comparing community savings in terms of lower vehicle operating costs with the Corporation's maintenance costs at various maintenance funding levels. When the ratio of savings to cost is at the highest point, which is point (a) in the chart, maximum community savings can be realised.

**CHART 3.12I
MAXIMISATION OF TOTAL COMMUNITY SAVINGS**



3.12.165 If the optimum funding level determined under the Corporation's strategy lies at point (b), then the level of funding would be insufficient to optimise community savings. Alternatively, if maintenance funding requested (and subsequently provided) from government is at point (c), there would be unnecessary use of scarce taxpayers' resources. In essence, the Corporation has not yet established whether government funding for road maintenance is at, or somewhere between, points (a), (b) or (c).

3.12.166 While audit supports the adoption of the principles contained in the "A Stitch in Time" strategy, the Corporation needs to determine total community costs at various funding levels with the aim of establishing the optimum level of funding where, in economic terms, total community costs are minimised.

■ *RESPONSE provided by Chief Executive, Roads Corporation*

The VicRoads strategy DOES achieve the minimisation of community costs to provide road conditions which are community acceptable and economically warranted.

The condition standards for low trafficked roads are based on community acceptance, rather than (a lower) minimum economic standard. The condition standards for busy roads are determined from economic analyses to minimise total costs.

The market research survey identified minimum acceptable pavement conditions, and an economic analysis identified traffic levels above which it is economically warranted (due to net Vehicle Operating Costs savings) to provide improved conditions. The costs of achieving these target conditions are then minimised at network level by use of VicRoads Pavement Management System (which calculates the minimum cost of treatments to the system to achieve specified conditions), and at project level by the analysis of alternative, technically feasible rehabilitation treatments to provide minimum lifecycle cost.

There is an implication that the strategy represents the Corporation's budget bid to government without identifying alternative funding levels options. The strategy has established desirable road conditions for arterial roads based upon community acceptability and economic warrants, and provides an estimate of the sustained funding level necessary over the decade to achieve and sustain such conditions. However, budget bids for arterial road maintenance and rehabilitation will continue to be part of the annual budget process. With annual budget needs, project priorities and impacts of alternative funding detailed in the context of the current system condition, strategic targets, identified maintenance and rehabilitation treatments, and other program requirements with respect to capital improvement projects.

Least lifetime cost approach not used for road maintenance

3.12.167 The level of maintenance required on the road network is influenced by the quality of the initial construction. The stronger and more durable the original construction the longer a road's life and the less maintenance it will require. However, in funding terms, the better the standard of construction, the greater the initial cost. As such, the optimum choice in determining the desired road construction quality is the one which minimises the lifetime cost of the road (i.e. construction costs and maintenance costs).

3.12.168 A least lifetime cost approach to roads ensures that the original pavement design and subsequent maintenance program consider alternative construction options to minimise costs over the life of the pavement.

3.12.169 While the Corporation uses least lifetime cost principles for selecting the type of road construction, it does not apply the optimum maintenance treatments determined at this stage over the life of the roads. On-going maintenance treatments are determined under the Pavement Management System in isolation to the original decision-making procedure. Because the system is not a life cycle costing system, it can only determine, with reasonable certainty, the minimum cost maintenance treatment for a road pavement over the short-term, between 3 to 5 years.

3.12.170 The Corporation should extend application of least lifetime cost principles to its road maintenance decisions if maximum efficiency in its maintenance costs is to be achieved.

■ *RESPONSE provided by Chief Executive, Roads Corporation*

The Corporation objects to the statement that (VicRoads) "... does not apply the optimum maintenance treatments determined at this (construction) stage over the life of the roads". The design analysis will predict future maintenance requirements based on the estimated performance of the pavement. In practice, the maintenance applied will be determined in response to the observed performance of the pavement. In the majority of cases the actual pavement performance will be similar to the prediction and the actual maintenance treatment will be very similar to the estimate.

VicRoads uses its Pavement Management System to assess broad treatment needs and indicative budget requirements at network level, supplemented at the individual project level by life cycle cost analyses for the specific pavement conditions, treatment type and loading conditions. A PC-based spreadsheet has been prepared for this analysis. (Note that this approach is recommended for all roads, not just lightly trafficked roads. For busy roads, vehicle operating costs will be more significant but treatment costs will also need to be optimised.)

This 2 stage process minimises life cycle costs by using the most appropriate modelling at network and project level and continuous review of pavement performance.

Other limitations

3.12.171 Other limitations of the strategy identified during the audit review included:

- ▶ The same standards have been used to evaluate the state of a road's condition for all declared roads, regardless of their type and the materials used in their construction. For example, the condition of a forest road is assessed on the same basis as a major highway;
- ▶ A combination of the 4 road condition criteria: road roughness, cracking, rutting and texture, is used to build up a profile of a road's condition. However, the Corporation has not determined what the appropriate minimum standards for 3 of the 4 criteria should be in assessing the overall condition of roads; and
- ▶ The strategy has determined a user acceptability standard for the level of road roughness but the Corporation's management information systems do not enable management to monitor and identify when this standard has been achieved. As a consequence, there is a risk that the condition of much of the road network could fall below community acceptable standards, which, as outlined in earlier paragraphs, are the foundation of the Corporation's strategic approach to maintenance.

3.12.172 In summary, the development of the "A Stitch in Time" strategy represents a major initiative of the Corporation in terms of its road maintenance responsibilities. Identification within the strategy of the optimal funding level from the wider community viewpoint would further strengthen the framework now in place to guide decision making on road maintenance.

■ *RESPONSE provided by Chief Executive, Roads Corporation*

The VicRoads Pavement Management System is used to monitor and manage the condition of the network. It is used to estimate minimum budget requirements to achieve specified target conditions for the network. The system describes the condition of the network by the proportion of pavement by area with a particular characteristic of roughness, rutting, cracking and texture. There are 3 roughness categories, 3 rutting categories, 2 cracking categories and 2 texture categories, making a total of 36 different combinations ("condition states").

It is unfortunate and perhaps inappropriate that for each characteristic these categories have nominally been referred to as Good, Fair or Poor; implying some sort of acceptance level rather than just differentiating the better condition categories from the lower condition categories. The definition of each category is the same for each road group, however, the amount of pavement which is in each category is managed according to the traffic volume.

For example, roughness category 3 comprises pavements rougher than 110nm (no. of roughness counts per km of road travel). For lightly trafficked roads it is acceptable to have up to approximately 20 per cent of pavements in this condition, however, for very busy roads it is economically warranted to have less than 1 per cent of pavements in this condition.

Thus, different road groups do have different roughness standards, achieved by managing the amount of pavement in each roughness category.

The VicRoads strategy is to achieve community acceptable and economically warranted road conditions at minimum community cost.

The perceived level of service to the user is a function of roughness and road roughness affects user costs.

The other condition parameters of rutting, cracking and texture are significant indicators of the structural condition of the pavement and are important for the assessment of the most appropriate treatments to be applied to a particular road to achieve the desired level of service at minimum cost to the agency.

The structural significance of rutting and cracking levels vary from road to road according to the pavement composition, environment and loading characteristics. Thus, network level measures provide a broad indication of the system condition, but the data is most applicable when assessing the most appropriate treatment of specific sections of road.

The study identified that there is currently limited data to enable quantification of the relationships between cracking, rutting and texture standards at network level with the progression of roughness, and initiated further work to establish objective standards. Work is currently being undertaken with the Australian Road Research Board concerning cracking standards.

In the interim, the network condition with respect to parameters other than roughness will continue to be managed based upon existing conditions and experienced judgement of observed trends.

Bridges on the road network

3.12.173 The Corporation has devoted significant resources to the establishment of detailed strategic plans for the maintenance of road pavements. In contrast, it has not developed similar strategic plans for the maintenance of bridges.

3.12.174 The Corporation does not presently have systems in place which consolidate information on the condition of bridges on the State's road network. Information on bridge condition has largely been left in the hands of the Corporation's individual regions. The adequacy of records on bridge condition and the nature and frequency of bridge inspections vary widely between regions.

3.12.175 Furthermore, the Corporation has not established any uniform condition rating standards for bridges. As a consequence, even where regions have reasonable condition data, it is not directly comparable across the State and can not be used as a sound basis for determining the Corporation's bridge maintenance requirements as a whole.

3.12.176 A 1991 survey by the Corporation of 14 new and old bridges on the South Gippsland Highway disclosed some adverse trends in bridge deterioration. The survey identified that:

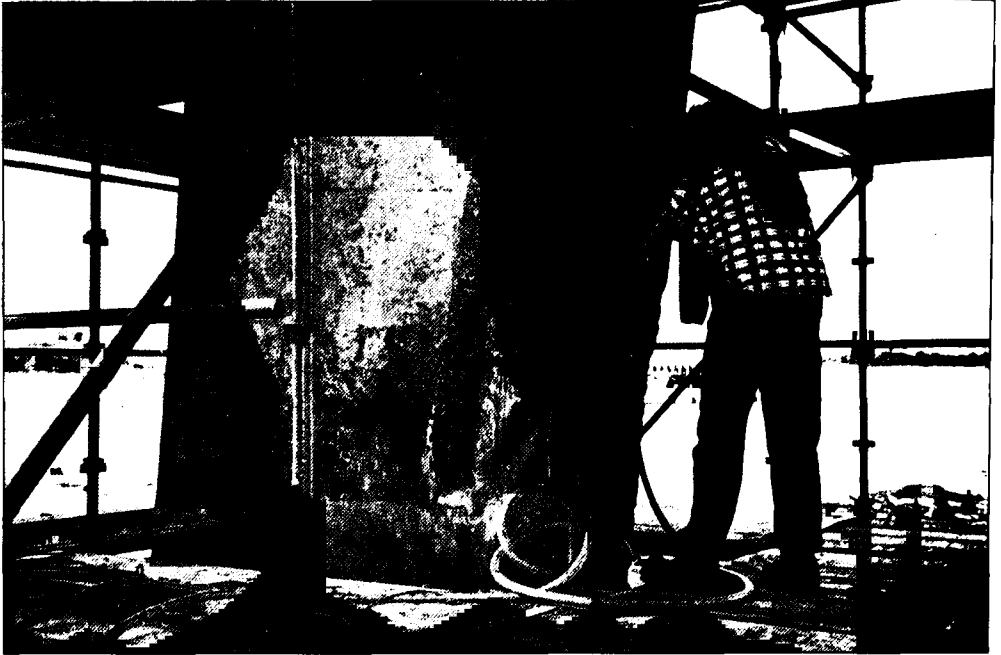
- ▶ All bridges exposed to the marine environment were subject to significant amounts of chloride contamination due to salt water, with some of the older bridges exhibiting serious signs of corrosion; and
- ▶ Inland bridges, on the other hand, were subject to various degrees of carbonation, a process whereby a reduction in the alkali contained in the cover concrete leads to corrosion of the reinforcing steel. This problem was not considered to be as serious as the damage caused by chloride to the coastline bridges.

3.12.177 The survey found that the estimated life span of bridges built in coastal areas since 1988 was now anticipated to be between 20 and 25 years, well below the Corporation's long held expected life span of 100 years.

3.12.178 Another 1991 survey, completed by the Corporation, used a combination of historical information and "best guesses" from regional personnel with a working knowledge of bridge maintenance to estimate that **approximately 16 per cent of bridges on the declared road network were in fair condition and 4 per cent were assessed to be in poor condition.**

3.12.179 Bridges rated in fair condition were considered to have deteriorated in some structural elements while those rated in poor condition had undergone some deterioration in all structural elements. These structural elements were considered to require major repairs or rehabilitation within the next 10 years.

3.12.180 In a follow-up to this survey, the regions were requested to provide further information regarding the bridges classified in poor condition and an estimate of the total cost of their rehabilitation or replacement. **The Corporation has determined that the total cost to rehabilitate or replace these bridges is approximately \$30 million.**



Repairs in progress on a coastal bridge.

3.12.181 The Corporation has also estimated that:

- ▶ in addition to current bridge maintenance expenditure, approximately 50 per cent of bridges would require outlays of \$24 million on periodic maintenance over the next 5 years; and
- ▶ over the next 20 years, some 20 per cent of bridges would need rehabilitation or replacement at a cost of \$157 million.

3.12.182 Although there have been indications on a number of fronts that the general condition of many bridges may not be satisfactory, very limited funding has been allocated to bridge maintenance in recent years. Over the previous 3 years, budget allocations for bridge maintenance have remained fairly constant, averaging approximately \$4.8 million a year.

3.12.183 The Corporation needs to formulate strategic plans for maintenance of bridges on the declared road network. The current circumstances indicate that the general condition of bridges has deteriorated in recent years. Significant funding and safety issues are almost inevitable if appropriate action is not taken to upgrade the quality of planning and management of bridge maintenance.

■ *RESPONSE provided by Chief Executive, Roads Corporation*

While the Corporation accepts some of the observations in the audit report, VicRoads recognises the need for a strategic approach to the management of bridges on the arterial road network and this is in progress.

At present, bridges are managed on a regional basis, with maintenance and rehabilitation needs of each bridge identified by staff of the relevant operations region, with support from central bridge design, construction and maintenance specialists. Priorities within each region are reflected in regional bridge strategies.

The Corporation is currently undertaking a comprehensive audit of all structures on the arterial road network using a common State-wide condition rating system. This will provide improved information for assessment of State-wide needs and priorities between regions.

VicRoads is taking a lead role in the AUSTRROADS project to identify an appropriate bridge management system for Australian conditions. While such systems will assist with inventory management and provide some capacity to model system deterioration, their application will be supplemented by site-specific assessments to determine the most appropriate and cost-effective treatment for each bridge. The strategic modelling and management of bridge systems is much more complex than road pavement systems due to the unique individual design characteristics of each structure.

The Program Development Guidelines for 1993-94 specifically refer to the establishment of a bridge maintenance program with priorities initially identified through the current bridge conditions survey. This initiative also reflects the policy initiative of the Government in the "Roads to Recovery" policy statement.

A Bridge Management Strategy study is to be undertaken in 1993.

Restrictive work practices and contracting

Restrictive work practices identified by the Corporation

3.12.184 The Corporation has identified a number of restrictive work practices in its road maintenance activities which have precluded achievement of greater efficiencies in resource management. Such practices include:

- ▶ Lack of flexibility in rostered day off (RDO) arrangements in that productive days are lost for certain seasonal maintenance operations. Workers may take their RDOs on occasions when weather conditions were conducive for completion of particular maintenance tasks. The Corporation is negotiating for workers to accumulate RDOs to be taken in winter rather than lose valuable time in the productive summer season;
- ▶ Limited flexibility with current standard working hours. The Corporation wishes to vary normal working hours to allow more maintenance work to be performed during *off-peak* travel times to minimise traffic and operational delays. Currently, *off-peak* work attracts overtime entitlements;
- ▶ Field supervisors fulfil only a supervisory role with no hands on work which often results in their *under-utilisation*;
- ▶ Time lost due to maintenance patrols meeting at depots at work start time. Workers then travel to and from worksites during working hours and return to the depot prior to cessation of work for the day; and
- ▶ Demarcation disputes between electrical and civil employees in the traffic signals area.

3.12.185 An August 1992 estimate by the Corporation indicated that the removal of the majority of restrictive work practices on road activities would result in savings of approximately \$7.5 million a year, with a significant portion of this amount likely to relate to road maintenance operations.

3.12.186 The organisation is currently endeavouring to redress these practices through structural efficiency and enterprise bargaining negotiations with the relevant unions.

The Corporation's present position on contracting

3.12.187 The Corporation generally uses outside contractors for road construction works under its direct control. However, in relation to maintenance activities for roads and bridges, the use of direct labour is predominant. Almost all maintenance on State freeways and highways has, to date, been undertaken using day labour resources but use has been made of contractors for pavement surfacing and some off-road maintenance tasks, for example, grass cutting. Also, around two-thirds of all traffic signal maintenance is undertaken by contractors. Overall, the Corporation determined that 18 per cent of road maintenance was managed by contractors in 1991-92.



Corporation road patrol repairing broken edges on a State highway.

3.12.188 In the Corporation, the presence of a **fixed maintenance workforce tends to make funding requirements resource rather than needs-driven**. Although regions may do their best to limit unproductive times for maintenance staff, there will always be occasions, with a fixed workforce, when more flexible use of labour would have economic and efficiency advantages. The on-going requirement to pay workers' wages, even though there may be a lack of full-time productive work (particularly in wet weather conditions) to be done in their area of expertise, can lead to idle resources or the performance of tasks in an inefficient or ineffective manner, for example, overmanning or assignment to low priority activities.

3.12.189 Currently, the Corporation has contract maintenance trials in progress in both urban and rural areas. It has recently finalised arrangements for contracting out the maintenance of a length of road now covered by an in-house road patrol, as a pilot project. Further, a municipal council in the western region is conducting a trial, under the Corporation's direction, into the use of contractors for maintenance of main roads. The results of all trials with contracting are not anticipated to be available to the Corporation until 1994.

3.12.190 The general experience of international and interstate road organisations has shown that maintenance by contract is cost-effective and contributes to enhanced resource management. For example, the NSW Road Traffic Authority found, in a 12 month trial of contract maintenance, that its **maintenance costs could be reduced by approximately 10 per cent across the Authority, with direct labour productivity increasing by approximately 22 per cent because of the resultant competitive pressures on its in-house workforce**.

3.12.191 While the interstate experience may not directly equate with the Victorian environment, the results of the contract maintenance trials indicate significant savings in maintenance expenditure could be achieved.

■ *RESPONSE provided by Chief Executive, Roads Corporation*

It should be noted that VicRoads does not have opposition to the use of contract.

Currently, approximately 80 per cent of all construction activity (including some rehabilitation projects) is undertaken by contract.

In the metropolitan area, 100 per cent of pavement surfacing is carried out by contract.

In the rural area, an increasing proportion of pavement surfacing is being carried out by contract resources as VicRoads direct labour bituminous surfacing resources are reduced. In addition, there has been a continuing trend to contract out non-core maintenance activities including grass cutting, litter collection and the servicing of wayside facilities.

The move to the increased contracting out and improved internal efficiencies has resulted in a reduction in the size of VicRoads field workforce by over 33 per cent since 1990.

Schedule A.COMPLETED/INCOMPLETE AUDITS

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
PUBLIC TRANSPORT				
Ministry of Transport (b)	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	27 October 1992	28 October 1992
MTA Investments Pty Ltd	30 June 1992	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	8 October 1992	28 October 1992
MTA Superannuation Fund	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 November.	8 October 1992	28 October 1992
Public Transport Corporation	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 31 October 1992.	30 September 1992	2 October 1992 (a)
ROADS AND PORTS				
Marine Board of Victoria	30 June 1992	30 September. <i>Marine Act 1988, s.80.</i> Extension granted to 31 October 1992.	26 October 1992	29 October 1992
Port of Geelong Authority	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 31 October 1992.	21 September 1992	15 October 1992 (a)
Port of Geelong Authority Superannuation Fund	30 June 1992	No reporting requirements. Section 4 of Port of Geelong Authority (Superannuation) Regulations 1972 requires the Superannuation Fund to be audited by the Auditor-General.	21 September 1992	15 October 1992
Port of Melbourne Authority	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	23 September 1992	30 September 1992

Schedule A.COMPLETED/INCOMPLETE AUDITS - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits - continued				
Port of Portland Authority	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 31 October 1992.	29 September 1992	13 October 1992
Roads Corporation	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	30 September 1992	30 September 1992 (a)

(a) Qualified audit report issued.

(b) Now Department of Transport.

TRANSPORT ACCIDENT COMMISSION

- ▶ Further strengthening of the Transport Accident Commission's financial position occurred during 1991-92.

Paras 3.13.6 to 3.13.9

- ▶ As a result of the transfer to the Transport Accident Commission of financial obligations relating to the Farrow Group, the Commission's solvency level declined from 43 per cent at 31 December 1992 to around 28 per cent at 15 January 1993.

Paras 3.13.10 to 3.13.16

Details of ministerial responsibility within the Treasury portfolio are provided in Table 3.13A. In addition to the Department of the Treasury, the entities listed below were subject to audit by the Auditor-General.

**TABLE 3.13A
MINISTERIAL RESPONSIBILITY WITHIN THE TREASURY PORTFOLIO**

<i>Ministerial responsibility</i>	<i>Entities subject to audit</i>
Treasurer	Beave Pty Ltd (in liquidation) Capital Works Authority Rural Finance Corporation SIO Services Pty Ltd SIO Superannuation Pty Ltd State Insurance Office Tattersall Sweep Consultation Transport Accident Commission Treasury Corporation of Victoria Victorian Debt Retirement Authority Victorian Development Fund Victorian Economic Development Corporation

Comment on matters of significance arising from the audit of certain of the above entities is provided below.

TATTERSALL SWEEP CONSULTATION

ABSENCE OF LINE OF ACCOUNTABILITY TO THE PARLIAMENT

3.13.1 The functions and powers of Tattersall Sweep Consultation are embodied in the *Tattersall Consultations Act 1958*. Under this Act and a licence agreement between the Government and the Trustees of the Will and Estate of the Late George Adams, the Consultation is authorised to promote and conduct lottery consultations.

3.13.2 The Auditor-General's *Report on Ministerial Portfolios, May 1992* commented that the lottery activities of the Consultation generated a substantial annual return to the Consolidated Fund (in excess of \$335 million, 1991-92).

3.13.3 The Report drew attention to the need for a line of accountability of the Consultation to the Parliament in respect of these activities and indicated that action was proposed by the then Treasurer to introduce legislative amendments under which audited financial statements of Tattersalls' lottery operations would be submitted annually to the Parliament.

3.13.4 However, as stressed in that Report, **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.**

3.13.5 The Department of the Treasury has recently advised audit that the Treasurer considers Tattersalls should be required to table financial statements on its lottery operations in the Parliament. **The Department indicated it was likely that the Treasurer would introduce appropriate amendments to the legislation in the current autumn session of the Parliament.**

- *RESPONSE provided by the Supervising Trustee of the Will and Estate of the late George Adams*

As required by the Act and the licence under which we operate, Tattersalls provides both the Auditor-General's Office and the Treasurer with accounts for the Sweeps business, in a format which has been discussed and agreed to.

Additionally, full access to Tattersall's records and documentation is provided and any information and explanations are provided on request.

Tattersall's has, therefore, always complied to the fullest extent possible, with all reporting requirements.

TRANSPORT ACCIDENT COMMISSION

CONTINUED STRENGTHENING OF FINANCIAL POSITION

3.13.6 The Auditor-General's *Report on Ministerial Portfolios, May 1992*, commented on the excellent financial performance of the Transport Accident Commission. The Report indicated that the level of the Commission's accumulated reserves had grown to \$730 million by December 1991 and the Commission's solvency level, i.e. reserves compared with outstanding claims, had risen from 6 per cent at 30 June 1990 to 22 per cent at 30 June 1991.

3.13.7 Further strengthening of the Commission's financial position occurred during 1991-92. The Commission reported an operating profit for the year of \$502 million (1990-91, \$376 million), with the increase due mainly to continued strong investment performance and reductions in new claim costs reflecting the Commission's accident prevention initiatives.

3.13.8 The Commission's Board of Directors determined to maintain a solvency level at 30 June 1992 of approximately 35 per cent. To reflect this decision in the 1991-92 financial statements, the Commission transferred an amount of \$808.8 million from its retained surplus to a reserve for solvency. This transfer was equivalent to 35 per cent of its liability for outstanding claims at 30 June 1992.

3.13.9 **By 31 December 1992, the Commission's solvency level had increased beyond the 35 per cent level set by the Board to 43 per cent, well above the minimum solvency level of 15 per cent specified under Commonwealth legislation by the Insurance and Superannuation Commission.**

MAJOR GOVERNMENT DECISIONS IMPACTING ON THE COMMISSION

3.13.10 Following the October 1992 election, the incoming administration announced 2 major decisions which will have a significant impact on the Commission, namely:

- ▶ transfer to the Commission of the liability associated with payments to depositors with the failed Farrow Group of Building Societies along with the right to receive distributions by the Group's liquidator; and
- ▶ establishment of a program for compulsory third party insurance under which the principal objective would be to privatise the Commission.

Transfer of liabilities and assets relating to Farrow Group

3.13.11 In his October 1992 Budget speech, the Treasurer announced that the special petrol levy, which had been introduced by the former Government in December 1990 to finance its remaining financial obligations arising from the failure of Farrow Group of Building Societies, would be abolished. The Treasurer also stated that the liabilities associated with payments to depositors of the Farrow Group would be transferred to the Commission along with the right to receive any distributions from the Group's liquidator. The right to receive the liquidator's distributions had been previously assigned by depositors to the Government.

3.13.12 Legislation abolishing the special petrol levy and formalising the transfer to the Commission of the liabilities and assets associated with the Farrow Group was subsequently passed by the Parliament. The legislation established a date of transfer of 15 January 1993.

3.13.13 Based on the projected distribution from the liquidator at 15 January 1993, financial obligations of around \$316 million have been transferred to the Commission in relation to the Farrow Group. Table 3.13B provides details of these financial obligations.

TABLE 3.13B
FINANCIAL OBLIGATIONS FROM FAILED FARROW GROUP
TRANSFERRED TO COMMISSION AT 15 JANUARY 1993
(\$million)

<i>Item</i>	<i>Amount</i>	
Victorian Government Security Bonds		
- Payments due August 1993, 1994, 1995		522
Redemption of loans (a)		267
Financing and administrative costs		51
		840
<i>Less</i>		
Petrol levy collections up to date of abolition(b)	73	
Projected distribution from liquidator	451	524
Net financial obligations to be met by Commission		316

(a) Repayment of government borrowings used to fund August 1991 and 1992 payments to bond holders.
(b) Based on an estimate provided by the Department of the Treasury to the Commission.

3.13.14 In addition to the net financial obligations of \$316 million shown in Table 3.13B, the obligations of the State under an indemnity provided to the Commonwealth Bank of Australia were also transferred to the Commission. Under this arrangement, the Bank was indemnified against any shortfall between an initial payment of \$362 million made to depositors in 1990-91 and amounts ultimately received from the liquidator. At 15 January 1993, the Bank had received a distribution of \$62 million from the liquidator leaving a contingent liability to the Commission at that date of \$300 million.

3.13.15 Two legal actions, which are currently in course, may impact on the final distribution by the liquidator. One of the actions was initiated by non-withdrawable shareholders in the Farrow Group who, at the date of preparation of this Report, have lodged on appeal against an earlier Supreme Court judgement. The other action involves borrowers of funds from Farrow who have claimed that their loans were invalid and thus not repayable. An August 1992 Federal Court judgement in favour of the borrowers is now the subject of an appeal by the liquidator to the Full Bench of the Federal Court.

3.13.16 As a result of the transfer of the financial obligations relating to the Farrow Group, audit has estimated that the Commission's solvency level declined from 43 per cent at 31 December 1992 to approximately 28 per cent at 15 January 1993.

Privatisation of the Commission

3.13.17 As a part of its privatisation program, the current Government has announced its intention to privatise the commercial operations of the Commission.

3.13.18 The Government has recently appointed a number of consultants to advise on the break-up of the Commission's operations. The consultants will be required to review options and issues associated with the introduction of competition into the compulsory third party insurance industry and establishment of an on-going regulatory body.

3.13.19 In February 1993, the Treasurer stated that a final structure for the industry is expected to be finalised by 30 June 1993, after which the reform program will be progressively implemented.

Schedule A. COMPLETED/INCOMPLETE AUDITS
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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
TREASURER				
Department of the Treasury	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.8.</i>	11 November 1992	11 November 1992
Capital Works Authority	30 June 1992	31 October. <i>Annual Reporting Act 1983, s.9.</i>	29 October 1992	30 October 1992 (a)
Rural Finance Corporation	30 June 1992	30 September. <i>Rural Finance Act 1988, s.28.</i>	2 September 1992	2 September 1992
SIO Services Pty Ltd	30 June 1992	No reporting requirements. Audit conducted at request of Treasurer.	27 October 1992	10 November 1992
SIO Superannuation Pty Ltd	30 June 1992	23 September 1992	10 November 1992
State Insurance Office	30 June 1992	30 September. <i>State Insurance Office Act 1984, s.24.</i>	28 October 1992	10 November 1992
Tattersall Sweep Consultation	30 June 1992	No reporting requirements. <i>Tattersall Consultations Act 1958, s.8A.</i>	30 September 1992	22 December 1992
Transport Accident Commission	30 June 1992	30 September. <i>Transport Accident Act 1986, s.31.</i>	25 September 1992	28 September 1992
Victorian Debt Retirement Authority	30 June 1992	30 September. <i>Annual Reporting Act 1983, s.9.</i>	28 September 1992	29 September 1992
Victorian Development Fund	30 June 1992	30 September. <i>Public Account Act 1958, s.7G.</i>	30 September 1992	30 September 1992
Victorian Economic Development Corporation	30 June 1992	31 December. <i>Victorian Economic Development Act 1981, s.43.</i>	2 September 1992	2 September 1992
Victorian Public Authorities Finance Agency (b)	30 June 1992	30 September. <i>Victorian Public Authorities Finance Act 1984, s.14.</i>	30 September 1992	30 September 1992

(a) Qualified audit report issued.

(b) Succeeded by the Treasury Corporation of Victoria on 1 January 1993.

PART 4

Alfred Hospital Follow-up Review

KEY

FINDINGS

- ▶ Prompt and positive action has been taken by management to address the issues raised by audit in the 1990 *Special Report* on the Alfred Hospital.

Para. 4.15

- ▶ Increased demand on hospital services has contributed in some areas to a worsening in the position in relation to:

- waiting lists

Paras 4.19 to 4.33

- access to the Emergency Department; and

Paras 4.37 to 4.56

- admittance to intensive care facilities.

Paras 4.57 to 4.66

- ▶ The Hospital still owns a number of surplus properties.

Paras 4.93 to 4.100

Overall conclusion

4.1 The management of the Alfred Hospital is to be commended for its prompt and positive reaction to the issues raised in the Auditor-General's May 1990 *Special Report No. 12 - Alfred Hospital*. It was pleasing to find that action had been taken to address the key issues raised by audit in 1990, especially in the light of the constraints imposed by the difficult environment in which the Alfred Hospital has operated, including the increased demand for services. The review found that despite the constraints, performance had improved in a range of core business areas whereby the number of in-patients treated had increased and patient length of stay in the Hospital had been reduced. Changes which have impacted on the services provided by the Hospital include:

- ▶ significant budget cuts during 1991-92 and 1992-93 which in turn have caused bed closures and staff reductions; and
- ▶ the transfer of services at Prince Henry's Hospital to the western and south-eastern suburbs placing additional demands on the Alfred to provide services to residents in the South East Metropolitan Region.

4.2 The review also disclosed that the position had deteriorated in some areas (e.g. waiting list numbers and the number of times the Emergency Department reverted to ambulance bypass), while in some areas the position remains unchanged (e.g. the number of requests for admission to the Alfred's Intensive Care Unit which could not be met by the Hospital). This situation illustrates the high demand and pressures placed on the Hospital.

4.3 If the Alfred Hospital's situation in terms of increasing demand and budgetary pressures is characteristic of the public hospital sector throughout Victoria, public hospitals will need to focus on:

- ▶ improving efficiencies in the delivery of services by reviewing existing work practices;
- ▶ developing strategies to reduce the demand on services provided by the hospital system; and
- ▶ transferring certain functions to the private sector.

4.4 According to ministerial and departmental expectations, the introduction of casemix funding in July 1993 will facilitate the long-term rationalisation of the hospital system and provide positive incentives to improve hospital efficiency.

Summary of progress achieved since 1990

- ▶ Of the 52 recommendations contained in the Auditor-General's 1990 Special Report, to date, action has been taken on 33 recommendations.
Para. 4.15
- ▶ The number of in-patients treated increased by 12 per cent from 25 990 in 1989-90 to 29 170 in 1991-92.
Para. 4.23
- ▶ The average length of stay was reduced from 6.5 days in 1989-90 to 5.4 days in 1991-92.
Para. 4.90
- ▶ Staff numbers have been reduced by 390 over the past 18 months.
Para. 4.10
- ▶ In July 1991 the Department of Health and Community Services introduced benchmarks for the categorisation of elective surgery patients on hospital waiting lists.
Para. 4.21
- ▶ The number of people having to wait in excess of one year for surgery has been almost halved since 1990 (i.e. the Hospital has achieved a reduction from 399 to 209 persons in this category).
Para. 4.29
- ▶ However, increased demand on the services provided by the Hospital has contributed to the following findings:
 - the total waiting list numbers at 3 January 1993 of 2 317 has shown an increase of 113 patients or 5.1 per cent since 28 February 1990;
Para. 4.26
 - at 3 January 1993 135 urgent and 503 semi-urgent patients experienced waiting periods in excess of those that were clinically acceptable;
Para. 4.28
 - the number of requests for ambulance bypass in the December to February period increased significantly from 9 in 1989-90 to 112 in 1992-93;
Para. 4.45
 - in the period 23 November 1992 to 7 February 1993, 164 patients (9.2 per cent) had to wait in excess of 12 hours in the Emergency Department for a bed in the Alfred; and
Para. 4.53
 - the number of intensive care non-road trauma patients from the Alfred that had to be treated in other areas of the Hospital, other than at the specialised intensive care facilities provided by the Transport Accident Commission or the Hospital, increased sharply from 2 in 1991-92 to 32 in the first 6 months of 1992-93.
Para. 4.63

Summary of progress achieved since 1990 - continued

- ▶ While the Hospital had an overall negative budget variance of \$4.9 million at 3 January 1993, it expects this position to be improved by the end of the financial year.

Paras 4.80 and 4.81

- ▶ The Hospital operates on only 70 per cent of its bed space capacity.

Para. 4.92

- ▶ Although the Hospital has sold 2 properties for approximately \$1.2 million since the 1990 audit review, it still owns a number of properties currently valued at \$13.9 million (\$28.1 million in 1990) which are superfluous to the main activities of a hospital.

Paras 4.94 to 4.100

FOLLOW-UP REVIEW OF THE 1990 SPECIAL AUDIT REPORT

4.5 This section of the Report covers a follow-up review of the key matters raised in the Auditor-General's *Special Report No. 12 - Alfred Hospital* which was tabled in Parliament in May 1990.

4.6 As the Alfred Hospital is only one of 142 public hospitals in the State and was the subject of a detailed audit report in 1990, I decided that it would be unfair for the Hospital to be subjected to a further audit in such a short period of time. Nevertheless, it is important from an accountability and public interest perspective that my Office assesses whether issues contained in previous Special Reports are addressed by auditee management. In this regard, it was considered timely to undertake a follow-up review of the key issues raised in the 1990 Special Report to Parliament on the Alfred Hospital.

4.7 The objectives of the follow-up review were to:

- ▶ identify whether measures have been taken by Hospital management and the Department of Health and Community Services to address the key issues raised in the 1990 Special Report;
- ▶ where appropriate, determine whether the position has improved or deteriorated since the previous review given the environment in which the Hospital has operated; and
- ▶ provide a commentary on the major reasons for any changes in the key areas of activity examined.

4.8 The scope of the review focused mainly on the following key areas of significance:

- ▶ the period of time people had to wait for admission to the Hospital;
- ▶ the operation of the emergency department;
- ▶ access to intensive care; and
- ▶ management of property.

4.9 Other areas addressed related to out-patients, the Hospital's budget position, inter-hospital comparisons, under-utilised bed capacity and catering.

4.10 Although the 1990 audit covered a number of areas in the broad functional area of Medical and Nursing Services, a detailed audit of the provision of nursing services did not form part of that review. Information received from the Hospital in 1993 revealed that:

- ▶ of the measures taken to reduce staff numbers by some 390 over the past 18 months, around 176 staff were in the nursing category; and
- ▶ staff reductions were achieved while at the same time improving service delivery.

4.11 As was the position in 1990, the absence of suitable benchmarks in many areas against which to measure performance restricted the audit review to one of mainly commenting on trends rather than an assessment of performance. Accordingly, audit has not formed an opinion regarding the adequacy of the level of services provided by the Alfred. It is audit's view that the attainment of targets set in the Hospital's Health Service Agreement with the Department, which are related to funding, while important, does not necessarily indicate that the Hospital has delivered a level of service that meets the needs of the public.

4.12 To facilitate the long-term rationalisation of the hospital system, the Government announced the introduction of a casemix funding formula for public hospitals to operate from July 1993. Casemix funding arrangements for hospital services are designed to relate hospital funding to the number and type of services provided to public patients. Ministerial and departmental expectations indicate that this output-based funding system will require decisions to be made within a more performance orientated and competitive environment with positive incentives to improve hospital efficiency.

4.13 References to the 1990 audit findings contained throughout this section relate to the applicable paragraphs in the 1990 Special Report.

STRATEGIC ACTION SINCE THE 1990 SPECIAL AUDIT REPORT

Follow-up action

4.14 The management of the Hospital is to be commended for systematically addressing all issues raised by audit in 1990.

4.15 The 1990 Special Report made 52 specific recommendations for action by the Hospital and the Department. The review found that 31 of the 46 recommendations addressed specifically to the Hospital have been fully addressed. A further 12 issues have been deferred, due primarily to funding constraints and competing priorities, and management decided that no further action was necessary on the other 3 issues. Of the 6 recommendations addressed to the Department, action has been taken to address 2 of the issues and it decided further action was inappropriate in relation to the other 4 recommendations.

Management consultancy

4.16 In anticipation of further budgetary cuts by government, the Hospital's Board of Management commissioned a management consultancy firm to undertake a major *Service and Productivity Improvement Assignment* for the Hospital in 1991 at a cost of \$1.6 million. The consultancy firm was to identify areas where productivity and service improvements could be achieved and to implement a process to deliver savings.

4.17 The consultancy, which was conducted in 3 phases over the period 1 July 1991 to 31 December 1992, canvassed many of the issues raised in the 1990 Special Report including Catering, Cleaning and the Emergency area. Specific areas examined in the 3 phases are highlighted in Table 4A.

TABLE 4A
AREAS COVERED BY CONSULTANCY

Phase 1 <i>July 91-March 92</i>	Phase 2 <i>April-Oct 92</i>	Phase 3 <i>Nov-Dec 92</i>
Catering Cleaning Medical records Physiotherapy Occupational therapy Central Sterile Supply Department	Pharmacy Pathology Operating rooms Non-inpatient services	Ward staffing Clinical areas Emergency Support services Administrative areas

4.18 At the conclusion of phase 2 in October 1992, the consultants reported that the "Service and Productivity Improvement Assignment" had already achieved annual cost savings of \$6 - \$8 million for the Hospital.

MEDICAL CARE

Waiting lists and waiting times

4.19 The 1990 Special Report identified the following key findings:

- ▶ The number of persons awaiting admission to the Hospital totalled 2 204 at 28 February 1990, 2 031 of whom were waiting for elective surgery.

Para. 3.1.15

- ▶ 399 persons on the waiting list (18 per cent) had waiting times in excess of one year.

Paras 3.1.18 to 3.1.21

Recommendation

- ▶ In order to increase throughput and reduce elective waiting lists, waiting times and length of stay the Alfred should examine the logistics of establishing pre-testing facilities in an out-patient capacity staffed with appropriate personnel.

Para. 3.1.34

Action taken by management

4.20 The issue of waiting lists is an area in which the Department and the Hospital have given special attention since the 1990 review. In response to the abovementioned audit recommendation, the Hospital introduced 2 initiatives, namely:

- ▶ In February 1992, a surgeon was appointed to a part-time position of *Surgeon Waiting List Co-ordinator*. This position monitors categorisation of patients on the list, assists in pre-admission and discharge planning and provides a liaison between the medical staff with patients on the waiting lists and the administrative staff who manage that list. The position also provides any medical advice required for effective management of the list; and

- ▶ Management introduced a Pre-admission Assessment Clinic to assess elective patients prior to admission for elective surgery and to ensure patients are properly prepared (medically and generally) for surgery.

4.21 In addition, other specific initiatives include the following:

- ▶ In July 1991, the Department changed the basis on which waiting list numbers were counted. From that time, if patients have been booked for surgery within 6 weeks they are removed from the waiting list;
- ▶ The Department also in July 1991 implemented a new system for the classification and prioritisation of elective surgery patients on hospital waiting lists. Under this system, patients are grouped into 3 categories:
 - *Category 1 (Urgent): Very early admission desirable for a condition that has the potential to deteriorate quickly, to the point that it may become an emergency. (Ideally, Category 1 patients should be admitted within 30 days);*
 - *Category 2 (Semi-urgent): Admission within 12 weeks (around 90 days) acceptable for a condition causing some pain, dysfunction or disability but which is not likely to deteriorate quickly or become an emergency;*
 - *Category 3 (Non-urgent): Admission at some time in the future acceptable for a condition causing minimal or no pain, dysfunction or disability, which is unlikely to deteriorate quickly and which does not have the potential to become an emergency;*
- ▶ The Department provided to the Hospital \$8.2 million targeted specifically at treating an extra 3 549 elective surgery patients for the period 1990-91 to 1992-93. In relation to 1991-92, the Hospital treated 983 more patients than targeted (1990-91, 31 additional patients);
- ▶ A *Waiting List Auditor* was appointed in January 1992. This audit function includes the identification and removal from the list of those patients who no longer require treatment and makes the process of managing the list more efficient;
- ▶ An in-house inquiry program was written to enable easier extraction and analysis of data from the Hospital's computerised waiting list database;
- ▶ A Pilot Community Post Acute Support Program was commenced in September 1992. This Program aims to discharge elective surgical patients earlier by providing a comprehensive program of post-operative home care by nurses in the community; and
- ▶ The Alfred's 1992-93 Health Service Agreement contains a goal that by June 1993 no Category 1 or 2 patients (excluding cardio-thoracic patients) will be waiting for elective surgery beyond the clinically accepted time frames of 30 and 90 days, respectively.

*Current status**Operating environment*

4.22 In examining waiting list numbers and waiting times, it is important to appreciate the environment in which the Hospital operates. Notwithstanding an increased demand on hospital services, budget cuts, the closure of beds and a reduction in staff, the Hospital has been able to achieve a reduction in the average length of stay of patients and an increase in patient throughput.

4.23 The number of inpatients treated has increased by 12 per cent from 25 990 in-patients in 1989-90 to 29 170 in-patients in 1991-92. At 31 January 1993 the Hospital in treating 18 220 in-patients had exceeded its target by 1 530.

4.24 Nevertheless, despite the initiatives taken by management, pressures on the Hospital continue to adversely impact on waiting list numbers and waiting times which are discussed below.

Waiting list numbers

4.25 As the Department changed the basis for counting waiting list numbers in July 1991, waiting list figures were adjusted by audit for comparative purposes.

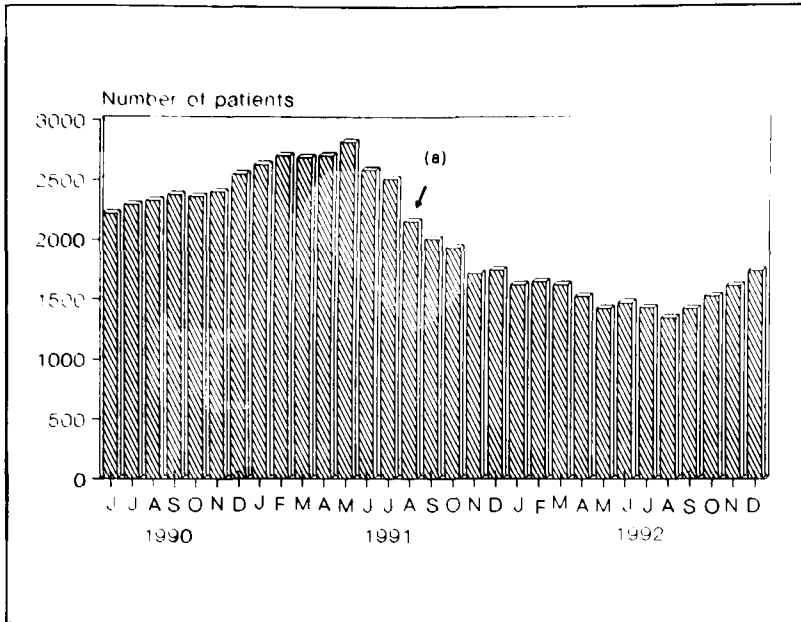
4.26 At 3 January 1993, audit calculated that there were 2 317 patients awaiting elective treatment (2 095 were waiting for surgery and 222 were waiting for medical non-surgical treatment) which represents an increase of 113 patients (5.1 per cent) on the February 1990 waiting list. Specialties with the largest number on the waiting lists are shown in Table 4B.

TABLE 4B
WAITING LIST NUMBERS FOR SELECTED SPECIALTIES

<i>Specialties</i>	1990	1993
Ear, nose and throat	405	444
Urology	353	369
General surgery	323	357
Orthopaedic surgery	236	339
Medicine	173	222

4.27 Chart 4C shows the trend in waiting list numbers of patients awaiting elective surgery (excluding patients in the non-surgical medicine specialty) since the 1990 review. The effect of the changed basis for counting waiting list numbers is reflected in the reduction in numbers of 360 patients or 14.4 per cent in August 1991. The chart also discloses **an increasing trend in waiting list numbers in the latter half of 1992**. At 3 January 1993 the Hospital's waiting list, calculated by the Hospital according to the changed basis of counting waiting list numbers, contained 1 805 patients. Audit was advised by the Hospital that the increasing trend was attributable to an increase in the rate of additions to the waiting list and an increase in the number of beds closed.

CHART 4C
NUMBERS ON PATIENT WAITING LIST AWAITING ELECTIVE SURGERY



(a) In July 1991, the Department of Health and Community Services changed the basis on which waiting list numbers were counted.

Source: Information supplied by the Alfred Hospital.

■ *RESPONSE provided by Secretary, Department of Health and Community Services*

There has been an increase of 113 (5 per cent) patients waiting over the past 3 years, primarily due to increasing demand for elective surgery services, but it represents, in fact, a marginal reduction as a proportion of total service levels. It should be stressed that the large majority (over 80 per cent) of patients admitted to the Hospital are not required to "wait". Less than 20 per cent of the Hospital's workload relates to elective surgery admissions and some of these patients have a minimal waiting time, depending on their assessed clinical need.

Waiting times

4.28 It is pleasing to note that benchmarks for categorising waiting list patients have been established since the 1990 review to improve the management of waiting lists. In applying this criteria to the examination, the audit disclosed that at 3 January 1993, 135 Category 1 patients and 503 Category 2 patients had remained on the waiting list for in excess of the clinically accepted waiting times of 30 days and 90 days, respectively.

4.29 It is also pleasing to note that no patients in the Category 1 urgent category had been waiting for more than one year for admission and the number of patients remaining on the waiting list for in excess of one year had been reduced by 190 (49 per cent) to 209. A detailed breakdown of the list, according to specialty, is contained in Table 4D.

TABLE 4D
COMPOSITION OF WAITING TIMES IN EXCESS OF ONE YEAR (a)

<i>Specialty</i>	<i>Category 2 (semi-urgent)</i>		<i>Category 3 (non-urgent)</i>		<i>Total</i>	
Ear, nose, throat	15	(3)	23	(9)	38	(12)
General surgery	13	(7)	11	(4)	24	(11)
Urology	31	(1)	25	(4)	56	(5)
Plastic surgery	25	(5)	34	(0)	59	(5)
Orthopaedic surgery	2	(1)	14	(3)	16	(4)
Ophthalmology	1	(1)	0	(0)	1	(1)
Facio-Maxillary	9	(0)	2	(0)	11	(0)
Neurosurgery	3	(0)	1	(0)	4	(0)
Sub-total	99	(18)	110	(20)	209	(38)
Total patients waiting more than one year - no explanation available	81		90		171	

(a) Numbers in brackets represent those instances where the Hospital was able to provide explanations for people remaining on the list beyond one year.

Source: Information supplied by the Alfred Hospital.

4.30 According to the Hospital the main reasons for patients remaining on the list for more than one year included:

- ▶ patients cancelled previously scheduled bookings due to work commitments, pregnancies or the inconvenient timing of the treatment (31 instances); and
- ▶ patients assessed as unfit for surgery (6 occasions).

4.31 The data indicates that there were 81 semi-urgent patients (Category 2) and 90 non-urgent patients (Category 3) where an explanation could not be provided for having to wait for more than one year to be admitted for elective surgery at the Alfred Hospital.

Conclusion

4.32 The Hospital and the Department are to be commended for the efforts they have made to address the number of people awaiting elective surgery, waiting times and length of stay. The Hospital, in particular, has taken a number of actions to address the specific issues raised in 1990. Despite these efforts, an increase in the rate of additions to the waiting list has meant that the number of patients on the list has shown a marginal increase since February 1990.

4.33 It is also pleasing to note that the number of patients remaining on the waiting list for in excess of one year had been reduced by 190 (49 per cent) to 209. **Action needs to be taken in relation to the 135 urgent Category 1 patients and the 503 semi-urgent Category 2 patients that have remained on the waiting list for in excess of the clinically accepted waiting times (81 semi-urgent Category 2 patients should have been admitted within 3 months but have remained on the waiting list for in excess of 12 months).**

■ *RESPONSE provided by Chief Executive, the Alfred Group of Hospitals*

The number of patients waiting beyond acceptable times are a result of a range of factors which are presented as follows:

- *The Department of Health and Community Services (DHCS) in its submission to the Senate Committee investigating the Medicare Agreement has made the point that there is no correlation between throughput and numbers on the list. This appears to be an issue which is often overlooked;*
- *The list is a dynamic one and therefore if there is insufficient funding or capacity to treat patients being added to the list then the numbers will, as a consequence, not only grow but age;*
- *Patients who have been waiting an excessive time for admission to the hospital have been contacted at least once through the audit process within the Hospital. The patients still on the list have elected to wait for admission;*
- *The categorisation of patients is not an exact science. Patients are treated on the basis of clinical need;*
- *The Hospital recognises the presence on the waiting list of Category 1 and Category 2 elective surgery patients in excess of clinically acceptable waiting times and intends to give these special attention in the remainder of 1992-93. Proposals are currently being developed where both of these patient categories will be targeted with the actual patient's names provided to the Unit Head with the instruction that unless there are strong clinical reasons why other patients should be treated, these particular patients will get priority and will be treated in dedicated theatre sessions and in dedicated beds; and*
- *However, because the Hospital is exceeding throughput targets (admissions 9.1 per cent ahead to 31 January 1993) and as it is under pressure from DHCS to ensure the budget is not exceeded for 1992-93 the provision of services must be reviewed. This may affect the waiting list problem and increase pressure on the Emergency Department.*

The 81 Category 2 patients who have been on the waiting list in excess of 12 months are being investigated on an individual basis. Appropriate action will be taken on the basis of the findings.

General Comment

It is noted that the Auditor-General has chosen to round some numbers such as in-patients treated per annum but not other numbers mentioned in the Report. This may result in minor variances between information provided in this Report and the Annual Accounts.

■ *RESPONSE provided by Secretary, Department of Health and Community Services*

The system of categorising patients by clinical need was introduced State-wide in August 1991 so comparisons with 1990 are not possible. The Alfred has been required to give priority, as a condition of extra funding in 1992-93 to treat additional elective surgery patients, to the treatment of "urgent" and "semi-urgent" elective surgery patients.

The Hospital's 1992-93 Health Service Agreement includes a goal that, by 30 June 1993, there will be no urgent or semi-urgent patients waiting beyond 30 and 90 days, respectively. This goal excludes the specialty of cardio-thoracic surgery which has a distortion of "urgent" patients because of the nature of the surgery required. Cardiac patients are generally always categorised as urgent but, in many cases, they cannot be admitted within 30 days for clinical reasons (e.g. instability of condition).

The Alfred commenced an intensive audit in February 1993 of the 81 patients referred to in the report with a view to arranging their early treatment, if still necessary.

Cancellation of elective surgery

4.34 The 1990 Special Report identified the following key issue:

- ▶ 21 per cent of elective surgery cases for February 1990 were not admitted on the scheduled times due to bed unavailability.

Para. 3.1.22

Current status

4.35 Based on a sample taken over the 18 months ended 31 January 1993, the average monthly rate of cancellation of scheduled elective surgery by the Hospital due to bed unavailability was 14.9 per cent or one in every 7 scheduled elective surgery admissions.

Conclusion

4.36 Since the 1990 Special Report, the rate of cancellation of scheduled elective surgery has declined.

Emergency Department

4.37 The key findings identified in respect of the Emergency Department in 1990 were as follows:

- ▶ From December 1989 to February 1990 the Alfred went on ambulance bypass 9 times which could have impacted on optimal patient care due to the delay in receiving emergency treatment.

Para 3.1.56

- ▶ Some patients were located on patient trolleys in the Emergency Department for up to 12 hours due to a lack of available beds.

Para. 3.1.58

- ▶ Between 10 and 20 patients per day suffering minor ailments did not have a sufficient medical need to be treated by the Alfred's general outpatient clinic attached to the Emergency Department resulting in an inappropriate use of hospital resources.

Para 3.1.65

Recommendation

- ▶ In audit opinion a community educational program is needed to encourage primary use of a family doctor and selective use of hospital Emergency Departments for genuine emergencies. Such a program would lead to a better quality of on-going care and a more efficient use of hospital resources.

Para. 3.1.67

Action taken by management

4.38 In response to the abovementioned recommendation the Department and the Hospital introduced a number of initiatives. Under a strategy plan issued by the Department in October 1992, the Alfred and other major hospitals in the South East Metropolitan Region were set a number of priorities for 1992-93 which included a requirement to:

- ▶ "develop networks with General Practitioners in the area and encourage general practice type patients to use these services; and

- ▶ *establish linkages with existing services in the public and private sector to enable suitable patients to be transferred to appropriate facilities within the catchment area".*

4.39 As part of this strategy, the Hospital was allocated \$50 000 in 1992-93 to *"conduct a feasibility study of the Alfred's Emergency Department to assess the perceived shortcomings in the existing facility".*

4.40 Management of the Hospital has taken a number of initiatives to encourage the primary use of a family doctor and selective use of a hospital's Emergency Department. These included:

- ▶ The Hospital's Board of Management agreed in principle that :
 - local general practitioners would be appointed as members of staff to treat patients at the doctors' clinics provided that they meet certain standards; and
 - a Family Medicine Service be established to formalise the linkages between the Hospital and the community medical network; and
- ▶ Receipt in 1992 of a Federal grant of \$67 000 enabled the Hospital to employ 4 General Practitioners to develop criteria for ensuring shared care between the Alfred Hospital and family doctors in 4 key outpatient areas namely asthma, diabetes, HIV and cancer.

4.41 In addition, the 1992 strategy plan released by the Department set the following priorities for 1992-93:

- ▶ *"review and identify information system requirements to enable installation of automated data information systems;*
- ▶ *review/update and implement policy and procedures relevant to the Emergency Department needs;*
- ▶ *review and upgrade facilities in the Emergency Department including Observation Wards;*
- ▶ *reduce incidence of ambulance bypass".*

4.42 The Hospital installed a computerised information system in November 1991 to improve the management of the Emergency Department and its patients, and facilitate easier extraction of statistical data relating to the Department.

Current status

Ambulance bypass

4.43 According to guidelines issued by the Department of Health and Community Services, a request for ambulance bypass lasts for up to 2 hours, during which time ambulances carrying ill patients should endeavour to take those patients to an alternative emergency facility. However, if the patient is critically ill and near the Alfred, or is not critically ill but has a long-term association with the Hospital, the policy of the Metropolitan Ambulance Service enables patients to still be brought to the Alfred. The final decision on destination rests with the Ambulance Service.

4.44 In a circular to public and private hospitals and ambulance services in June 1992, the Department issued guidelines covering ambulance bypass which provided that:

"Before seeking the ambulance bypass, the hospital should be satisfied that:

- the Emergency Department has reached its maximum physical capacity;*
- the treatment of patients already in the Emergency Department could be significantly compromised by the ambulance arrival of an additional patient requiring emergency treatment; and*
- steps are already in place to correct/overcome the situation.*

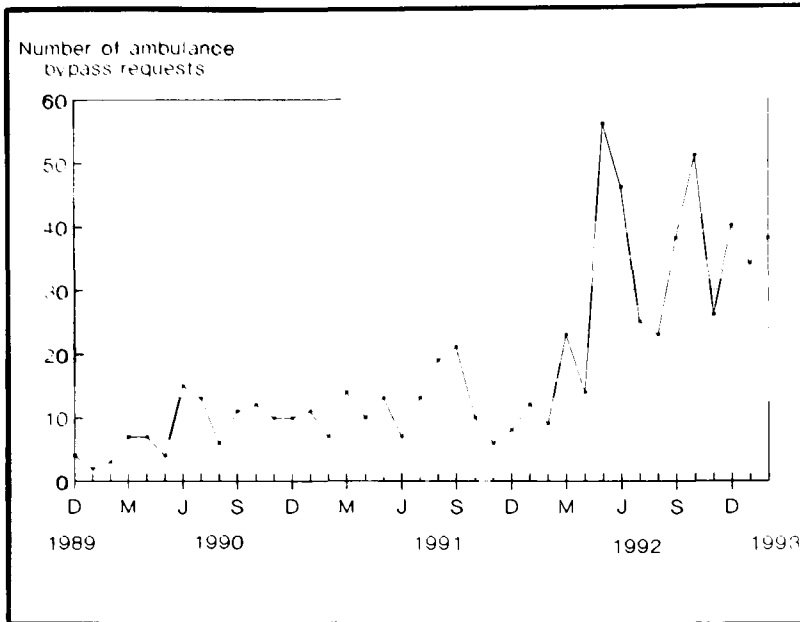
During a bypass period, the Ambulance Service will make every reasonable effort to convey patients to an alternative Emergency Department".

4.45 During the 3 month period covered in the 1990 audit the Hospital went on ambulance bypass on 9 occasions. **The number of requests for ambulance bypass made by the Hospital in the December-February period since then has increased significantly.** Details are as follows:

- ▶ 28 in 1990-91;
- ▶ 30 in 1991-92; and
- ▶ 112 in 1992-93.

4.46 A detailed breakdown of ambulance bypass declarations made by the Hospital since the 1990 Special Report is shown in Chart 4E.

**CHART 4E
AMBULANCE BYPASS REQUESTS**



Source: Information supplied by the Alfred Hospital.

4.47 To put the number of bypass requests made by the Alfred into context, the Hospital advised that the reasons for and effects of these requests need to be considered.

Reasons for increased incidence of bypass

4.48 Although a definitive analysis is not available, senior medical staff from the Emergency Department are of the view that factors contributing to the increased incidence of ambulance bypass requests include:

- ▶ closure in 1991 of the Prince Henry's Hospital and its associated emergency facility; and
- ▶ fewer beds available in wards of the Alfred to admit patients from Emergency due to on-going difficulties in placing patients from general ward areas of the Hospital into rehabilitation and after-care facilities, bed closures across the Hospital and high occupancy rates of beds in wards of around 96 per cent.

Impact of bypass request

4.49 While a request for bypass represents an attempt by the Hospital to reduce the number of patients arriving by ambulance, it has no impact on the number of patients arriving by other means such as by private vehicle. In June 1992, the Hospital conducted a study which showed that bypass requests have minimal effect on the number of ambulances arriving at the Hospital's Emergency Department. According to the Hospital, while a request for ambulance bypass indicates that the Emergency Department is under severe demand pressure, such a request does not necessarily have a significant impact on the numbers of patients treated.

4.50 Discussions with the Office of Ambulance Services at the Department of Health and Community Services confirmed that where patients in an ambulance are in a condition whereby delays in receiving treatment will endanger their life, the ambulance staff will override any bypass requests and deliver the patient to the nearest hospital with suitable facilities to care for the patient.

4.51 In the absence of benchmarks against which to assess the level of bypass requests made by the Alfred, audit computed a weekly average for the number of bypass requests made by the 5 major metropolitan teaching hospitals (the Alfred, Royal Melbourne, Austin and St Vincent's Hospitals and the Monash Medical Centre, Clayton) using information provided by the Department. Results of this analysis show that in the 6 months ended 31 December 1992 the Alfred made an average of 6.9 bypass requests each week, compared with an average for the other 4 metropolitan teaching hospitals of 7.4. While this analysis does not allow conclusions to be drawn about the appropriateness of the frequency of bypass declarations made by the Alfred in absolute terms, it does highlight that, in relative terms, the number of bypass requests made by the Alfred is marginally less than the average for similar metropolitan hospitals.

4.52 Nevertheless, **the occurrence of overcrowded conditions in the Emergency Department and the lack of privacy of patients and poor working conditions for staff, causing the Hospital to go on ambulance bypass, is of concern to the Hospital.**

Interval between arrival and admittance to the Alfred as an in-patient

4.53 Information provided by the Hospital indicates that **in the period 25 November 1991 to 2 February 1992, 95 patients (5.7 per cent) admitted to the Alfred from the Emergency Department had to wait in excess of 12 hours in the Emergency Department for a bed in the Hospital. In the period 23 November 1992 to 7 February 1993, the corresponding figure was 164 patients (9.2 per cent).**

Patients with minor ailments

4.54 Senior medical staff from the Emergency Department advised audit that although detailed analysis had not been conducted to date, the use of the General Clinic section of the Emergency Department by patients with minor ailments was not as significant an issue as it was at the time of the 1990 Report. It was suggested that the recent opening of a 24 hour bulk-billing general clinic in close proximity to the Hospital had resulted in many of these patients attending that facility in preference to the Alfred's Emergency Department's out-patient clinic. However, it is audit's view that as the average monthly attendances at the General Clinic have only declined from 1 143 in 1990 to 937 in 1992, there is still room for improvement in reducing the number of patients with minor ailments attending the General Clinic of the Emergency Department.

4.55 Medical staff at the Hospital advised audit that once a patient arrives at the Hospital's Emergency Department there are substantial ethical and legal considerations surrounding the ability of the Hospital to turn that patient away, irrespective of how minor their complaint appears to be, without a preliminary examination by a doctor. This examination will consume Hospital resources which highlights the importance of educating the community as to the appropriate use of the Hospital's Emergency Department.

Conclusion

4.56 The incidence of bypass declarations made by the Hospital has increased significantly since the 1990 Report. At the same time, significant proportions of patients requiring admission to the Hospital from the Emergency Department are required to wait in Emergency for extended periods before a bed becomes available. Only a marginal reduction has been achieved in the number of people attending the General Clinic of the Emergency Department. Taken together, these factors are indicative of **continued pressure experienced by the Emergency Department facilities of the Hospital.**

■ *RESPONSE provided by Chief Executive, the Alfred Group of Hospitals*

The audit comments highlight the fact that the incidence of bypass declarations made by the Hospital has increased significantly. It is worth noting that for the 3 months ended February 1993, where the Hospital sought ambulance bypass on 112 occasions, a total of 10 091 patients were treated at the Emergency Department of the Hospital.

Demand figures in Table 4F show clearly that more emergency and intensive care beds are needed. However, these cannot be provided at the expense of other needs, otherwise elective surgery waiting lists will increase further. Bed occupancy at the Alfred is already 96 per cent and cannot be increased further in practice. It would be possible to open additional beds to meet the demand if funding were available from DHCS.

If the Group's rehabilitation beds were to reduce, this would put additional pressure on the already stretched Emergency Department because more general ward beds will be occupied by patients who would otherwise be moved to rehabilitation beds and make room for emergency cases.

■ *RESPONSE provided by Secretary, Department of Health and Community Services*

Even if a hospital has requested the bypass (periods of up to 2 hours) of its Emergency Department, patients are still delivered by ambulance to, and are accepted for treatment by, hospitals on bypass. It should be noted also that patients arriving by other means (e.g. private transport etc.) are not affected by ambulance bypass periods.

For information, during December 1992 to February 1993, the 3 months when the Alfred sought ambulance bypass on 112 occasions, a total of over 10 000 patients reported for treatment at the Emergency Department - an average of about 5 patients per hour, 24 hours a day, 7 days per week.

Intensive care

4.57 The 1990 Report identified the following key issues:

- ▶ During 1989 the Intensive Care Unit had more requests for admission than any time in the last 5 years, which placed extreme demands on the intensive care facilities at the Alfred.

Para 3.1.69

- ▶ The high demand relative to the number of intensive care beds contributed to the refusal of one in every 3 requests for admission of critically ill patients to the Alfred's Intensive Care Unit. These requests had to be met in other areas of the Alfred or by other hospitals.

Paras 3.1.72 to 3.1.73

- ▶ Health Department Victoria has advised that the facilities of the Road Trauma Centre will be available to treat trauma patients and thereby reduce the demand on the Alfred's Emergency Department and Intensive Care Unit.

Paras 3.1.63 and 3.1.79

Current status

Intensive care facilities provided by the Alfred

4.58 Since the 1990 Special Report the Alfred's intensive care facilities have continued to experience demand pressures. Table 4F illustrates that in 1991-92 one in every 5 requests for patient admission to the Alfred's intensive care facility were unable to be accepted.

4.59 While this level of non-acceptance improved compared with the position in the years 1988-89 to 1990-91, the situation had deteriorated in the 6 months ended 31 December 1992 when one in every 3 requests for admission was not able to be met. These requests, which were unable to be met by the Alfred's intensive care unit, were met by patients obtaining treatment in other parts of the Hospital (largely in the intensive care facilities of the Road Trauma Centre) or transfer to other hospitals.

TABLE 4F
ALFRED HOSPITAL INTENSIVE CARE STATISTICS

Financial year ended 30 June	Requests for admission (a)	Admitted	Requests unable to be accepted (b)	Transfer from the Alfred to other hospitals	Patients treated in other areas of the Alfred
1985	470	340	130 (27%)	1	129
1986	438	387	51 (12%)	9	42
1987	487	433	54 (11%)	13	41
1988	547	464	83 (15%)	18	65
1989	585	411	174 (30%)	79	95
1990	516	331	185 (36%)	62	99
1991	574	412	162 (28%)	97	33
1992	552	441	111 (20%)	20	(c)83
1.7.92 to 31.12.92	350	225	125 (36%)	23	(c)99

(a) Requests are from within the Alfred and from other hospitals.

(b) Not all patients referred to in this column appear as a transfer from the Alfred to another hospital or as treated in another area of the Alfred as some requests for admission relate to patients from country hospitals who do not arrive at the Alfred.

(c) A large proportion of these patients were treated in the intensive care facilities provided by the Transport Accident Commission.

Source: Information supplied by the Intensive Care Department of the Alfred Hospital.

Intensive care facilities provided at the Alfred by the Transport Accident Commission

4.60 Six intensive care beds and 4 step-down beds (beds to cater for patients who no longer require full intensive care but who are not assessed as sufficiently stable to be transferred to a general ward), established and resourced by the Transport Accident Commission (TAC), are located at the Alfred Hospital. Under internal protocols between the TAC and the Hospital, non-road trauma patients (i.e. patients requiring intensive care for conditions not related to road accidents) may have access to the intensive care facilities provided by the TAC when these facilities are not fully utilised by road trauma patients. If a non-road trauma patient is occupying a bed in the TAC Intensive Care Unit and that bed is subsequently required to admit a road trauma patient, the non-road trauma patient (who remains the responsibility of the Alfred) may be relocated elsewhere, or the road trauma patient may be admitted to the Alfred's intensive care area which is open to road trauma cases on the basis of medical need. Audit was advised by the Director of Road Trauma Services that it would, however, be preferable to work as much as possible within the TAC Intensive Care Unit.

4.61 During 1991-92 the TAC Intensive Care Unit treated 207 intensive care patients, of whom 126 were road trauma patients. The remaining 81 (39 per cent of patients treated in the Unit) were general intensive care patients whom the Alfred was unable to admit. In the 6 months ended 31 December 1992, the Unit treated 130 patients of whom 67 (52 per cent) were non-road trauma patients from the Alfred. In terms of bed days, for the 6 months ended 31 December 1992 the Intensive Care Service provided by the TAC recorded 837 bed days of which 534 days (64 per cent) were for TAC patients and 303 days (36 per cent) were for non-TAC patients.

4.62 Under current arrangements, the Alfred provides the nursing staff and other support services for the TAC Trauma Centre and, excluding infrastructure overheads, is reimbursed for these expenditures by the TAC. Audit is of the view that these reimbursements should be adjusted to reflect use of the TAC facilities for non-trauma hospital patients.

4.63 As can be seen from this analysis, **the number of intensive care non-road trauma patients from the Alfred that had to be treated in other areas of the Hospital, other than at the specialised intensive care facilities provided by the TAC or the Hospital, increased sharply from 2 in 1991-92** (of the 83 intensive care patients treated in other areas of the Hospital, 81 were treated in the TAC Intensive Care Unit) **to 32 in the first 6 months of 1992-93** (of the 99 intensive care patients treated in other areas of the Hospital, 67 were treated in the TAC's facilities). Such a situation could have resulted in these patients not receiving the specialised intensive care treatment which they required.

Conclusion

4.64 While there was an improvement between 1990-91 and 1991-92 in the number of requests for admission to the Alfred's intensive care facilities that could not be met by these facilities, increased demand in the first half of 1992-93 led to a deterioration in the position. (i.e. the 1990 position of the Alfred's inability to meet one in every 3 requests for admission of critically ill patients remains unchanged). The provision of intensive care facilities by the TAC at the Alfred Hospital has reduced the extent of inter-hospital transfers, as a large proportion of the patients unable to be admitted by the Alfred's Intensive Care Unit are able to be treated within the TAC Intensive Care Unit when beds are available.

4.65 The Hospital has developed a heavy reliance on the TAC facilities to provide adequate intensive care to non-road trauma victims. Over the past 18 months, 148 or 44 per cent of the intensive care patients treated in the TAC Intensive Care Unit, which is funded by road users, were non-road trauma patients of the Alfred Hospital.

4.66 In audit opinion, the reimbursement to the Alfred by the TAC of nursing and associated costs related to the Trauma Centre should be adjusted to reflect the usage of TAC facilities by Hospital patients.

- *RESPONSE provided by Chief Executive, the Alfred Group of Hospitals*

The Hospital utilises the spare capacity of the TAC facilities, therefore, the marginal cost of non-road trauma patients treated would be minimal. The essence of a Trauma Centre is that it is staffed to meet the peak loads hence at other times there is spare capacity.

The TAC facilities are in fact a complex organisation. Currently, the Hospital does not charge TAC with its share of the infrastructure overheads necessary to enable the Centre to function. For simplicity, TAC has only been charged for direct costs which can be readily identified.

■ *RESPONSE provided by Secretary, Department of Health and Community Services*

The Trauma Centre, located on the Alfred Hospital site, is a joint Transport Accident Commission (TAC)/Alfred Hospital facility which was established as part of an initiative to reduce the morbidity of road trauma. The Centre, which is funded by the TAC, has the capacity to accept critically ill and injured patients, while maintaining and monitoring others under intensive care conditions. It is staffed 24 hours a day, 7 days a week so that 2 trauma patients can be treated concurrently. Original estimates were that about 2 cases would be received in the Trauma Centre per 24 hour period.

Non-road trauma cases are treated in the Centre at off-peak times when there is capacity in excess of the requirements of road trauma cases. This is on the basis that the management of road trauma has a priority over other conditions when facilities are limited. This arrangement has evolved:

- *to maximise the utilisation of the ICU facility, given the demands on the nearby Alfred;*
- *in view of the close working and geographic relationship with the Alfred; and*
- *given the infrastructure support services the Alfred provides.*

Out-patients

4.67 The following key issues were identified in the 1990 Special Report:

Audit inquiries revealed that there was scope for increasing throughput and thereby reducing waiting times by introducing the following changes to the Alfred's outpatient services:

- ▶ Providing weeknight sessions to coincide with the times most people are not at work thereby providing a social benefit to patients;
- ▶ Converting the manual information system dealing with appointments to a computerised system to efficiently handle the large volume of out-patient attendances; and
- ▶ Developing one procedural out-patient clinic to undertake all procedural activities of a clinical nature such as dressings, rather than the present system of most clinics conducting a mix of procedural tasks in confined areas as well as consultations. Such a strategy would have to preserve the right of continuity of care and enable adequate surveillance by the principal treating doctor.

Para. 3.1.38

Action taken by management

4.68 *The service and productivity improvement assignment undertaken by consultants during 1991 and 1992 included a review of the out-patients function within specialised clinics of the Hospital. This review reinforced the need to upgrade the appointment scheduling system and led to the development of preliminary specifications for a computerised system.*

4.69 In September 1992, the Hospital formed a working party with the objective of developing a proposal for the future role of the Out-patient Department.

4.70 A memorandum from the convener of this group in October 1992 to senior medical, nursing and administrative staff indicated that:

"An initial review of our out-patient activities indicates that a substantial fraction of the Alfred's work is related to the on-going care of patients who could be seen more appropriately back in the community".

4.71 The working party produced a draft proposal in December 1992 for the future direction of the out-patients function which is currently under consideration by the Hospital. A major thrust of this proposal involves privatisation of many of the traditional out-patient activities through the establishment of a private clinic within the Hospital premises. Hospital resources made available through this process would then be redirected towards elective and emergency in-patients which the Hospital considers to be a more effective utilisation of limited resources.

4.72 Audit was advised by the Hospital that it is intended for a pilot of the privatisation concept to be in place in selected out-patient units by 30 June 1993.

Current status

4.73 The concept of implementing weeknight sessions in out-patient clinics has not been formally studied by the Hospital, as it is not consistent with the Hospital's direction of reducing its commitment to out-patient services and focusing resources on treatment of emergency and elective in-patients. In addition, the Hospital is of the view that it would encounter difficulties in attracting medical and nursing staff for evening sessions. Audit has difficulty with this comment in the current economic climate.

4.74 Although enhancements to the Hospital's out-patient booking system have not been made, the Hospital has acknowledged the desirability of introducing a computerised booking system. However, a lack of investment funds within the Hospital has precluded the introduction of such a system.

4.75 A final decision in regard to the establishment of a central procedural clinic has not been made as yet.

Conclusion

4.76 It is anticipated that the recommendations to computerise the out-patients information system and establish a central procedural clinic will be again considered in deliberations concerning the proposal to privatise selected outpatient units.

Visiting Medical Officers

- ▶ It was noted that records, which were required to be submitted by Visiting Medical Officers (VMOs) to claim payment for normal sessional hours, only recorded the allocated sessions to each VMO. These records did not provide information on services provided.

Para. 3.1.95

- ▶ The Alfred needs to critically review on-call rosters to determine whether the coverage is justified in terms of service needs and cost-effectiveness.

Para. 3.1.112

4.77 Issues raised in the 1990 Special Report in relation to accountability of VMOs were not covered in this Report as they were included in *Special Report No.21 - Visiting Medical Officer Arrangements*, tabled in the 1993 autumn session of Parliament.

BUDGET POSITION

4.78 The Hospital's cash budget position, as disclosed in the 1990 Report, was as follows:

- ▶ At 28 February 1990, the Alfred had exceeded its expenditure cash budget by \$1.75 million, of which \$1.2 million related to its heart transplant program.

Para 3.1.12

Current status

4.79 The 1989-90 budget for the Hospital was \$175.5 million which was funded by \$143.6 million in government grants and \$31.9 million in other revenue. In comparison, the total 1992-93 budget for the Hospital is \$182.8 million which is funded by \$153.7 million in government grants and \$29.1 million in other revenue. The heart transplant program is now fully funded by the Commonwealth Government under the *Nationally Funded Centres Program*.

4.80 At 3 January 1993, expenditure budgets for 1992-93 had been exceeded by \$2.7 million, while revenue was \$2.2 million below target resulting in an overall negative budget variance of \$4.9 million.

4.81 An amount of \$1.3 million of the expenditure overrun involves expenses which the Hospital considers it will recover before the end of 1992-93 or were incurred with the specific intention of creating future savings in other areas.

4.82 The Hospital advised audit that a major factor contributing to the current revenue shortfall has been a higher than anticipated proportion of public patients among the in-patients treated during the year. This situation can be attributed to the decline in the proportion of people with private health insurance. According to a recent Private Health Insurance Administration Council publication, the percentage of Australians covered by private health insurance decreased from 47 per cent in 1988 to below 41 per cent in 1992.

■ **RESPONSE** provided by Secretary, Department of Health and Community Services

Audit has arrived at the overrun of \$4.9 million by adding together \$2.7 million over-expenditure and \$2.2 million under target revenue but this is considered misleading. At least \$1 million of the revenue shortfall is due to revenue lost through the decreasing numbers of private patients treated, over which the Hospital has no control.

In line with normal practice, this in-patient revenue shortfall is likely to be reimbursed by the Department.

For 1992-93, the Alfred Group's operating budget was agreed at:

- \$177.5 million - expenditure (which subsequently increased with adjustments to \$182.8 million); and
- \$29.1 million - revenue.

In its report on December year-to-date performance, the Hospital reported that it expected to recover some of that overrun by the end of 1992-93.

INTER-HOSPITAL COMPARISONS

Key issues identified by audit in 1990

4.83 The 1990 Special Report raised the following issue:

- There was a lack of current comparative data on individual hospital performance. At 16 March 1990, some 8 months after the end of the 1988-89 financial year, the Department had not compiled comparative data on hospital performance for 1988-89 such as the:
- average cost per in-patient bed day and per in-patient treated including Diagnosis Related Group adjusted costs; and
 - number of patients treated or bed days per unit of labour.

As a consequence, financial reporting systems were not effectively utilised by management.

Paras 3.1.80 to 3.1.81

Action taken by management

4.84 Since the 1990 Special Report, the Department has compiled for each financial year a report entitled *Hospital Comparative Data* which included information for use by personnel employed in the health industry such as bed numbers, casemixes, hospital expenditure, staffing levels, in-patients and length of stay by Diagnosis Related Groups. It provides State-wide averages in each of these areas as well as figures for specific hospitals.

Current status

4.85 Audit was advised by the Department that preliminary 1991-92 *Hospital Comparative Data* was issued to hospitals in December 1992, but the final Report will not be publicly available until May 1993.

4.86 For each of the past 3 financial years the Department has not produced a final *Hospital Comparative Data* report until 8 to 9 months after the end of the financial year. Factors given by the Department as contributing to this delay included:

- ▶ the change in report layout each year causing a significant amount of new work to be done;
- ▶ difficulties experienced by hospitals in submitting data in a complete form by the end of September;
- ▶ the time required to gather hospital financial reports which can take up to mid-December to finalise data;
- ▶ the considerable amount of work by the Department on the data it has received including:
 - adjusting reports to reflect the varying complexities of illness groups treated by hospitals;
 - verifying hospital data; and
 - identifying and removing any abnormal data from the sample.
- ▶ delays resulting from the Christmas holiday period.

Conclusion

4.87 The Department is commended for the production of *Hospital Comparative Data* and the issue of preliminary data to hospitals in advance. However, the official finalised information on individual hospital performance is still not produced in a timely manner.

UNDER-UTILISED BED CAPACITY

4.88 The following finding was identified in the 1990 Special Report:

- ▶ The Alfred has 615 registered beds (489 current utilised beds at 28 February 1990).

Para. 3.1.3

Current status

4.89 The Hospital advised audit that the number of registered beds (615) is a historical figure which does not correlate to the number of beds potentially available. The physical capacity of the Hospital is 698 bed spaces, although some of these spaces are currently used for other purposes such as office space. At 31 December 1992 there were 334 beds utilised by the Hospital. Subsequently, 75 beds temporarily closed over the Christmas-New Year period have since been re-opened, bringing the number of beds utilised by the Hospital to 409. In other words, based on the registered number of 615 beds, the number of bed closures at the Hospital increased from 126 in February 1990 to 206 in February 1993.

4.90 Despite the reduction in available beds since the 1990 Special Report, the Hospital increased the number of in-patients treated due to increased efficiencies leading to a reduction in the average length of stay of patients in the Hospital from 6.5 days in 1989-90 to 5.4 days in 1991-92. At 31 January 1993 the Hospital, in treating 18 220 in-patients, was 9.1 per cent ahead of the target of 16 690 in-patients by that date.

4.91 Advice from the Hospital indicates that, apart from the usual seasonal factors, the numbers of bed closures experienced over recent months was a measure designed to ensure the Hospital did not exceed its budgeted expenditure while still achieving its agreed patient throughput targets.

Conclusion

4.92 **Despite the extent of bed closures, the Hospital continues to meet its targets for in-patients treated.** As stated previously, at 31 January 1993 the Hospital in treating 18 220 in-patients had exceeded its target by 1 530. The Hospital, in February 1993, had at least 206 closed beds which equates to under-utilised bed space capacity of 30 per cent.

- *RESPONSE provided by Chief Executive, the Alfred Group of Hospitals*

As part of its annual Health Services Agreement with the Department of Health and Community Services, the Hospital agrees to treat a given number of in-patients within a given number of occupied bed days and the funding allocated to the Hospital is determined on this basis. To open more beds and treat extra patients would require extra funding.

■ *RESPONSE provided by Secretary, Department of Health and Community Services*

The Alfred Hospital has historically had 615 registered beds but it has never operated with all beds open. The issue of the number of beds open/closed is misleading:

- *hospitals are funded to treat an agreed number of in-patients. In the Alfred's case, it is funded to treat 28 263 in-patients in 1992-93 - 2 312 (9 per cent) more than in 1989-90;*
- *with increased efficiency measures leading to decreasing lengths of hospital stay, hospital managements can vary the level of available beds to meet their service and financial targets; and*
- *the Alfred Hospital has never operated its total 615 beds to meet agreed targets - in any event, funds are not available for it to do so.*

PROPERTY MANAGEMENT

4.93 The 1990 Special Report identified the following key issues:

- ▶ The Alfred did not have a strategic plan for the use of its properties and had not formulated policies for the management of its property holdings. *Paras 4.1.5 to 4.1.7*
- ▶ Properties valued in excess of \$29 million, which represented 25 per cent of the Hospital's land holdings, had predominantly not been used for hospital purposes. As a result, scarce hospital resources had not been utilised effectively. *Paras 4.1.8 to 4.1.15*
- ▶ In particular:
 - Audit questions whether the ownership of the Chevron Hotel (land value of \$23.5 million) assists the Hospital in carrying out its primary objective relating to patient care, teaching and research. *Para. 4.1.13*
 - Fawknor Mansions, which previously provided accommodation to 80 nurses, was closed in October 1987. This property, which is valued at \$1.2 million, had not provided any financial return to the Hospital since that date. *Para. 4.1.16*
 - Two properties located in Prahran and valued in excess of \$350 000 had been occupied by squatters since 1985. If these properties had been refurbished, the potential rental loss over the past 5 years would be in excess of \$60 000. *Para. 4.1.17*
 - A further 3 properties located in Prahran and valued at approximately \$750 000 were let at rates substantially below commercial rates, resulting in the non-charging of at least \$45 000 in rental income. *Paras 4.1.20 to 4.1.21*
 - Nine vacant lots, also located in Prahran, had not been used effectively since their progressive purchase which commenced in 1959. (Of the 9 vacant lots, 8 were predominantly used for car parking by student nurses at no charge.) *Para. 4.1.18*

- Two properties located in Vale Street, East Melbourne, valued at \$500 000 and \$450 000, respectively, were not used for hospital purposes although one property was occupied by a senior staff member of the Alfred.

Para 4.1.14

- Full cost recovery in respect of services provided to external bodies was not occurring in all cases, resulting in annual income forgone of at least \$100 000. (Audit comments were made in regard to the Baker Medical Research Institute and the Monash Medical School.)

Paras 4.1.22 to 4.1.26

Action taken by management

4.94 Audit was informed by the Hospital that since the 1990 audit review, several initiatives had been taken in relation to its property holdings. These initiatives are outlined below:

- ▶ In 1990 a comprehensive review was undertaken of the Hospital's property holdings which enabled the development of a detailed register of property holdings and tenancy information. The property register is maintained and updated regularly;
- ▶ In July 1991, 2 properties in Vale Street, East Melbourne were sold for approximately \$1.2 million. Proceeds from the sale were directed towards the establishment of a Magnetic Resonance Imaging facility for the Hospital;
- ▶ In January 1993, audit was advised by the Hospital that:

"The Hospital has also implemented a policy of reviewing all rentals on a regular basis and accordingly there are no hospital owned properties which have not been reviewed in the last 12 months";
- ▶ A detailed space utilisation review was instigated and is nearing completion. The review has assessed the current utilisation of the Alfred Hospital site and areas for possible development or improvement; and
- ▶ The Hospital has developed a strategic plan for the provision of car parking for staff and visitors to the Hospital to replace the current arrangements for car parking which include the use of vacant lots owned by the Hospital.

Current status

4.95 The Hospital still owns a number of properties which are, in audit opinion, superfluous to the main activities of a hospital. These include the Chevron Hotel, Fawkner Mansions and properties located in the block bounded by Punt Road, Commercial Road, Alfred Street and Athol Street. The Hospital advised that:

"With regard to the Chevron/Alfred House no decision has been made regarding its long-term use. No firm decision is possible until other issues including the Car Parking project, Nurses Home and the Psychiatric Services are finalised."

4.96 The status of specific properties subject to critical comment in the 1990 audit report is as follows:

- ▶ The condition of Fawkner Mansions has further deteriorated and the Hospital has described the property as uninhabitable. Part of the land is subject to a road widening proposal from Roads Corporation, and the Historic Buildings Council has advised that the building is under consideration for classification;
- ▶ The 2 properties in Prahran, previously occupied by squatters, are now leased at market rentals;
- ▶ Of the 3 properties previously leased at below market rental in Prahran, 2 are currently let at market rates and the third has become vacant and uninhabitable;
- ▶ The status of the 9 vacant lots in Prahran has not changed in that 8 of these lots are still used for car parking; and
- ▶ In relation to the issue of recouping costs from the Baker Medical Centre and the Monash Medical School, full cost recovery is not occurring. Aspects of the agreement with the Baker Medical Centre regarding the user pays principle are currently under review, while the Hospital has temporarily suspended the review of the agreement with the Monash Medical School due to other priorities.

4.97 The Hospital informed audit that a strategy for car parking had been developed which includes:

"... the consolidation of all parking onto the Alfred site, the establishment of a multi-storey car park and the operation of the car parking by a commercial operator".

4.98 The proposal was submitted to the Department of the Treasury and the Department of Health and Community Services on 15 March 1993 for approval. It has been proposed that the car park be constructed on the Alfred campus and the vacant lots remain in use for car parking until the new car park has become operational.

Conclusion

4.99 Since the 1990 audit review, the value of the Hospital's property holdings has decreased markedly from \$28.1 million to \$13.9 million at 30 June 1992. This decline has been the result of decreasing property values and the deteriorating condition of some of the properties. The retention of properties surplus to the needs of the Hospital, in the light of the downturn in property values of around \$14 million, has meant that the Hospital has not maximised its potential return from these assets. Income forgone could have been used to improve the delivery of health services by the Hospital.

4.100 The leases for the Hospital's residential properties will expire in 1993 and the leases for the commercial properties by early 1995. In line with the comments made by audit in 1990, **the Hospital should develop a strategic plan for the future use of these properties with a view to selling properties which are surplus to its needs.**

- **RESPONSE provided by Chief Executive, the Alfred Group of Hospitals**

To achieve the potential return on these property assets would require investment of capital funds which the Hospital does not have. Their high strategic value lies in the close proximity of the land to the Alfred site and availability for future development by the Hospital when circumstances allow.

On 8 April 1993 the Hospital was advised by the Department of Health and Community Services that the Hospital's proposal for a multi-storey carpark may be implemented following approval by the Department of Treasury.

- **RESPONSE provided by Secretary, Department of Health and Community Services**

The Alfred owns a number of properties which are not used for hospital-specific purposes. There have been 2 property sales since the 1990 audit of properties valued at \$950 000 at 1990 values. Some properties are vacant land used for staff car parking, others are uninhabitable buildings, but the major asset is the Chevron Hotel which was valued at \$23.5 million in 1990 and, according to the Alfred, at \$10.2 million in 1992. The general decline in values is due to the economic situation.

CATERING

Purchasing and storage function of the Catering Department

4.101 In 1990 audit reported that:

- ▶ Potential existed for additional cost savings to be achieved by combining the purchasing and part of the storage function for foodstuffs with the Hospital's supply function.

Paras 5.25 to 5.29

Action taken by management

4.102 The purchasing and storage functions of the Catering Department were reviewed by external consultants. The Hospital had achieved cost savings in these areas by reducing the number of staff employed to undertake these functions.

4.103 The storage functions of the Catering and the Group Supply Department were integrated in June 1992 whereas the prospect of combining the purchasing function of the Catering and Group Supply Departments has been under deliberation by the Hospital for some time.

4.104 The opportunity for improvements to the overall purchasing functions of the Group was acknowledged with the amalgamation of the Supply Departments at the Alfred and Caulfield Campuses into a Group Supply Department. However, the purchasing functions of the Catering and the Group Supply Departments remain separated as was the case in 1990. The Hospital informed audit that the integration of the purchasing function within the Catering Department and the Group Supply Department was not identified as an area of significant savings by the external consultants. The Group Supply Department, however, identified that it could efficiently perform the purchasing of catering items.

Utilisation of kitchen facility

4.105 Audit made the following recommendation in 1990:

- ▶ It is recommended the Hospital undertake a cost-benefit analysis of fully utilising the kitchen capacity taking into account various options such as the supply of meals to other facilities.

Paras. 5.33

Action taken by management

4.106 The utilisation of the kitchen facilities was assessed as part of the external review by consultants who concluded that, although there were benefits from supplying meals to other campuses, it would not be cost-effective given the capital outlay required to transport, deliver and supply meals off-site.

Alternate food preparation methods

4.107 In 1990, audit reported that:

- ▶ Opportunities existed to update meal preparation technology.

Para. 5.34 to 5.37

Action taken by management

4.108 In 1992 the Hospital introduced a new method, the *in cup trolley system*, for the provision of morning and afternoon tea to patients.

4.109 External consultants investigated alternate methods of the supply and delivery of meals such as the Cook/Chill system and concluded that the most cost-effective approach was to retain the existing system, on the basis that the Hospital did not have at its disposal sufficient capital to meet the up-front costs of implementing the Cook/Chill system.

Hospital subsidisation of staff meals

4.110 In 1990, the following key issue was raised:

- ▶ There was a need for a policy to be formulated to minimise the level of subsidy for staff meals which cost the Hospital approximately \$1 million per annum.

Para. 5.38 to 5.54

Actions taken by management

4.111 In March 1991, the Hospital took action to implement the previous Government's policy to progressively eliminate subsidies to staff cafeterias by June 1992, subject to the provisions and requirements of the Meal Price Agreement 1991. The Meal Price Agreement was an agreement negotiated in March 1991 between the Victorian Trades Hall Council Health Unions and the then Health Department Victoria. The Agreement addressed the issues of meal pricing and the provision of meals to catering staff. The main aspects of the agreement were inter alia:

- ▶ *"That the maximum price of a normal main course meal be \$5.20;*
- ▶ *"The cost of the provision of tea and coffee be charged within the total operating cost of the cafeteria. (i.e. the provision of free tea and coffee to hospital staff will be eliminated by recovering this cost in meal charges.);*
- ▶ *"In line with hospitality industry standards all chefs, cooks, kitchen hands and food and domestic services assistants employed in the kitchen or food preparation and patient meal plating areas be provided with one free meal; and*
- ▶ *"There will be an expectation that all Hospitals currently offering free meals to staff (other than those detailed above) will phase out this policy by May 1991".*

4.112 As a result of the Agreement, there were substantial price increases for meals sold in the Cafeteria at the Hospital. The Hospital also ceased providing free tea and coffee in the staff cafeteria from 18 January 1993 to further reduce subsidisation of staff meals.

Current status

4.113 Subsidisation of staff meals for 1991-92 was in the order of \$700 000 (subsidies in 1988-89 were equivalent to \$1.1 million in 1991-92 dollars). For the first half of 1992-93, subsidisation of staff meals, including the provision of free meals to some food services staff, has been reduced to approximately \$200 000.

4.114 Management of the Catering Department informed audit in February 1993 that, although formal projections have not been made, it is anticipated that cost neutrality will be achieved from July 1993, through the following initiatives:

- ▶ reduction in the number of catering staff; and
- ▶ increases in meal charges.

Conclusion

4.115 Audit is of the opinion that the issue of combining the purchasing function of the Catering and Group Supply Departments should be kept under review by the Hospital. The Hospital should undertake a detailed cost-benefit analysis to identify any benefits that could accrue to the Hospital from amalgamating these functions.

4.116 With regard to the funding limitations that currently preclude updating meal preparation technology and fully utilising the kitchen facility, **the Hospital should consider, in line with other Hospital priorities, the cost-effectiveness of converting surplus physical assets (e.g. properties not required for Hospital purposes) for capital purposes to improve the efficiency of the Hospital's catering function.**

4.117 Contrary to the expectation of phasing-out free meals to staff by May 1991, it is not anticipated cost neutrality will be achieved until July 1993.

■ *RESPONSE provided by Chief Executive, the Alfred Group of Hospitals*

The issue of combining the purchasing function of the Catering Department within the Supply Department will be kept under review by the Hospital. A detailed cost-benefit analysis is not expected to reveal significant financial benefit, however, it is considered more appropriate that the Supply Department be responsible for all purchasing activities of the Alfred Group thus ensuring the application of consistent and appropriate purchasing activities at all times. Implementation of this task will be in line with overall departmental priorities.

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