

VICTORIA

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Auditor-General  
of Victoria

**REPORT ON  
MINISTERIAL PORTFOLIOS  
MAY 1995**

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*Ordered by the Legislative Assembly to be printed*

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# Foreword

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Following on amendments to the Audit Act in 1994, a new form of reporting regime was required by my Office. The Act, as amended, now basically provides for 2 forms of reports:

- reports under section 15 of the Act containing such information and recommendations arising from financial audits, as I think fit for the more effective, efficient and economic operations of government authorities; and
- reports outlining the results of audits provided for by section 16 of the Act which have been undertaken to determine whether government authorities are achieving their objectives effectively and doing so economically and efficiently, and in compliance with relevant legislation.

In future, the *Report on Ministerial Portfolios* will mainly contain matters arising from financial audits conducted by my Office. Reports on section 16 performance audits will be generally reported to Parliament as individual Special Reports.

In response to the new legislative reporting regime, an organisational review of the Victorian Auditor-General's Office was undertaken in 1994. Arising from this review, the Office has been restructured to provide a clearer focus on my financial and performance audit responsibilities.

C.A. BARAGWANATH  
*Auditor-General*



May 1995

The President  
The Speaker

Parliament House  
Melbourne, Vic. 3002

Sir

Under the authority of section 15 of the *Audit Act* 1994, I transmit my Report on Ministerial Portfolios. The Report contains a section on the Parliament of Victoria as well as a section on matters of broad scope interest.

This Report completes the cycle of my auditing activities in relation to the 1993-94 financial year.

Yours faithfully

C.A. BARAGWANATH  
*Auditor-General*

May 1995

The Clerk of the Legislative Assembly  
Parliament House  
Melbourne, Vic. 3002

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C.A. BARAGWANATH  
*Auditor-General*



# Part 1

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# Executive Summary



# Part 1.1

## Major findings

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

### AGRICULTURE, ENERGY AND MINERALS

Page 21

- While the Gas and Fuel Corporation has not admitted legal liability, it has recognised in its financial statements a liability for land remediation of \$75 million, based on the expected future use of 349 contaminated properties. The Corporation estimates its maximum exposure at \$244 million, should it be required to restore the sites to a pristine condition.  
*Paras 3.1.13 to 3.1.15*
- A major component of the Corporation's liability for land remediation relates to the former West Melbourne gas works site located in the Melbourne Docklands area. This site accounts for \$20 million of the exposure.  
*Para. 3.1.16*
- Legal proceedings against the Corporation relating to its repudiation of a lease agreement for new head office accommodation is continuing. While not admitting liability, the Corporation has provided a sum of \$20 million as a liability relating to this matter within its financial statements.  
*Paras 3.1.21 to 3.1.29*
- The State Electricity Commission of Victoria (SECV) purchased a building in July 1994, which it had previously entered into an agreement to lease for a period of 20 years, for a price of \$250 million, although it was in excess of its requirements. At March 1995, only 33 per cent of the building's floor space was occupied.  
*Paras 3.1.35 to 3.1.40*
- A loss of \$149 million was recognised in the SECV's financial statements, representing the difference between the purchase price and the recoverable value of the building.  
*Para. 3.1.37*
- Over the life of respective gas supply pricing arrangements, GASCOR and Generation Victoria estimate a gross exposure for petroleum rent resource tax of \$1 billion (net present value \$897 million) if a court ruling was made entirely in favour of the gas suppliers.  
*Paras 3.1.57 to 3.1.58*



**ARTS, SPORT AND TOURISM****Page 41**

- A 3 year strategy has been developed for Arts institutions to value their part of the State Collection.  
*Paras 3.2.4 to 3.2.11*
- From a taxpayer's perspective, gaming machine assets of the TAB which had been written-down by \$48.5 million over 2 years, appear to have been disposed of well below their true value.  
*Paras 3.2.21 to 3.2.28*

**CONSERVATION AND NATURAL RESOURCES****Page 59**

- The Department of Conservation and Natural Resources is moving to resolve weaknesses in the log grading system which have impacted on the level of royalties received for hardwood logs.  
*Paras 3.4.4 to 3.4.16*
- In order to improve and maintain the quality of drinking water in Victoria, water authorities need to focus their attention on:
  - catchment management practices;
  - effective water storage management;
  - adequacy of water treatment and disinfection processes; and
  - maintenance of drinking water distribution systems.  
*Paras 3.4.55 to 3.4.76*
- Total expenditure of \$17.5 million on the development of a computerised customer billing system by the Melbourne Water Corporation was written-off during the year.  
*Paras 3.4.77 to 3.4.84*
- Restructure of the Rural Water Corporation has led to the write-off of \$2 million of costs associated with the development of an integrated water management system.  
*Paras 3.4.85 to 3.4.93*

**HEALTH AND COMMUNITY SERVICES****Page 97**

- A large metropolitan public hospital and 2 large country hospitals were, in audit opinion, not financially viable without additional financial support from the Department of Health and Community Services.  
*Paras 3.6.11 to 3.6.21*
- The Government has initiated a review of metropolitan hospitals which it is hoped will, among other things, address concerns raised in my *Report on Ministerial Portfolios, May 1995* as to the supply and distribution of beds in the hospital systems.  
*Para. 3.6.23*
- The real value of financial assistance provided to eligible recipients of municipal, water and sewerage rate concessions has been substantially eroded over the years.  
*Paras 3.6.44 to 3.6.52*





**JUSTICE**

Page 121

- The Magistrates' Court needs to establish a modern management framework encompassing corporate and business planning and a management structure which provides full autonomy and responsibility for the strategic direction and control of Court operations to the Chief Magistrate. *Paras 3.7.21 to 3.7.36*
- Case management processes within the Court would be further enhanced by the formulation of well-defined case management policies, the expansion of time standards as a means of monitoring performance and the introduction of more effective case scheduling techniques. *Paras 3.7.49 to 3.7.74*
- In the 6 year period ending 30 June 1994, there has been a substantial increase in compensation payments by the Crimes Compensation Tribunal to victims of crime (\$10.6 million in 1988-89; \$43.9 million in 1993-94). *Paras 3.7.114 to 3.7.120*
- Awards made for sex-related offences represented 31 per cent of the total amounts awarded in 1993-94 (9 per cent in 1988-89). Given this upward trend, coupled with recent rulings by the Administrative Appeals Tribunal relating to the issues of recovered memory and multiple claims, a substantial growth in future payments made by the Crimes Compensation Tribunal for this category of offence is likely. *Paras 3.7.133 to 3.7.138*
- The Act empowers the Director of Public Prosecutions to apply to the Crimes Compensation Tribunal to make an order for the convicted offender to refund the whole or part of an award of compensation. To date, this power has not been exercised, therefore no moneys have been recovered by the Tribunal from convicted offenders. *Paras 3.7.175 to 3.7.178*
- The high level of outstanding legal fees, due to the Victorian Government Solicitors Office has resulted in insufficient funds being available to the Office to pay for professional assistance it has engaged. *Paras 3.7.182 to 3.7.185*
- In the period June 1989 to June 1994, there has been a significant deterioration in the Solicitors' Guarantee Fund's financial position. The Fund's financial position peaked in 1991-92 with net assets of \$21.2 million and deteriorated to a net liability position of \$9.2 million in 1993-94. *Paras 3.7.184 to 3.7.198*

**PLANNING AND DEVELOPMENT**

Page 171

- The Home Opportunity Loans Scheme's operating result continued to deteriorate during the past financial year, with its deficit increasing from \$2 million in 1992-93 to \$13 million in 1993-94, which was in line with departmental estimates. *Paras 3.8.11 to 3.8.12*
- A decrease in the level of prepayments resulting in loan discharges and in the level of loan arrears indicate a stabilisation of the financial base of the Home Opportunity Loans Scheme resulting from its restructure. *Paras 3.8.13 to 3.8.15*
- In its endeavours to further enhance the performance and management of the Home Opportunity Loans Scheme, the Government has recently introduced a number of initiatives. *Paras 3.8.21 to 3.8.24*



**PREMIER AND CABINET****Page 181**

- Significant value has been added by consultants in improving public sector management by enabling the Government to make more informed decisions in key areas of reform.  
*Paras 3.9.2 to 3.9.8*
- Based on information provided by agencies, around \$85 million and \$115 million was expended in 1992-93 and 1993-94, respectively, on the procurement of consultancy services.  
*Paras 3.9.13 to 3.9.16*
- The inconsistencies and confusion at agency level in the interpretation of what constitutes a consultancy as against a contractor service, resulted in some uncertainty on the actual level of expenditure incurred on consultancy services.  
*Paras 3.9.13 to 3.9.19*
- Practices instituted by agencies to manage consultants were, at times, less than best practice. However, recent government action should assist in addressing the existing deficiencies.  
*Paras 3.9.26 to 3.9.47*

**TRANSPORT****Page 195**

- Changes in the mode of service provision in 5 country transport services, while achieving cost savings, have resulted in reduced patronage levels.  
*Paras 3.10.4 to 3.10.18*
- Audit was not in a position to form a conclusive view on the cost-effectiveness of the decision to privately operate 2 train services as all relevant records supporting the decision could not be produced for audit examination.  
*Paras 3.10.19 to 3.10.23*
- Current indications are that the Public Transport Corporation will operate within its budget parameters for 1994-95.  
*Paras 3.10.24 to 3.10.31*

**TREASURY AND FINANCE****Page 209**

- The Government's reform and privatisation program for the electricity supply industry involves arguably the most significant structural and resource management changes within the public sector in the history of the State.  
*Paras 3.11.13 to 3.11.17*
- It is appropriate to recognise the improvement initiatives of the State Electricity Commission of Victoria (SECV) from the late 1980s through to the commencement of the Government's major reform program.  
*Paras 3.11.28 to 3.11.34*
- Significant and complex allocations of assets and liabilities have been made across the distribution and generation companies and the SECV, and are still to be finalised by the Government and audited.  
*Paras 3.11.35 to 3.11.43*
- While the SECV has been effectively replaced by the new companies within the reformed industry, quite significant financial management responsibilities have been assigned to, or retained within, the organisation and are likely to remain with it for the foreseeable future.  
*Paras 3.11.44 to 3.11.56*



**BROAD SCOPE ISSUES**

Page 233

**MEASURING PERFORMANCE IN THE VICTORIAN PUBLIC SECTOR**

- Audit considers that it is desirable that individual government agencies publish both quantitative and qualitative performance indicators against appropriate benchmarks and that these indicators be subject to review by the Victorian Auditor-General's Office when undertaking performance audits so that reliance may be placed upon them by the Parliament and taxpayers.

*Para. 4.1.21***INDEPENDENCE OF CONTRACTED AGENTS**

- It is of concern that, on occasions, it has been necessary for the Victorian Auditor-General's Office to review the contractual arrangements of certain agents where associates of the contracted agents' firms have seen fit to provide other services which are considered by the Office to conflict directly with the financial audit obligations of those contracted agents.

*Para. 4.2.12***ILLEGAL SOFTWARE UPDATE**

- Improvement is still needed within the Victorian public sector in the development of policies covering the control and use of computer software and the protection against computer viruses.  
*Paras 4.3.20 to 4.3.21*
- Computer software and hardware registers were either non-existent or inadequate in most public sector agencies reviewed by audit.  
*Paras 4.3.23 to 4.3.24*
- Licences or proof of ownership could not be provided for 15 per cent of computer software installed on public sector agencies' microcomputers and the potential public sector exposure to penalties arising from breaches of copyright is significant.  
*Paras 4.3.26 to 4.3.27*

**RIGHT OF ACCESS TO EXECUTIVE OFFICER CONTRACTS**

- The issue of confidentiality of Executive Officer contracts should not override the fundamental obligations of agencies to be fully accountable at all times for all financial arrangements involving public moneys.

*Para. 4.4.8*



## Part 2

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# Parliament of Victoria





# Part 2.1

## Parliament of Victoria

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## PARLIAMENT OF VICTORIA

**2.1.1** The audit of the financial statements of the Parliament of Victoria proved satisfactory.

### SCHEDULE A STATUS OF MATTERS RAISED IN PREVIOUS REPORTS

| <i>Report</i>   | <i>Subject</i>   | <i>Status at date of preparation of this Report</i>   |
|---|--|---|
| <b>MATTERS RESOLVED OR ACTION COMMENCED</b>                         |  |   |
| <i>Ministerial Portfolios, May 1992, pp. 28-9. May 1993, p. 23.</i> | Full cost recovery of refreshment rooms and ability to be self-supporting. | Due to various cost containment measures introduced during 1993-94, the government subsidy increased only marginally from \$273 000 (1992-93) to \$281 000 (1993-94). |

### SCHEDULE B 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> |
|------------------------------------|-----------------------------|---|--|--|
| <b>COMPLETED AUDITS</b>            |                             |   |  |  |
| Parliament of Victoria             | 30 June 1994                | No reporting requirements. Audit conducted under <i>Audit Act 1958, s.31.</i> | 21 Oct. 1994                                 | 25 Oct. 1994                           |
| State Parliament Refreshment Rooms | 30 June 1994                | No reporting requirements. Audit conducted at request of House Committee.     | 28 Oct. 1994                                 | 4 Nov. 1994                            |



## Part 3

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# Audit of Ministerial Portfolios



# Part 3.1

## Agriculture, Energy and Minerals

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### KEY FINDINGS

#### **GAS AND FUEL CORPORATION OF VICTORIA**

##### **Land remediation**

- The Corporation has devoted substantial resources and utilised the services of several external consultants to assist in the measurement of its exposure to land remediation work on contaminated sites.

*Paras 3.1.9 to 3.1.12*

- While the Corporation has not admitted legal liability, it has recognised in its financial statements a liability for land remediation of \$75 million, based on the expected future use of 349 contaminated properties. The Corporation estimates its maximum exposure at \$244 million, should it be required to restore the sites to a pristine condition.

*Paras 3.1.13 to 3.1.15*

- A major component of the Corporation's liability for land remediation relates to the former West Melbourne Gas Works site located in the Melbourne Docklands area. This site accounts for \$20 million of the exposure.

*Para. 3.1.16*

##### **New head office accommodation - update on litigation**

- Legal proceedings against the Corporation relating to its repudiation of a lease agreement for new head office accommodation is continuing. While not admitting liability, the Corporation has provided a sum of \$20 million as a liability relating to this matter within its financial statements.

*Paras 3.1.21 to 3.1.29*

## KEY FINDINGS - *continued*

### STATE ELECTRICITY COMMISSION OF VICTORIA

#### New head office accommodation

- The SECV purchased a building in July 1994, which it had previously entered into an agreement to lease for a period of 20 years, for a price of \$250 million, although it was in excess of its requirements. *Paras 3.1.35 to 3.1.36*
- A loss of \$149 million was recognised in the SECV's financial statements, representing the difference between the purchase price and the recoverable value of the building. *Para. 3.1.37*
- If the building was currently fully sublet by the SECV, annual rental income would amount to \$5.4 million, compared with \$32.4 million payable by the SECV under the previous leasing agreement. *Para. 3.1.38*
- At March 1995, only 33 per cent of the building's floor space was occupied. *Paras 3.1.39 to 3.1.40*

#### PETROLEUM RESOURCES RENT TAX

- Arbitration proceedings are currently in progress to assist in determining whether GASCOR and Generation Victoria have an exposure to the payment of petroleum resources rent tax. *Paras 3.1.52 to 3.1.56*
- Over the life of the respective gas supply pricing arrangements, GASCOR and Generation Victoria estimate a gross exposure of \$1 billion (net present value \$897 million) if a court ruling was made entirely in favour of the gas suppliers. *Paras 3.1.57 to 3.1.58*

**3.1.1** The Minister for Agriculture and the Minister for Energy and Minerals have responsibility for operations within the Agriculture, Energy and Minerals sector. These Ministers have collective responsibility for the Department of Agriculture, Energy and Minerals.

**3.1.2** Details of the specific ministerial responsibility for public bodies within the Agriculture, Energy and Minerals sector are listed in Table 3.1A. These public bodies, together with the Department of Agriculture, Energy and Minerals were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.1A  
MINISTERIAL RESPONSIBILITY FOR PUBLIC BODIES  
WITHIN THE AGRICULTURE, ENERGY AND MINERALS SECTOR**

| <i>Ministerial portfolio</i> | <i>Entities subject to audit</i>  |
|------------------------------|---|
| <b>Agriculture</b>           | Daratech Pty Ltd<br>Grain Elevators Board<br>Melbourne Market Authority<br>Melbourne Wholesale Fruit and Vegetable Market Trust (a)<br>Murray Valley Citrus Marketing Board<br>Northern Victorian Fresh Tomato Industry Development Committee<br>Tobacco Leaf Marketing Board (b)<br>Victorian Dairy Industry Authority<br>Victorian Dried Fruits Board<br>Victorian Meat Authority<br>Victorian Strawberry Industry Development Committee  |
| <b>Energy and Minerals</b>   | Coal Corporation of Victoria<br>D.B. One Limited<br>D.B. Two Limited<br>D.B. Three Limited<br>D.B. Four Limited<br>D.B. Five Limited<br>Electricity Services Victoria<br>Energy Brix Corporation<br>Energy Information Technology Company Pty Ltd (c)<br>Everton Dell Pty Ltd<br>Gas and Fuel Corporation of Victoria<br>Gas and Fuel Corporation Superannuation Fund<br>Generation Victoria<br>Loy Yang B Power Station Pty Ltd<br>National Electricity<br>National Electricity Pty Ltd<br>National Power Pty Ltd<br>Renewable Energy Authority Victoria<br>SECV International Pty Ltd<br>State Electricity Commission of Victoria<br>V.E.I. Super Pty Ltd<br>Victorian Electricity Industry Superannuation Fund |

(a) Ceased operations on 20 December 1993.

(b) Ceased operations on 29 September 1994.

(c) Sold to private sector interests on 28 February 1995.

**3.1.3** Comment on matters of significance arising from the audit of certain of the above entities is provided on the following pages.



## GAS AND FUEL CORPORATION OF VICTORIA

### LAND REMEDIATION

**3.1.4** The Gas and Fuel Corporation of Victoria was established as a public authority in 1950, following the amalgamation of 2 privately owned utilities, namely the Metropolitan Gas Company and the Brighton Gas Company. The purpose of the amalgamation was to facilitate the unification of the gas industry in Victoria and the production of gas from the State's brown coal reserves. Under the operational arrangements at the time, gas was produced and stored by the Corporation at various sites throughout Victoria.

**3.1.5** The discovery of natural gas in Bass Strait in 1965 culminated in its use within the Melbourne and metropolitan areas by 1970. This type of gas represented a cheaper and cleaner alternative for householders and industry. By 1973, all coal gas production sites were decommissioned and the Corporation was established as the sole supplier of reticulated natural gas in Victoria.

### Contaminated land

**3.1.6** Upon decommissioning of the redundant coal gas production sites, most related above-ground structures were removed. However, the associated land remained contaminated in that it contained old building foundations, large below-ground wells, old gas pipes and by-products, residues and waste from the gas production process. The chemical residues which remain on these sites are potentially detrimental to human health, plant and animal life as well as to physical structures constructed on these sites and, accordingly, represent a significant exposure to the Corporation.

**3.1.7** As early as 1989, the Corporation identified that a number of properties owned or previously owned and certain land adjacent to properties formerly utilised by the Corporation were potentially contaminated. At that stage, preliminary tests were undertaken on several of the properties but the full extent of the contamination was not assessed. At that time, the level of required remediation work on the contaminated sites had not been determined by an environmental auditor approved by the Environment Protection Authority of Victoria (EPAV). Land remediation is the process of restoring or cleaning up contaminated sites to a condition where it can be utilised without harmful effects on either the community or the environment. The extent of the clean-up can vary depending on the likely future use of a site.

**3.1.8** The framework for determining the extent of land remediation is broadly provided by the *Environment Protection Act 1970* and guidelines developed by the Australian and New Zealand Environment Conservation Council (ANZECC) and the Department of Planning and Development.

### Extent of exposure

**3.1.9** The exposure of the Corporation to remediate land arises in a range of circumstances, where the Corporation:

- Previously owned land and was either the polluter or permitted an occupant to pollute the property. This includes inherited liabilities from the former private gas utilities as part of the unification of the gas industry in Victoria;
- During its occupancy, caused pollution on leased property or affected adjoining properties as a result of pollution activities i.e. disposal of wastes and migration of pollutants by wind or water;

- Currently owns the land that the Corporation or its predecessors contaminated; and
- Currently owns or occupies contaminated land that neither the Corporation nor its immediate predecessors contaminated. Although the Corporation is primarily responsible for the cost of remediation of such sites, it may be able to obtain reimbursement from the original polluter.

**3.1.10** However, the extent of exposure is dependent on the specific circumstances of each contaminated site.

**3.1.11** During 1992-93 and 1993-94 the Corporation devoted substantial resources and utilised the services of several external consultants to assist in the measurement of the degree of contamination and the potential remediation costs for sites for which it had some responsibility.



*View of contaminated site - South/Port Melbourne gasworks and associated sites.*

**3.1.12** The measurement of the Corporation's financial exposure was undertaken by a team of experts including an external solicitor experienced in law relating to contaminated land, a consulting environmental engineer, an accredited EPAV environmental auditor and in-house resources. The measurement process entailed:

- identification of contaminated sites, whether currently or previously owned by the Corporation and estimate of the extent of the contamination;
- estimating the level of remediation required to meet the Corporation's obligations to clean-up the contaminated sites; and
- adoption of the lowest cost of remediation assessed under the following 2 options:
  - excavation and removal of contaminated soil and the refill with clean soil; or
  - capping the sites by building barriers to contain the contamination.

**3.1.13** While the Corporation has not admitted legal liability, this measurement exercise resulted in the recognition of a liability in the Corporation's financial statements as at 30 June 1994 of \$74.6 million, based on the expected future use of 349 contaminated properties. The Corporation has also estimated its maximum exposure at \$244 million, should it be required to perform remediation work to restore all contaminated sites to a pristine condition.

**3.1.14** Table 3.1B categorises the various contaminated sites and estimated remediation costs at 30 June 1994.

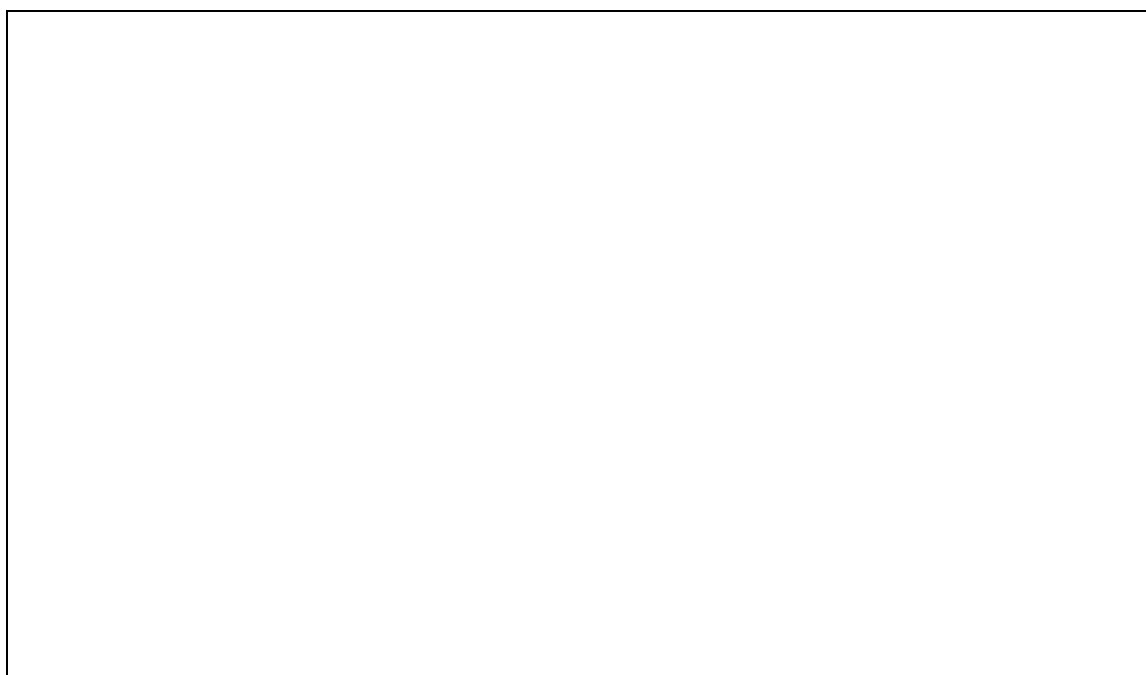
**TABLE 3.1B  
LIABILITY FOR REMEDIATION OF CONTAMINATED SITES**

| <i>Category</i>                                       | <i>No. of sites</i> | <i>Liability (\$m)</i> |
|---|---------------------|------------------------|
| Land never owned, but contaminated by the Corporation | 1                   | 2.0                    |
| Land previously owned, but sold to another party      | 85                  | 54.1                   |
| Land currently owned, but not intended for sale       | 229                 | 11.1                   |
| Land owned, but earmarked for sale                    | 34                  | 7.4                    |
| <b>Total</b>  | <b>349</b>          | <b>(a) 74.6</b>        |

(a) Based on expected future use of the sites.

**3.1.15** During 1993-94, the Corporation incurred costs totalling \$614 000 in cleaning up various contaminated sites.

**3.1.16** A major component of the Corporation's liability for remediation relates to the former West Melbourne gasworks site located in the Melbourne Docklands area, which had been sold by the Corporation in the 1970's. The liability has been estimated at \$20 million. An EPAV Notice has been issued to the Corporation to clean-up the site "... to enable safe redevelopment ... as part of the Docklands project".



*View of a contaminated site - West Melbourne gasworks site (Docklands area).*

### Action taken by the Corporation to limit future exposure

**3.1.17** In a consultant's report commissioned by the Corporation in 1992 to assist in the development of policies to be adopted in the determination of the Corporation's exposure to land remediation, the consultant stated that "... *the only way of avoiding subsequent legal obligations for contamination is to ensure that any sale of land incorporates within the sale terms an unlimited indemnity by the purchaser of the land in favour of the Corporation for all contamination costs.*

**3.1.18** Consistent with the above advice, the Corporation has recently incorporated an indemnity clause in all contracts of property sale in an attempt to minimise its future exposure to land remediation work. However, as a result of certain limitations in the effect of the indemnity, the Corporation may not be absolved from future remediation costs in all cases.

**3.1.19** In addition, in April 1994, the Corporation also developed an Environment Management System from which specific policies and procedures in relation to the remediation and management of contaminated land will be established. Under this system, site-specific management plans will be developed for old gasworks sites which remain in the Corporation's ownership. These plans may provide for some degree of decontamination, installation of monitoring equipment, and the development of instructions for the future maintenance and control of these sites.

**3.1.20** **Audit acknowledges the substantial effort made by the Corporation in determining the extent of site contamination and quantifying its exposure for future remediation works. However, the Corporation needs to continue to review the situation to ensure that its significant exposures, both environmental and financial, continue to be adequately managed.**

□ *RESPONSE provided by General Manager, Gas and Fuel Corporation of Victoria*  
*The Corporation provided no comment on this matter.*

### NEW HEAD OFFICE ACCOMMODATION - UPDATE ON LITIGATION

**3.1.21** The Auditor-General's *Report on Ministerial Portfolios, May 1994* commented on the protracted negotiations between the Corporation and private sector developers to secure suitable head office accommodation for the Corporation.

**3.1.22** As mentioned in the Report, the Corporation in December 1990 entered into an agreement with Gleem Pty Ltd, a company in which Hudson Conway has a joint interest, for the lease of a 40 000 square metre building which was to be constructed at the corner of Spring and Latrobe Streets, Melbourne. However, due to Gleem's inability to obtain the required finance for the construction of the building within specified extensions of time, the Corporation exercised its right to avoid the agreement to lease.

**3.1.23** In August 1991, in line with the Corporation's major restructuring which included regionalisation of its activities and a general workforce downsizing, negotiations recommenced with Gleem for the construction of a smaller building of 21 000 square metres. These negotiations culminated in May 1992 in the signing of an agreement to lease the building for a period of 20 years.

**3.1.24** Following a reassessment of its accommodation needs in May 1993, the Corporation determined that the preferred option was to remain at its present location in Flinders Street, Melbourne. After consultation with the Government, the Corporation formally repudiated the agreement to lease. The parties at that time agreed to resolve the matter of compensation by arbitration and an arbitrator was appointed. However, the Corporation declined to admit liability and upon receipt of legal advice subsequently discontinued the arbitration.



*Site of proposed head office, corner of Spring and Latrobe Streets, Melbourne.*

**3.1.25** In February 1994, Gleem commenced Supreme Court proceedings against the Corporation claiming unspecified damages. The damages were later quantified by Gleem at \$107 million, which represented an amount equivalent to lost rental income over the term of the lease and the residual value of the building at the end of the lease term. In August 1994, the Corporation lodged a counter claim against Gleem and Hudson Conway stating that certain misrepresentations had been made in relation to the lease agreement which entitled the Corporation to rescind the agreement. A response to this counter claim was lodged by Gleem in October 1994, which identified further causes of action and included the State of Victoria as a co-defendant in the action. The Government's solicitors have filed a defence to this claim.

**3.1.26** In April 1995, the Corporation was given leave by the Court to amend its defence and counterclaim. The Corporation has made a number of further allegations as to misrepresentation which it claims entitles the Corporation to rescind the agreement to lease.

**3.1.27** While not admitting liability, based on legal advice the Corporation has provided a sum of \$20 million as a liability within its 1992-93 and 1993-94 financial statements, representing compensation that may need to be paid to Gleem. However, the final outcome relating to this matter can only be determined on finalisation of the legal proceedings.

**3.1.28** As indicated in my previous Report on Ministerial Portfolios, difficulties in effectively assessing the Corporation's accommodation rental requirements in a climate of continual change, particularly relating to the downsizing of its activities, were the key contributing factors exposing the Corporation to this litigation.

**3.1.29** In January 1995, the Government purchased the head lease to the Corporation's head office site in Flinders Street, Melbourne which is due to expire in June 1996. Also, the Corporation has recently been disaggregated via the transfer of certain of its assets and liabilities to 2 State Owned Enterprises, namely GASCOR and the Gas Transmission Corporation. GASCOR, which is the successor in law of the Corporation, has determined that around 290 of its staff will be relocated to different premises in Flinders Street. However, accommodation will be required for a further 330 staff prior to the expiration of the lease in June 1996 and various options to address this requirement are currently being examined by GASCOR.

□ *RESPONSE provided by Managing Director, Gas and Fuel Corporation of Victoria*

*In view of the current legal proceedings, the Corporation does not wish to make any formal comment.*

## STATE ELECTRICITY COMMISSION OF VICTORIA

### NEW HEAD OFFICE ACCOMMODATION

**3.1.30** The Auditor-General's *Report on Ministerial Portfolios, May 1994* commented on the arrangements entered into by the State Electricity Commission of Victoria (SECV) to secure new head office accommodation. These arrangements involved the lease over a 20 year period of a newly completed, 40 000 square metre building located at 452 Flinders Street, Melbourne, at a fixed annual rental of \$32.4 million. The proposed commencement date of the lease was 1 July 1994, however, the SECV was to occupy the building in April 1994 with a discounted rental equivalent to 60 per cent of the normal monthly charge until the formal commencement of the lease.

**3.1.31** Although construction of the building by the property developer was completed in March 1994, uncertainty surrounded its future occupancy due to a reduction in the number of SECV employees required to be located within the Melbourne central business district and the disaggregation of the power industry. The disaggregation process resulted in the formation of a number of separate electricity entities which had differing accommodation needs.

**3.1.32** In this climate of change, the options available to the Government in relation to the building were reviewed in early 1994 by the SECV in conjunction with the Departments of Finance, Treasury, and Energy and Minerals and it was decided that the building should not be occupied during the review process.

**3.1.33** At this time, negotiations were held between the Government and the property developer with the aim of revising the lease and locating alternative tenants. However, these negotiations were not successful and by May 1994 it was concluded that the most acceptable option was to negotiate the purchase of the building from the developer.

**3.1.34** Assessments of the value of the building provided by the Office of the Valuer-General varied markedly from \$40 million to \$50 million based on the building not being leased by the SECV, to \$275 million based on a formally executed lease existing between the developer and the SECV. The difference in the valuations related to the existence of a 20 year guaranteed fixed rental income stream arising from the lease agreement.

### Purchase of the building

**3.1.35** In late June 1994, the Department of Finance was advised by the developer that the building had been placed on the market for a sale price of \$325 million. Following negotiations, in July 1994, the developer advised the Premier of Victoria that a purchase price of \$250 million would be acceptable for the building.

**3.1.36** Under the authority contained in the *Electricity Industry Act 1993*, the Treasurer and the Minister for Energy and Minerals directed the SECV to purchase the building from the property developer. Accordingly, on 18 July 1994 the SECV entered into a contract to purchase the building for \$250 million. The Treasurer approved loan raisings of \$80 million to partly finance the purchase of the building, with the balance met from internal funds of the SECV.

**3.1.37** The purchase of the property by the SECV enabled lease payments over a 20 year period with an estimated net present value of \$324 million (nominal value of \$648 million) to be avoided. However, a consultant's report obtained by the SECV in August 1994 indicated that, based on probable rental income and likely sale proceeds, the recoverable value of the building was only \$101 million. **Even though the building was acquired in the 1994-95 financial year, the SECV recognised the difference of \$149 million between the purchase price and the recoverable value of the building as a loss in its 1993-94 financial statements.**

**3.1.38** The consultant's report also assessed the rental value of the building at \$134 per square metre compared with \$808 per square metre that the SECV would have paid under the previous lease arrangement. Accordingly, if the building was currently fully sub-let by the SECV, annual rental income would amount to \$5.4 million, compared with \$32.4 million that would have been paid by the SECV to the property developer under the previous leasing arrangement.

### Future of the building

**3.1.39** Since the purchase of the building, the SECV through its managing agent and the Department of Finance, has sought to obtain tenants for the building. The procurement of tenants has been hindered by the wide availability of competitively priced office space within the central business district. In addition, the Commission has been reluctant to offer incentive packages to prospective tenants, recognising the potential impact on the building's market value.

**3.1.40** At the end of March 1995, around 13 300 square metres representing 33 per cent of the building's floor space was occupied. A further 8 100 square metres of the building's floor space had been reserved for occupation by March 1997. These tenancies have been taken up by 2 public sector entities, one of which is a body formed as a result of the electricity industry restructure. The tenants occupy the building under a licence agreement, rather than a formal lease agreement, as the building is intended to be sold by the SECV in the near future in order to mitigate the loss relating to the building.

□ *RESPONSE provided by, Administrator, SECV*

*Continuous efforts are under way to complete the tenancy strategy and package the building for sale on a commercial basis.*



*Vacant office accommodation at SECV building.*

## REFORM OF VICTORIAN ELECTRICITY SUPPLY INDUSTRY

**3.1.41** Information on the progress of reforming the Victorian electricity supply industry can be found in Part 3.11 of this Report.

## PETROLEUM RESOURCES RENT TAX

### EXPOSURE OF THE STATE

**3.1.42** Natural gas in Victoria is supplied mainly from the gas fields in the Gippsland basin in Bass Strait which are operated as a joint venture by ESSO and BHP. The main purchasers of the Bass Strait natural gas are:

- GASCOR, part of the former Gas and Fuel Corporation of Victoria;
- Generation Victoria, part of the former State Electricity Commission of Victoria; and
- certain private sector entities.

**3.1.43** GASCOR in turn supplies natural gas to industrial, commercial and domestic consumers, while Generation Victoria utilises the acquired gas in the operation of its Newport Power Station and the Jeeralang Gas Turbine Station.



**3.1.44** The terms and conditions underlying the supply of natural gas to GASCOR and Generation Victoria are set out in a series of long-term gas supply agreements. Generation Victoria's gas supply agreement is essentially a take-or-pay contract for a fixed quantity of gas and expires in December 1996, while GASCOR's supply agreement, which was established in 1969 and amended in 1975, provides for the acquisition of gas under the following terms:

- *For domestic and commercial customers* - at a fixed price until the contracted quantity is exhausted. This contract is expected to expire around the year 2001; and
- *For large industrial customers* - at a price initially set at that paid in relation to domestic and commercial customers, with provision for annual escalation until 1989 and subsequent 5 yearly reviews until December 1999. However, the contractual supply of gas is expected to continue until the year 2015.

**3.1.45** Prior to July 1990, Bass Strait gas production was subject to taxation under the Commonwealth Government's excise and royalty regime which attracted a royalty of 10 per cent, which after allowable deductions was effectively reduced to 8 per cent. This royalty was paid by the gas producers and was implicit in the price of gas provided under the supply agreements.

**3.1.46** In November 1987, the Commonwealth Parliament enacted the *Petroleum Resource Rent Tax Assessment Act 1987*. This legislation provided for the levying of a Petroleum Resource Rent Tax (PRRT) on petroleum production licences issued subsequently to 1 July 1984 at a rate of 40 per cent of the producer's taxable profit. Bass Strait production was not subject to the PRRT as the relevant production licences had been issued prior to 1 July 1984. However, the Commonwealth Parliament in July 1991 enacted the *Petroleum Resource Rent Legislation Amendment Act 1991* which imposed the PRRT on Bass Strait oil and gas production, and **replaced the excise and royalty regime effective from 1 July 1990.**

**3.1.47** Under the pre-existing legislation, Victoria's petroleum royalty entitlement was calculated as a percentage of the producers' profits after deducting Commonwealth excise and allowable operating expenses. In recognition of this ongoing revenue sharing arrangement, with the introduction of the PRRT, the Commonwealth undertook to compensate Victoria with an amount equivalent to that previously received as royalties. Consistent with this arrangement, the State received Special Grants from the Commonwealth for the 3 financial years to June 1993 totalling \$458 million. As from the 1993-94 financial year, the compensation from the Commonwealth to the State for the abolition of petroleum royalties has been absorbed into the Financial Assistance Grants provided to Victoria.

**3.1.48** In 1991-92, the Commonwealth also provided to the State a one-off special grant of \$60 million to reduce any possible transitory pressure on gas prices of the application of PRRT in the first 2 years of its operation.

### **Ultimate responsibility for PRRT cost**

**3.1.49** Following the introduction of the *Petroleum Resource Rent Legislation Amendment Act 1991*, ESSO and BHP claimed, under existing contractual agreements with GASCOR and Generation Victoria, a right to pass on a portion of the PRRT to gas purchasers. Consequently, since July 1990, ESSO and BHP have invoiced the purchasers for part of their alleged PRRT liability after allowing for an amount equivalent to that which would have been paid for royalties.

**3.1.50** However, the purchasers have not accepted ESSO and BHP's right to pass on the cost relating to PRRT as they do not believe that this action is permitted by the gas supply agreements. Specifically, the purchasers are of the view, inter alia, that the PRRT is a tax on the total profits made by the gas producers from the Bass Strait Project and that the gas supply agreements only permit the producers to pass on new taxes attributable directly (in the case of GASCOR) or attributable (in the case of Generation Victoria) to the supply of gas to GASCOR or Generation Victoria, while the PRRT does not satisfy these requirements. In addition, GASCOR disputes the producers' method of calculating the PRRT relating to gas. Furthermore, even if an amount of PRRT can be passed-on, both purchasers dispute the producers' method of calculating the amount to be passed-on. Accordingly, the purchasers have not paid the amounts invoiced.

**3.1.51** These disputes are currently subject to arbitration processes, which are provided for in the gas supply agreements.

### Arbitration proceedings

**3.1.52** In relation to the supply agreement with Generation Victoria, preliminary arbitration panel hearings commenced during March 1992 and in relation to GASCOR in April 1992. The arbitration panel dealing with Generation Victoria's agreement handed down an interim award in October 1994, in favour of ESSO and BHP, and in November 1994 agreed with ESSO and BHP's right to pass on the gross PRRT cost of \$38 million for the period July 1990 to February 1992 to Generation Victoria. The award included a finding that ESSO and BHP were obliged to pass on to Generation Victoria a credit for an amount equivalent to the royalty allegedly attributable to gas under the previous regime, this in any case being equal to an amount which Generation Victoria had withheld from its payments to ESSO and BHP. In addition, the panel ruled that interest will be payable on this amount from November 1994.

**3.1.53** While an award was not made for the period subsequent to February 1992, ESSO and BHP have advised Generation Victoria that they intend to rely on the arbitrators' decision to pass on this cost for the period March 1992 until the expiry of the gas supply agreement in December 1996.

**3.1.54** Generation Victoria has sought leave to appeal the award made by the arbitration panel in the Supreme Court mainly on the grounds that contrary to the *Commercial Arbitration Act* 1984, the panel allegedly failed to provide the reasons for its ruling which was made in October 1994. Alternatively, if the awards are valid, Generation Victoria has sought leave to appeal from them.

**3.1.55** In relation to GASCOR, in August 1993 the arbitration panel ruled against ESSO and BHP's application for an interim award to prevent GASCOR from withholding payment of 10 per cent of the originally established purchase price for gas which represented the royalty component of the price. The deduction of royalty components is one of the matters that are to be determined in the arbitration.

**3.1.56** Given the large amounts involved and the complexity of the matter under dispute, the expenditure incurred to date by the purchasers in relation to the PRRT arbitration and associated litigation has been significant. For the period July 1991 to January 1995, the total cost incurred by Generation Victoria and GASCOR is around \$24 million. As the proceedings between the parties are still incomplete, the legal cost in relation to this matter is likely to increase substantially.

### **Possible exposure to Victorian taxpayers**

**3.1.57** The potential impact of a court ruling in favour of the right of ESSO and BHP to pass on the PRRT costs to Generation Victoria and GASCOR would be significant. As at 30 June 1994, Generation Victoria had identified a possible exposure to that date of around \$115 million, while the Gas and Fuel Corporation of Victoria, the predecessor body of GASCOR, identified a possible exposure to that date of around \$239 million, assuming that the arbitration or court ruling is entirely in favour of ESSO and BHP.

**3.1.58** However based on the same assumptions, over the life of the respective gas supply agreements, Generation Victoria has projected a gross PRRT exposure of \$222 million, while GASCOR's exposure to December 1999 is projected at \$788 million, giving a total possible exposure to the State of \$1 billion (net present value of \$897 million). This estimate excludes interest that may become payable on outstanding amounts.

**3.1.59** **If ESSO and BHP are successful in passing on the PRRT cost to public sector gas purchasers, the above substantial exposure ultimately will be met by gas and electricity consumers, or Victorian taxpayers generally.**

*□ RESPONSE provided by Solicitor to GASCOR*

*GASCOR declined to make any comment because of imminent arbitration proceedings.*

*□ RESPONSE provided by Chief Executive Officer, Generation Victoria (Gas Business)*

*Generation Victoria declined to make any comment as legal proceedings are incomplete.*

**SCHEDULE A  
STATUS OF MATTERS RAISED IN PREVIOUS REPORTS**

| <i>Report</i> | <i>Subject</i> | <i>Status at date of preparation of this Report</i> |
|---------------|----------------|---|
|---------------|----------------|---|

**MATTERS RESOLVED OR ACTION COMMENCED**

**DEPARTMENT OF AGRICULTURE, ENERGY AND MINERALS**

|  |  |   |
|--|--|---|
| <i>Ministerial Portfolios, May 1994, p. 31.</i>    | Meaningful assessment of the Department's agriculture research performance will require development of effective qualitative benchmarks.                       | A benefit/cost model has been developed to assist the Department in evaluating its research performance against corporate objectives. |
| <i>Ministerial Portfolios, May 1994, p. 38.</i>    | Contractual arrangements with external parties should be formalised before commencement of projects to minimise the risk of dispute and potential for damages. | All agreements have been reviewed and updated where required. Funds are not released until contracts are signed.                      |
| <i>Ministerial Portfolios, May 1994, pp. 38-9.</i> | The Parliament should be adequately informed of all subsidies provided by way of incentive to attract commercial funding for agricultural research.            | Details of any subsidies provided are included in the Department's <i>Annual Report</i> .   |

**GAS AND FUEL CORPORATION OF VICTORIA**

|  |   |   |
|--|---|---|
| <i>Ministerial Portfolios, May 1994, pp. 189-91.</i> | After protracted negotiations extending over 4 years to determine the most suitable building for its head office requirements, the Corporation repudiated the agreement to lease entered into with Gleem Pty Ltd. This resulted in the issue of Supreme Court proceedings against the Corporation claiming unspecified damages. | The matter remains unresolved. For further comment, refer to paragraphs 3.1.21 to 3.1.29 of this Report |
|--|---|---|

**STATE ELECTRICITY COMMISSION OF VICTORIA**

|  |   |  |
|--|---|--|
| <i>Ministerial Portfolios, May 1994, pp. 203-9.</i>  | Substantial restructuring of the Victorian electricity supply industry commenced in October 1993 with the objective of increasing the industry's competitiveness and efficiency.  | Information on the progress of reforming the Victorian electricity supply industry can be found in Part 3.11 of this Report. |
| <i>Ministerial Portfolios, May 1994, pp. 210-29.</i> | In early 1991, the SECV embarked on an outsourcing program designed to reduce costs and improve productivity. A review of the outsourcing arrangements revealed that the projected benefits of the outsourcing were adversely impacted by the annual costs of around \$35 million associated with the continuing employment of 773 surplus employees. | The number of surplus employees has been reduced to 275 at March 1995.   |

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - continued**

| <i>Report</i> | <i>Subject</i> | <i>Status at date of preparation of this Report</i> |
|---------------|----------------|---|
|---------------|----------------|---|

**MATTERS RESOLVED OR ACTION COMMENCED - continued**

**STATE ELECTRICITY COMMISSION OF VICTORIA - continued**

|   |  |  |
|---|--|--|
| <p><i>Ministerial Portfolios, May 1994, pp. 229-31.</i></p> | <p>In May 1991, the SECV entered into a 20 year lease for a new 40 000 square metre head office building to be constructed by a developer. Due to the restructuring occurring in the electricity industry and the decline of SECV staff numbers located within the Melbourne central business district, uncertainty surrounded the future occupancy of the building.</p> | <p>In July 1994, the SECV purchased the building from the developer for \$250 million. For further comment, refer to paragraphs 3.1.30 to 3.1.40 of this Report.</p> |
|---|--|--|

**SCHEDULE B  
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> |
|--|--------------------------------------|---|--|--|
| <b>COMPLETED AUDITS</b>  |                                      |   |  |  |
| <b>AGRICULTURE</b>   |                                      |   |  |  |
| Department of Agriculture                                      | 30 June 1994                         | 31 Oct. <i>Annual Reporting Act 1983, s.8.</i>                      | 28 Sept. 1994                                | 30 Sept. 1994                          |
| Daratech Pty Ltd   | 30 June 1994                         | No reporting requirements. Audit conducted at request of Treasurer. | 26 Oct. 1994                                 | 18 Nov. 1994                           |
| Grain Elevators Board  | 30 Sept. 1994                        | 31 Dec. <i>Annual Reporting Act 1983, s.9.</i>                      | 5 Dec. 1994                                  | 27 Dec. 1994                           |
| Melbourne Market Authority                                     | 30 June 1994                         | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                     | 28 Sept. 1994                                | 30 Sept. 1994                          |
| Melbourne Wholesale Fruit and Vegetable Market Trust (b)       | Period 1 July 1993 to 20 Dec. 1993   | " "   | 24 Aug. 1994                                 | 1 Sept. 1994                           |
| Murray Valley Citrus Marketing Board                           | 30 June 1994                         | 31 Oct. <i>Murray Valley Citrus Marketing Act 1989, s.49.</i>       | 5 Sept. 1994                                 | 19 Sept. 1994                          |
| Northern Victorian Fresh Tomato Industry Development Committee | 30 June 1994                         | 30 Sept. <i>Agricultural Industry Development Act 1990, s.49.</i>   | 20 Sept. 1994                                | 3 Nov. 1994                            |
| Tobacco Leaf Marketing Board                                   | 31 Mar. 1994                         | " "   | 21 June 1994                                 | 22 June 1994                           |
| Tobacco Leaf Marketing Board (c)                               | Period 1 April 1994 to 29 Sept. 1994 | 30 June. <i>Annual Reporting Act 1983, s.9.</i>                     | 9 Jan. 1995                                  | 16 Jan. 1995                           |
| Victorian Dairy Industry Authority                             | 30 June 1994                         | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                     | 8 Sept. 1994                                 | 29 Sept. 1994                          |
| Victorian Dried Fruits Board                                   | 31 Dec. 1994                         | 31 March, <i>Annual Reporting Act 1983, s.9.</i>                    | 27 Feb. 1995                                 | 24 March 1995                          |
| Victorian Meat Authority                                       | 30 June 1994                         | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                     | 22 Sept. 1994                                | 23 Sept. 1994                          |
| Victorian Strawberry Industry Development Committee            | 30 June 1994                         | 30 Sept. <i>Agricultural Industry Development Act 1990, s.49.</i>   | 30 Sept. 1994                                | 19 Oct. 1994                           |

**SCHEDULE B**  
**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> |
|---|-----------------------------|--|--|--|
| <b>COMPLETED AUDITS- continued</b>            |                             |  |  |  |
| <b>ENERGY AND MINERALS</b>                    |                             |  |  |  |
| Department of Energy and Minerals             | 30 June 1994                | 31 Oct. <i>Annual Reporting Act 1983, s.8.</i>   | 21 Oct. 1994                                 | 26 Oct. 1994                           |
| Coal Corporation of Victoria                  | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 25 Aug. 1994                                 | 27 Aug. 1994                           |
| Electricity Services Victoria                 | 30 June 1994                | " "  | 2 Sept. 1994                                 | 21 Sept. 1994                          |
| Energy Brix Corporation                       | 30 June 1994                | " "  | 20 Sept. 1994                                | 21 Sept. 1994                          |
| Energy Information Technology Company Pty Ltd | 30 June 1994                | No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law. | 15 Sept. 1994                                | 23 Sept. 1994                          |
| Everton Dell Pty Ltd                          | 30 June 1994                | " "  | 21 Sept. 1994                                | 21 Sept. 1994                          |
| Gas and Fuel Corporation of Victoria          | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 30 Sept. 1994                                | 30 Sept. 1994                          |
| Gas and Fuel Corporation Superannuation Fund  | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 Nov. 1994.                 | 27 Oct. 1994                                 | 4 Nov. 1994                            |
| Generation Victoria                           | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 16 Sept. 1994                                | 21 Sept. 1994 (a)                      |
| Loy Yang B Power Station Pty Ltd              | 30 June 1994                | No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law. | 18 Aug. 1994                                 | 23 Sept. 1994                          |
| National Electricity                          | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 30 Sept. 1994                                | 30 Sept. 1994                          |
| National Electricity Pty Ltd                  | 30 June 1994                | No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law. | 21 Sept. 1994                                | 22 Sept. 1994                          |
| National Power Pty Ltd                        | 30 June 1994                | " "  | 15 Aug. 1994                                 | 21 Sept. 1994                          |
| Renewable Energy Authority Victoria           | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 7 Sept. 1994                                 | 9 Sept. 1994                           |

**SCHEDULE B**  
**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> |
|--|-----------------------------|--|--|--|
| <b>COMPLETED AUDITS - continued</b>                |                             |  |  |  |
| <b>ENERGY AND MINERALS - continued</b>             |                             |  |  |  |
| SECV International Pty Ltd                         | 30 June 1994                | No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law. | 12 Sept. 1994                                | 12 Sept. 1994                          |
| State Electricity Commission of Victoria           | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 30 Sept. 1994                                | 30 Sept. 1994 (a)                      |
| V.E.I. Super Pty. Ltd.                             | 30 June 1994                | No reporting requirements. Audit conducted at request of Treasurer and under Corporations Law.     | 16 Nov. 1994                                 | 18 Nov. 1994                           |
| Victorian Electricity Industry Superannuation Fund | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 Nov. 1994                  | 16 Nov. 1994                                 | 18 Nov. 1994                           |

**INCOMPLETE AUDITS**

|                    |              |  |   |     |
|--------------------|--------------|--|---|-----|
| D.B. One Limited   | 30 June 1994 | No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law. | Financial statements not yet received for the year ended 30 June 1994. However, in accordance with the provisions of the Corporations Law, the company is considering extending its initial reporting period to cover the period May 1994 to June 1995. |     |
| D.B. Two Limited   | 30 June 1994 | " "  | " "   | " " |
| D.B. Three Limited | 30 June 1994 | " "  | " "   | " " |
| D.B. Four Limited  | 30 June 1994 | " "  | " "   | " " |
| D.B. Five Limited  | 30 June 1994 | " "  | " "   | " " |

(a) Qualified audit report issued.

(b) The Trust was dissolved with effect from 20 December 1993.

(c) The Board was dissolved with effect from 29 September 1994.



# Part 3.2

## Arts, Sport and Tourism

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### KEY FINDINGS

#### DEPARTMENT OF ARTS, SPORT AND TOURISM

- A 3 year strategy has been developed for Arts institutions to value their part of the State Collection.

*Paras 3.2.4 to 3.2.11*

#### TOTALIZATOR AGENCY BOARD

- From a taxpayer's perspective, gaming machine assets which had been written-down by \$48.5 million over 2 years, appear to have been disposed of well below their true value.

*Paras 3.2.21 to 3.2.28*

- As there was no firm obligation on the Board at 31 July 1994 to incur estimated costs associated with the future restructuring and staff reductions planned by the Board, audit qualified the 1993-94 financial statements on the basis that liabilities were overstated by \$11.25 million and net profit understated by the same amount.

*Paras 3.2.29 to 3.2.35*



**3.2.1** Four Ministers, namely the Minister for the Arts, the Minister for Gaming, the Minister for Sport, Recreation and Racing, and the Minister for Tourism, have responsibility for operations within the Arts, Sport and Tourism sector. These Ministers have collective responsibility for the Department of Arts, Sport and Tourism.

**3.2.2** Details of the specific ministerial responsibilities for public bodies within the Arts, Sport and Tourism sector are listed in Table 3.2A. These public bodies, together with the Department of Arts, Sport and Tourism were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.2A  
MINISTERIAL RESPONSIBILITIES FOR  
PUBLIC BODIES WITHIN THE ARTS, SPORT AND TOURISM SECTOR**

| <i>Ministerial portfolio</i>        | <i>Entities subject to audit</i>  |
|-------------------------------------|---|
| <b>Arts</b>                         | Council of the Museum of Victoria<br>Council of the State Library of Victoria<br>Council of Trustees of the National Gallery of Victoria<br>Film Victoria<br>Geelong Performing Arts Centre Trust<br>State Film Centre of Victoria Council<br>Victorian Arts Centre Trust                     |
| <b>Gaming</b>                       | Totalizator Agency Board Club Keno Business Segment (a)<br>Totalizator Agency Board Gaming Business Segment<br>Tattersall's Club Keno (b)<br>Tattersall Gaming Machine Division<br>Tattersall Sweep Consultation<br>Victorian Casino Control Authority (c)<br>Victorian Gaming Commission (c) |
| <b>Sport, Recreation and Racing</b> | Greyhound Racing Control Board<br>Harness Racing Board<br>National Tennis Centre Trust<br>Totalizator Agency Board<br>Victorian Institute of Sport Ltd<br>Victorian Institute of Sport Trust  |
| <b>Tourism</b>                      | Emerald Tourist Railway Board<br>Swan Hill Pioneer Settlement Authority (d)<br>Tourism Victoria   |

(a) Commenced operations on 2 September 1993.

(b) Commenced operations on 1 April 1994.

(c) Entity abolished on 2 June 1994.

(d) Entity abolished effective from 1 July 1994.

**3.2.3** Comment on matters of significance arising from the audit of certain of the above entities is provided on the following pages.

## DEPARTMENT OF ARTS, SPORT AND TOURISM

### HERITAGE AND CULTURAL ASSETS

**3.2.4** The 1993-94 financial statements of the State's arts institutions, namely the Council of the State Library of Victoria, the Council of the Museum of Victoria, the Council of Trustees of the National Gallery of Victoria and the State Film Centre Council of Victoria were qualified by audit on the grounds that those bodies did not include within the financial statements significant resources held by each of them, being their cultural and heritage assets, known as the State Collection.

**3.2.5** The *Annual Reporting Act* 1983, under which the financial statements were prepared, requires that all material amounts of assets be disclosed and each institution is, therefore, obligated to determine the extent of cultural and heritage assets under their control and their value.

#### Valuation of the State Collection

**3.2.6** Previous reports of the Auditor-General to the Parliament, dating as far back as 1983-84, have included comments that effective control by those institutions over the State Collection has been impaired due to the absence of comprehensive information, including the collections' valuation for accountability purposes.

**3.2.7** In 1986, the then Economic and Budget Review Committee (EBRC), in its Seventeenth Report to Parliament titled *An Inquiry into certain matters concerning the National Gallery of Victoria*, recommended that "the State Collection be regularly valued by using cost-efficient mixtures of techniques, including physical inspection, market intelligence and statistical sampling."

**3.2.8** The matter of non-valuation of the State Collection was also raised by the Victorian Commission of Audit in 1993, in relation to the need for the complete financial reporting of the State's assets.

**3.2.9** The arts institutions have previously held the view that it is largely impossible to properly value the museum, library and gallery collections and that the costs associated with such a valuation would outweigh the benefits to be derived.

**3.2.10** **It is pleasing to note that at a recent hearing before the Public Accounts and Expenditure Committee, the Minister for the Arts informed the Committee that a strategy has been developed for the institutions to value their part of the State Collection for financial reporting and accountability purposes and for insurance purposes, with implementation of that strategy to take place over the next three years. It is acknowledged that the Department is now making considerable progress towards valuing all cultural and heritage assets under its control, with all valuations to be completed by May 1997.**

**3.2.11** While audit acknowledged that the valuation of assets of this nature would be complex, nevertheless, reporting of these significant resources was essential to ensure that the institutions were fully accountable to the Parliament and the taxpayers of Victoria.

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

*The Department of Arts, Sport and Tourism is proceeding with the valuation of the State Collection and notes the Auditor-General's report.*

## TOTALIZATOR AGENCY BOARD

### FURTHER WRITE-DOWN OF ASSETS

**3.2.12** The Auditor-General's *Report on Ministerial Portfolios, May 1994*, commented on the several abnormal expense items reflected in the Totalizator Agency Board's (TAB'S) 1992-93 financial statements. The expense items had arisen as a consequence of the Board's review of the TAB's strategic direction and its decision to focus on the TAB's role as a wagering and gaming operator and to cease involvement in the development of sophisticated wagering and gaming systems. The abnormal expense items totalled \$96 million and included the write-down of the TAB's wagering, Tabaret at Rialto and gaming operations assets by \$79 million. That Report detailed the reasons for acceptance by audit of the adjustments.

**3.2.13** The Report also set out the details of the proposed privatisation of the TAB. On 14 August 1994 a public company Tabcorp Holdings Ltd (TABCORP) commenced operation of the gaming and wagering functions previously undertaken by the TAB, and certain net operating assets were sold by the TAB to TABCORP for \$78 million.

**3.2.14** For the financial year 1993-94 there were further abnormal expense items reflected in the TAB's financial statements. In all, over \$130 million of adjustments have been included in the TAB's financial statements over the years 1992-93 and 1993-94 and these are summarised in Table 3.2B.

**TABLE 3.2B**  
**ADJUSTMENTS INCLUDED IN TAB'S FINANCIAL STATEMENTS, 1992-93 AND 1993-94**  
((\$'000))

|  | 1992-93       | 1993-94       | Total          |
|--|---------------|---------------|----------------|
| <b>Write-downs of fixed assets</b>   |               |               |                |
| Gaming machines  | 37 848        |               | 37 848         |
| Gaming systems software  | 10 686        |               | 10 686         |
| Deferred expenditure   | 10 436        |               | 10 436         |
| EDP Systems (DELTA) -  |               |               |                |
| Software development costs and deferred expenditure                            | 7 316         |               | 7 316          |
| Communications and hardware  |               | 5 524         | 5 524          |
| Tabaret at Rialto -  |               |               |                |
| Premises improvements and EDP systems  | 9 932         | 379           | 10 311         |
| Deferred expenditure   | 1 883         |               | 1 883          |
| Additional depreciation - handytab terminals                                   | 1 012         | 285           | 1 297          |
| Agency alarm system  |               | 597           | 597            |
| Taberace system  |               | 610           | 610            |
| Austpac Communications   |               | 888           | 888            |
| Gaming account card obsolescence   | 130           |               | 130            |
| Write-off Tabaret gaming system equipment (South Africa)                       |               | 301           | 301            |
| <b>Total</b>   | <b>79 243</b> | <b>8584</b>   | <b>87 827</b>  |
| <b>Other abnormal expense items</b>  |               |               |                |
| Premises improvements in retail sales network                                  | 2 387         | 3 750         | 6 137          |
| Provision for reorganisation costs   | 3 500         | 7 500         | 11 000         |
| Provision for contractual commitments relating to wagering systems development | 1 008         |               | 1 008          |
| Estimated leasing losses -Tabaret at Rialto                                    | 9 900         | 9 100         | 19 000         |
| Radio station 3UZ loan receivable waived                                       |               | 5 519         | 5 519          |
| <b>Total</b>   | <b>16 795</b> | <b>25 869</b> | <b>42 664</b>  |
| <b>Total adjustments</b>   | <b>96 038</b> | <b>34 453</b> | <b>130 491</b> |

## Adjustments included in 1993-94

### *Write-down of DELTA computerised wagering system*

**3.2.15** In line with the TAB's revised strategic direction and in view of difficulties experienced in the development of a new computerised wagering system known as DELTA, which was planned to replace the ageing CRISP system, the Board in 1992-93 determined to halt all work on DELTA and write-off all software development time spent on the project. At that time, it was the Board's intention to utilise the computer hardware it had purchased for the DELTA system.

**3.2.16** In 1993-94, the Board determined to write-down the value of the hardware totalling \$5.5 million as it considered that the majority of the equipment would be obsolete for the Board's purposes by the time a replacement system was operational in the expected time of 3 years.

**3.2.17** On 14 August 1994, all the hardware was transferred to TABCORP for nil consideration as part of the privatisation arrangements for the TAB.

### *Tabaret at Rialto*

**3.2.18** Tabaret at Rialto commenced operation in November 1990 in leased premises at a major Melbourne hotel, under a 14 year licence agreement involving a base annual licence fee and reimbursement of certain operating costs. Following a substantial decline in the operation's profitability, the Board, in 1993, wrote down premises improvements, EDP systems and previously capitalised expenditure totalling \$11.8 million. A further \$9.9 million, representing net future leasing costs of the premises, was also expensed.

**3.2.19** The venue was closed on 7 August 1994, however, the licence obligations remained with the TAB. As a consequence, the Board provided for estimated losses of \$9.1 million in the 1993-94 financial statements for the full costs of future obligations under the Tabaret at Rialto licence agreement. This provision was not transferred to TABCORP.

## Subsequent changes in documented strategies

### underpinning audit acceptance of 1992-93 write-down of gaming assets

**3.2.20** The *Report on Ministerial Portfolios, May 1994* outlined the circumstances surrounding the Board's decision to write-down gaming assets by \$48.5 million, comprising gaming machines \$37.8 million and gaming system software \$10.7 million, and detailed the basis on which audit accepted the adjustments.

**3.2.21** The Report indicated that, in response to the substantially greater market share and higher returns of the TAB's competitor, the Board had decided to introduce NSW-style machines as soon as possible and retire 3 600 existing gaming machines. All machines were expected to be replaced by March 1994.

**3.2.22** In addition, the Board decided to dispose of gaming system software and transfer responsibility for maintenance and upgrade of the software to an outside party. The Board anticipated proceeds of \$3 million from the sale of the system software.

**3.2.23** The write-downs were accepted by audit on the basis of:

- Board minutes documenting the formal endorsement by the Board of the planned revised mix of gaming machines;
- audit review of the planned machine replacement program supported by a physical inspection of machines withdrawn from the system to verify the start of the replacement strategy; and
- the consideration that the expected system software sale proceeds were in line with the relative cost of similar software available for purchase *off-the-shelf*.

**3.2.24** The 1993-94 audit found that the strategy adopted by the Board was not followed. In particular audit found that:

- The 3 600 Neo machines written off in 1993 for \$37.8 million were not removed from the network. Instead, they were progressively converted to card machines as the NSW-style machines were introduced. The machines remained in service during 1994 and generated revenue either as coin machines or converted card machines.
- The TAB recorded in its fixed assets register write-offs and write-downs of Neo machines totalling \$24.6 million and write-downs of *other* machines totalling \$13.2 million. **These entries reflect different diminution's in value for different machines than those presented to audit to support the 1993 write-offs.**
- Gaming machine software remained in use and was not sold.

**3.2.25** Over the 2 years, gaming machines and gaming software were written down by \$48.5 million. On 14 August 1994, these gaming assets were sold to TABCORP at their written-down book value.

**3.2.26** Ordinarily, the fact that the gaming assets were used by the TAB to generate revenue up until the 31 July 1994 would have required the Board to re-assess the original basis for the write-off of the assets and necessitated the reinstatement of the initial asset values in the accounts of the TAB. However, for accounting purposes, the gaming machines and gaming system software assets could not, in accordance with Australian Accounting Standards, be reinstated in the 1994 financial year's accounts at values higher than the value at which they were disposed of to TABCORP, such disposal occurring only 2 weeks after the end of the financial year.

**3.2.27** While the values recorded in the financial statements accorded with accounting standards, it would appear from a taxpayer's perspective that the assets, which had earned substantial revenue for the TAB during 1993-94 and which may earn substantial revenue for TABCORP in the future, had been disposed of well below their true value.

**□ RESPONSE** provided by Chairman, Totalizator Agency Board

*The value at which the assets were included in the TAB's financial statements was considered by the Board of the TAB to be appropriately recorded at the recoverable amount of those assets.*

*The total amount received by the State was determined by reference to the net proceeds from the float of TABCORP, less the settlement of outstanding borrowings and an amount due to the Victorian racing industry.*

**AUDIT QUALIFICATION OF 1993-94 FINANCIAL STATEMENTS**

**3.2.28** The *Report on Ministerial Portfolios, May 1994*, also detailed certain adjustments included in the TAB's 1992-93 financial statements which were not accepted by audit. An adjustment for the write-down of premises improvements in the retail sales network (\$2.4 million) was not accepted as audit considered that no substantive action had been taken at balance date and there had been no significant impairment in the carrying value of the existing agency network. In addition, a provision for reorganisation (\$3.5 million) relating to costs expected to be incurred by the Board from its planned restructuring and staff downsizing, was not accepted as audit had the view that a firm obligation did not exist at balance date in respect of the reorganisation.

**3.2.29** During 1994, 11 agencies were closed. However, the Board planned a further agency rationalisation program estimated to cost \$5 million, covering the write down of leasehold improvements, agent contract termination payments, transition plan costs and unexpired lease commitments. In the financial statements at 31 July 1994, the Board provided for \$3.75 million (75 per cent) of the estimated costs.

**3.2.30** The Board also planned for future restructuring and staff reductions at an estimated cost of \$10 million. In the financial statements at 31 July 1994, the Board provided for \$7.5 million (75 per cent) of the estimated costs of the restructuring program.

**3.2.31** On 14 August 1994 the above provisions, totalling \$11.25 million, were transferred to TABCORP.

**3.2.32** For the purposes of forming an opinion on the 1993-94 financial statements, audit carefully considered whether the results of actions taken as a result of management strategies and transfers to TABCORP affected conditions prevailing at balance date or whether they represented key strategic measures and events directly associated with the following year's operations.

**3.2.33** In this regard, audit found that no retail sales agencies had been terminated by the Board prior to and including 14 August 1994 and no redundancies had taken place under any formalised reorganisation program. Audit rejected the argument that liabilities can be recognised merely on the basis of a Board determination in the absence of formal contractual obligations.

**3.2.34** In audit view, there were no conditions existing at 31 July 1994 to oblige the Board to incur the expenditure as reflected in the provisions. Accordingly, the audit opinion on the TAB's 1993-94 financial statements was qualified on the basis that liabilities were overstated by \$11.25 million and net profit understated by the same amount.



**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS**

| <i>Report</i>   | <i>Subject</i>   | <i>Status at date of preparation of this Report</i>   |
|---|--|---|
| <b>MATTERS RESOLVED OR ACTION COMMENCED</b>                           |  |   |
| <b>DEPARTMENT OF ARTS, SPORT AND TOURISM</b>                          |  |   |
| <i>Ministerial Portfolios, May 1993, p. 43.</i>                       | Prompt action is necessary to establish a satisfactory accountability framework for the Cranbourne training complex.   | A lease agreement between the committee of management and the Cranbourne Turf Club has been signed but Governor-In-Council approval is still to be given. Separate accounting records have not yet been established for the complex.  |
| <i>Ministerial Portfolios, May 1994, pp. 72-4.</i>                    | The Government needs to ensure that periodic allocations from the Community Support Fund are adequately co-ordinated and that resultant outcomes, measured against appropriate benchmarks, are regularly reported to the Parliament and the community.               | The Department has established a Community Support Fund Unit which reports directly to the Secretary. The Unit has developed control guidelines and monitoring procedures for grants from the Fund and is developing benchmarks. A separate section in the Department's <i>Annual Report</i> will report the activities of the Community Support Fund.  |
| <b>SWAN HILL PIONEER SETTLEMENT</b>                                   |  |   |
| <i>Ministerial Portfolios, May 1989, p. 166. May 1992, pp. 334-5.</i> | Decisive action is needed to resolve the financial viability of the Authority.   | Amending legislation transferred the Authority's operations, assets and liabilities to the City of Swan Hill on 1 October 1992 and abolished the Authority effective from 1 July 1994.  |
| <b>VICTORIAN ARTS CENTRE TRUST</b>                                    |  |   |
| <i>Ministerial Portfolios, May 1994 pp. 54-5.</i>                     | The Trust needs to ensure that its business plan, currently under development, adequately addresses emerging opportunities within the performing arts industry and facilitates qualitative assessments of the Trust's contribution to cultural and arts development. | The Trust's business plan covering 1994 to 1996 was published in April 1994. It links the Trust's strategic goals and action plans, addresses emerging developments such as the Government's "Arts 21" policy, the development of the Southbank precinct, the opportunities presented by the Olympic Games in the year 2000 and the growing importance of cultural tourism.                                     |
| <i>Ministerial Portfolios, May 1994, pp. 58-9.</i>                    | A long standing policy of non-allocation of significant levels of indirect overhead expenses (almost \$10 million in 1992-93) to individual operating units has impeded decision-making and led to incomplete transparency of accountability to the Parliament.      | Audit has encouraged the Trust to become a leader in financial reporting within the performing arts industry by external disclosure, on an annual basis, of the true financial performance of its individual operations. The Trust has allocated indirect overhead expenses to operating units in its <i>internal</i> reports for 1994-95. The format of the Trust's published accounts is under consideration. |
| <i>Ministerial Portfolios, May 1994, pp. 67-8.</i>                    | There is a need for clearer reporting by the Trust to the Parliament on its performance in the discharge of its important community service obligations.   | A report of community activities and programs, statistical supplement and performance indicators table were included in the Trust's <i>1994 Annual Report</i> .   |

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued***

| <i>Report</i>  | <i>Subject</i>   | <i>Status at date of preparation of this Report</i>   |
|--|--|---|
| <b>MATTERS RESOLVED OR ACTION COMMENCED - <i>continued</i></b> |  |   |
| <b>VICTORIAN ARTS CENTRE TRUST - <i>continued</i></b>          |  |   |
| <i>Ministerial Portfolios, May 1994, pp. 68-9.</i>             | Since 1987, the Trust has pursued legal action to recover damages against a number of contractors and consultants over defects in the spire. | The Trust believes that the key to resolving litigation rests with the ability to carry out a metallurgical analysis of the defective spire nodes. It is expected that such an analysis will be possible when the spire is dismantled in late 1995. |

**SCHEDULE B**  
**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> |
|---|------------------------------|--|--|--|
| <b>COMPLETED AUDITS</b>                                 |                              |  |  |  |
| Department of Arts, Sport and Tourism                   | 30 June 1994                 | 31 Oct. <i>Annual Reporting Act 1983, s.8.</i>         | 21 Oct. 1994                                 | 31 Oct. 1994                           |
| <b>ARTS</b>   |                              |  |  |  |
| Council of the Museum of Victoria                       | 30 June 1994                 | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>        | 21 Sept. 1994                                | 30 Sept. 1994(a)                       |
| Council of the State Library of Victoria                | 30 June 1994                 | " "  | 23 Sept. 1994                                | 30 Sept. 1994(a)                       |
| Council of Trustees of the National Gallery of Victoria | 30 June 1994                 | " "  | 26 Sept. 1994                                | 30 Sept. 1994(a)                       |
| Film Victoria   | 30 June 1994                 | " "  | 30 Aug. 1994                                 | 30 Sept. 1994                          |
| Geelong Performing Arts Centre Trust                    | 30 June 1994                 | " "  | 27 Sept. 1994                                | 30 Sept. 1994                          |
| State Film Centre of Victoria Council                   | 30 June 1994                 | " "  | 15 Sept. 1994                                | 27 Sept. 1994(a)                       |
| Victorian Arts Centre Trust                             | 30 June 1994                 | " "  | 29 Sept. 1994                                | 30 Sept. 1994 (a)                      |
| <b>GAMING</b>   |                              |  |  |  |
| Totalizator Agency Board Gaming Business Segment        | 30 June 1994                 | 31 Oct. <i>Gaming Machine Control Act 1991, s.132.</i> | 17 Oct. 1994                                 | 25 Oct. 1994                           |
| Totalizator Agency Board Club Keno Business Segment     | 2 Sept. 1993 to 30 June 1994 | 31 Oct. <i>Club Keno Act 1993</i>                      | 30 Nov 1994                                  | 12 Dec. 1994                           |
| Tattersall's Club Keno                                  | 1 April 1994 to 30 June 1994 | 31 Oct. <i>Club Keno Act 1993</i>                      | 25 Oct. 1994                                 | 3 Nov. 1994                            |
| Tattersall Gaming Machine Division                      | 30 June 1994                 | 31 Oct. <i>Gaming Machine Control Act 1991, s.132.</i> | 11 Oct. 1994                                 | 25 Oct. 1994                           |
| Tattersall Sweep Consultation                           | 30 June 1994                 | <i>Tattersall Sweep Consultation Act 1958</i>          | 25 Oct. 1994                                 | 28 Oct. 1994                           |

**SCHEDULE B**  
**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> |
|--|-----------------------------|--|--|--|
| <b>COMPLETED AUDITS - continued</b>        |                             |  |  |  |
| <b>GAMING - continued</b>                  |                             |  |  |  |
| Victorian Casino Control Authority (b)     | 1 July 1993 to 2 June 1994  | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 27 Sept. 1994                                | 28 Sept. 1994                          |
| Victorian Gaming Commission (b)            | 1 July 1993 to 2 June 1994  | " "  | 29 Sept. 1994                                | 30 Sept. 1994                          |
| <b>SPORT, RECREATION AND RACING</b>        |                             |  |  |  |
| Greyhound Racing Control Board             | 31 July 1994                | 31 Oct. <i>Annual Reporting Act 1983, s.9.</i>   | 4 Oct. 1994                                  | 20 Oct. 1994                           |
| Harness Racing Board                       | 31 July 1994                | " "  | 7 Nov. 1994                                  | 18 Nov. 1994                           |
| National Tennis Centre Trust               | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 8 Nov. 1994                                  | 9 Nov. 1994                            |
| Totalizator Agency Board                   | 31 July 1994                | 31 Oct. <i>Annual Reporting Act 1983, s.9.</i>   | 17 Nov. 1994                                 | 17 Nov. 1994 (a)                       |
| Victorian Institute of Sport Ltd           | 30 June 1994                | No reporting requirements. Audit conducted at request of Treasurer.  | 28 Oct. 1994                                 | 10 Nov. 1994                           |
| Victorian Institute of Sport Trust         | 30 June 1994                | " "  | 28 Oct. 1994                                 | 10 Nov. 1994                           |
| <b>TOURISM</b>                             |                             |  |  |  |
| Emerald Tourist Railway Board              | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 21 Sept. 1994                                | 30 Sept. 1994(a)                       |
| Tourism Victoria                           | 30 June 1994                | " "  | 26 Sept. 1994                                | 30 Sept. 1994                          |
| <b>INCOMPLETE AUDITS</b>                   |                             |  |  |  |
| <b>TOURISM</b>                             |                             |  |  |  |
| Swan Hill Pioneer Settlement Authority (c) | 30 June 1992 and 1993       | 31 Oct. <i>Annual Reporting Act 1983, s.9.</i> Initial extension granted to 30 April 1993. No further extension granted. | Audits in progress.                          |  |

(a) Qualified audit report issued.

(b) The Victorian Casino Control Authority and Victorian Gaming Commission were replaced by the Victorian Casino and Gaming Authority with effect from 3 June 1994 under the *Gaming and Betting Act 1994*.

(c) Entity abolished effective from July 1994.

# Part 3.3

## **Business and Employment**

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**3.3.1** Six Ministers, namely the Minister for Industry and Employment, the Minister for Industry Services, the Minister for Regional Development, the Minister for Small Business, the Minister responsible for WorkCover and the Minister responsible for Youth Affairs, have responsibility for operations within the Business and Employment sector. These Ministers have collective responsibility for the Department of Business and Employment.

**3.3.2** Details of the specific ministerial responsibilities for public bodies within the Business and Employment sector are listed in Table 3.3A. These public bodies, together with the Department of Business and Employment, were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.3A  
MINISTERIAL RESPONSIBILITIES FOR  
PUBLIC BODIES WITHIN THE BUSINESS AND EMPLOYMENT SECTOR**

| <i>Ministerial portfolio</i>   | <i>Entities subject to audit</i>                                      |
|--------------------------------|---|
| <b>Industry and Employment</b> | Exhibition Trustees<br>Overseas Projects Corporation of Victoria Ltd  |
| <b>Industry Services</b>       | Construction Industry Long Service Leave Board                        |
| <b>Regional Development</b>    | Latrobe Regional Commission   |
| <b>Small Business</b>          | Liquor Licensing Commission<br>Small Business Development Corporation |
| <b>WorkCover</b>               | Victorian WorkCover Authority   |
| <b>Youth Affairs (a)</b>       | -   |

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

**3.3.3** The audit of the financial statements of entities within the portfolio proved satisfactory. Financial assistance under the Industry, Trade and Regional Support Program administered by the Department of Business and Employment is currently the subject of a performance audit, the results of which will be reported to Parliament at a later date.

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS**

| <i>Report</i>   | <i>Subject</i>  | <i>Status at date of preparation of this Report</i>  |
|---|---|--|
| <b>MATTERS RESOLVED OR ACTION COMMENCED</b>           |   |  |
| <b>DEPARTMENT OF BUSINESS AND EMPLOYMENT</b>          |   |  |
| <i>Ministerial Portfolios, May 1994, p. 91.</i>       | The Occupational Health and Safety Authority's work place inspection program relating to targeted industries and activities was not based on a sound risk-based planning framework. | While the Authority is continuing to utilise its historically- based planning model, a new establishment- based rating system is being considered for introduction by the Authority.   |
| <i>Ministerial Portfolios, May 1994, p. 95.</i>       | At March 1994, 60 per cent of the 32 500 higher-risk boiler and pressure vessels had not been inspected by the Authority within the intervals specified under the legislation.      | Statutory inspection requirements for boiler and pressure vessels cease on 1 July 1995 with the introduction of new Occupational Health and Safety (Plant) Regulations.  |
| <i>Ministerial Portfolios, May 1994, p. 99.</i>       | There is a need for the Authority to develop more specific indicators that will enable greater accuracy in the assessment of its performance in preventing work place injuries.     | The Authority has acknowledged the need for more specific indicators, however, due to the difficulty in developing these indicators, the Authority continually assesses the environment in which it delivers its services. Each year, as part of the business planning process, the Authority looks at its objectives, strategies and performance indicators to ensure that it focuses upon its core business functions. |
| <b>CONSTRUCTION INDUSTRY LONG SERVICE LEAVE BOARD</b> |   |  |
| <i>Ministerial Portfolios, May 1994, p. 101.</i>      | The level of surplus funds continued to increase even though employer contributions were waived in December 1993.   | Since December 1993, the fund has continued to provide its services at no cost to the industry through a zero contribution rate. Notwithstanding this policy, the fund recorded an operating surplus for 1993-94 and an increase in retained earnings at 30 June 1994 of \$4.6 million. The full effect of the zero contribution policy will not be evident until the 1994-95 financial year.                            |

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - continued**

| <i>Report</i>                                      | <i>Subject</i>  | <i>Status at date of preparation of this Report</i>   |
|--|---|---|
| <b>NO ACTION TAKEN</b>                             |   |   |
| <b>DEPARTMENT OF BUSINESS AND EMPLOYMENT</b>       |   |   |
| <i>Ministerial Portfolios, May 1994, p. 93.</i>    | The Occupational Health and Safety Authority needs to ensure that material which provides guidance on work place health and safety is made available to all employers.  | Despite audit recommendation, the Authority has continued the practice of only supplying information to specific industry groups and encouraging employers to obtain work place health and safety information from the Authority. |
| <i>Ministerial Portfolios, May 1994, p. 96.</i>    | The Authority was not in a position to assess the adequacy of its inspectorial activities as it had not established benchmarks for the number of work places to be inspected to address risks within targeted industries.   | The Authority has not established relevant benchmarks for the assessment of the adequacy of its inspectorial activities.  |
| <i>Ministerial Portfolios, May 1994, pp. 98-9.</i> | Given the complementary activities of the Authority and the Victorian WorkCover Authority, a review should be undertaken to investigate the potential for the integration of the 2 bodies to form a single entity responsible for work place injury prevention, compensation and employee rehabilitation. | A review of the integration of the Authority and the Victorian WorkCover Authority has not occurred.  |



**SCHEDULE B  
COMPLETED/INCOMPLETE AUDITS**

| <i>Entity</i>                                  | <i>Financial<br/>year<br/>ended</i> | <i>Reporting to Parliament</i>   | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|--|-------------------------------------|--|--|---|
| <b>COMPLETED AUDITS</b>                        |                                     |  |  |   |
| Department of Business and Employment          | 30 June 1994                        | 31 Oct. <i>Annual Reporting Act 1983, s.8.</i>   | 18 Oct. 1994   | 18 Oct. 1994  |
| <b>INDUSTRY AND EMPLOYMENT</b>                 |                                     |  |  |   |
| Exhibition Trustees                            | 31 Dec. 1994                        | 31 March. <i>Annual Reporting Act 1983, s.9.</i>   | 23 March 1995  | 24 March 1995 (a)                                   |
| Overseas Projects Corporation of Victoria Ltd  | 30 June 1994                        | No reporting requirements. Audit conducted at request of Treasurer and under the Corporations Law. | 5 Oct. 1994  | 24 Oct. 1994  |
| <b>INDUSTRY SERVICES</b>                       |                                     |  |  |   |
| Construction Industry Long Service Leave Board | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 6 Sept. 1994   | 28 Sept. 1994                                       |
| <b>REGIONAL DEVELOPMENT</b>                    |                                     |  |  |   |
| Latrobe Regional Commission                    | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 12 Sept. 1994  | 13 Sept. 1994                                       |
| <b>SMALL BUSINESS</b>                          |                                     |  |  |   |
| Liquor Licensing Commission                    | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>  | 28 Sept. 1994  | 29 Sept. 1994                                       |
| Small Business Development Corporation         | 30 June 1994                        | " "  | 9 Sept. 1994   | 12 Sept. 1994                                       |
| <b>WORKCOVER</b>                               |                                     |  |  |   |
| Victorian WorkCover Authority                  | 30 June 1994                        | " "  | 9 Sept. 1994   | 23 Sept. 1994                                       |

(a) Qualified audit report issued.

# Part 3.4

## Conservation and Natural Resources

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### KEY FINDINGS

#### DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

##### Hardwood sawlog grading system

- The Department is moving to resolve weaknesses in the log grading system which have impacted on the level of royalties received for hardwood logs.

*Paras 3.4.4 to 3.4.16*

##### Drinking water quality

- After considering the status of drinking water quality in Victoria, the Government determined in August 1994 to substantially expand the boundaries of its initially-envisaged review and to place a tight deadline for the completion of related tasks.

*Paras 3.4.17 to 3.4.29*

- There is a need to ensure that the greater flexibility derived from the use of guidelines, rather than mandatory standards will not compromise drinking water quality or community health.

*Paras 3.4.37 to 3.4.43*

- Given the emergence of new forms of water-related diseases in the past 2 decades and the absence of Statewide testing strategies, there is a clear need for guidance aimed at minimising the risk to public health.

*Paras 3.4.44 to 3.4.54*

- In order to improve and maintain the quality of drinking water in Victoria, water authorities need to focus their attention on:

- catchment management practices;
- effective water storage management;
- adequacy of water treatment and disinfection processes; and
- maintenance of drinking water distribution systems.

*Paras 3.4.55 to 3.4.76*

**KEY FINDINGS - continued**

**MELBOURNE WATER CORPORATION**

**Write-off of information technology development costs**

- Total expenditure of \$17.5 million on the development of a computerised customer billing system was written-off during the year.

*Paras 3.4.77 to 3.4.84*

**RURAL WATER CORPORATION**

**Write-off of water management system costs**

- Restructure of the Corporation has led to the write-off of \$2 million of costs associated with the development of an integrated water management system.

*Paras 3.4.85 to 3.4.93*

**3.4.1** Two Ministers, namely the Minister for Conservation and Environment and the Minister for Natural Resources, have responsibility for operations within the Conservation and Natural Resources sector. These Ministers have collective responsibility for the Department of Conservation and Natural Resources.

**3.4.2** Details of the specific ministerial responsibilities for public bodies within the Conservation and Natural Resources sector are listed below in Table 3.4A. These public bodies, together with the Department of Conservation and Natural Resources, were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.4A  
MINISTERIAL RESPONSIBILITIES FOR PUBLIC BODIES  
WITHIN THE CONSERVATION AND NATURAL RESOURCES SECTOR**

| <i>Ministerial portfolio</i>        | <i>Entities subject to audit</i>  |
|-------------------------------------|---|
| <b>Conservation and Environment</b> | Bundoora Park Committee of Management<br>Environment Protection Authority<br>Mount Macedon Memorial Cross Committee of Management<br>Olympic Park Management<br>Penguin Reserve Committee of Management<br>Port Bellarine Committee of Management<br>Recycling and Resource Recovery Council<br>Royal Botanic Gardens Board<br>Shrine of Remembrance Trustees<br>State Swimming Centre Committee of Management<br>Victorian Conservation Trust<br>Yarra Bend Park Trust<br>Zoological Board of Victoria<br>Zoological Board of Victoria Superannuation Fund |
| <b>Natural Resources</b>            | Alpine Resorts Commission<br>Melbourne Water Corporation<br>Melbourne Water Corporation Employees' Superannuation Fund<br>Non-metropolitan water authorities (38)<br>Rural Water Corporation<br>Victorian Institute of Marine Sciences<br>Victorian Plantations Corporation<br>Water Training Centre  |

**3.4.3** Comment on matters of significance arising from the audit of certain of the above entities is provided on the following pages.

**DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES****HARDWOOD SAWLOG GRADING SYSTEM**

**3.4.4** The Department of Conservation and Natural Resources is the principal land and resource manager in the State. Included within its many responsibilities is the management of timber production in State forests. The Forests Service Section of the Department has the delegated responsibility for the administration of the State's hardwood forests, including the management and harvesting of timber and other products from the forests.

**3.4.5** In 1986, the government of the day released a timber industry strategy setting out future directions for the industry. The central aim of this strategy was "...to make the best use of timber in a way which will strengthen the economic viability of the industry within an environmentally acceptable framework". A Value Adding Utilisation System (VAUS) was introduced as part of this strategy to ensure logs withdrawn from the forest were used to the best economic advantage. A major component of VAUS was the allocation of sawlogs by grade to sawmillers according to the sawmillers' potential to process timber beyond the green sawn stage.

**3.4.6** The Department's hardwood sawlog grading system, subsequently introduced in 1987-88 as an integral component of VAUS, required the classification of logs into 4 grades on the basis of dimensions and the extent of defects in the logs. Under the grading system, contractors **engaged by sawmillers** are responsible for grading logs, with departmental supervising officers providing a monitoring role. A departmental Hardwood Sawlog Grading Card was issued to contractors to assist them in classifying logs. Royalties are paid to the Department according to the classification of the sawlog and, in 1993-94, revenue from this source totalled \$18.9 million.

**Past audit review of hardwood log grading system**

**3.4.7** The Auditor-General's *Special Report No. 22: Timber Industry Strategy* issued in May 1993, included comment on the Department's hardwood log grading system. In that Report audit identified weaknesses in the log grading system and found that higher quality logs could be downgraded by contractors and the downgrading not be detected by the Department, thus resulting in a loss of royalty revenue.

**3.4.8** The weaknesses identified by audit at that time were:

- possible conflict of interest of the contractors affecting the accuracy of log grading;
- inadequate level of supervision and monitoring by the Department to ensure consistency of log grading; and
- failure to consistently and stringently apply penalties when unsatisfactory log grading was detected.

**3.4.9** The audit analysis did not provide conclusive evidence as to the extent to which downgrading of logs was occurring, but the evidence suggested that it was at a level which required the urgent attention of the Department.

**3.4.10** It was in this context that audit initiated a follow-up review to determine the action taken by the Department to strengthen the log grading system.

### Internal review by Department

**3.4.11** In December 1993 the Department commenced an internal review to assess the accuracy and consistency of log grading processes across the State. The review covered all major timber producing forest management areas in the State and involved the checking at the sawmill of the standard of log grading performed.

**3.4.12** Overall, the review found that on a State average only **51 per cent** of logs were graded correctly. Of the remainder, **38 per cent** were graded too low (i.e. loss of revenue to the State) and **11 per cent** too high (i.e. excessive revenue). In discussions with audit, departmental officers estimated that if the results of the review were extended to the population of logs on a Statewide basis, **the loss of revenue to the State could be between \$1 million and \$2 million annually.**

**3.4.13** The internal review found that the major factors contributing to the incorrect grading of logs were essentially the same as had been identified in Special Report No. 22.

### Initiatives undertaken by the Department

**3.4.14** In response to the recommendations contained in the internal report, a number of initiatives have been developed by the Department to address the weaknesses in the log grading process. These include:

- retraining of log graders in techniques to minimise the variations in interpretation of grades;
- the engagement of a firm of consultants to check the accuracy of log grading during 1994-95 and 1995-96;
- the collation and review of log grading statistics and sales data on a monthly basis to analyse trends, performance and variances for follow-up action if required;
- trialling various methods of log grading with the intention of implementing the best method; and
- the employment by the Department of the logging contractors, including log graders, in the Tambo forest management area.

**3.4.15** The Department is of the view that a comparative analysis of hardwood sales revenue for the periods July-December 1993 and July-December 1994 indicates improvements in the standard of log grading. The Department maintains that of an increase in royalties of \$1.5 million over the above periods, some \$650 000 (43 per cent) can be attributed to improved grading of logs.

**3.4.16** The successful implementation by the Department of the strategies aimed at improving the standard and consistency of log grading will be critical to the level of royalties received for hardwood logs. In this respect, the results of the checks undertaken of the accuracy of log grading during the 1994-95 and 1995-96 financial years will provide an indication of the relative success of these new strategies.

□ **RESPONSE** provided by Secretary, Department of Conservation and Natural Resources

*The Department is committed to maximising revenue through improved log grading performance.*

*However, we need to achieve a solution in which the costs of rectification do not outweigh the revenues forgone. If (for example) the Department directly employed a range of log graders to check 100 per cent of the logs over the harvesting season, there could be a significant net increase in costs which exceeds the increased revenues.*

*At this stage, we consider that the optimum long-term solution (in terms of revenue to the Consolidated Fund) will be a combination of the trial initiatives detailed in the initiatives section of this Report.*

*In the meantime, and as noted in the Report, the heightened emphasis on log grading is already generating increased revenues.*

## QUALITY OF DRINKING WATER

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**3.4.17** A totally safe and reliable supply of drinking water is vital for the good health and well-being of any community. Consumers have an expectation that water supplied by responsible authorities will be safe to drink and to use for domestic and other purposes.

**3.4.18** In metropolitan Victoria, drinking water is supplied to the public predominantly from protected catchment areas managed by the Melbourne Water Corporation and distributed to consumers by 3 recently established, State-owned companies. In the non-metropolitan area, rural water authorities supply the majority of consumers. In addition, 5 water authorities, constituted on 1 July 1994 to assume the rights, obligations and liabilities of the Rural Water Corporation, supply 55 country towns. These responsibilities have been, or are in the process of being, re-assigned to the non-metropolitan urban water authorities.

**3.4.19** For some years, governments within Victoria have been conscious of the fact that the majority of consumers residing in non-metropolitan areas are supplied with drinking water which fails to meet relevant national and international drinking water quality guidelines. This situation is one of the influencing factors behind the Government's current restructuring program for the rural water sector (under this program, the number of rural water authorities has been reduced from 98 at June 1993 to 18 at April 1995). It is also true that certain parts of the Melbourne metropolitan area (e.g. the Mornington Peninsula) experience periodic problems with drinking water quality.

**3.4.20** The Department of Conservation and Natural Resources and the Department of Health and Community Services are the 2 government agencies with primary responsibility for monitoring and providing advice on drinking water quality in Victoria.

**3.4.21** The Auditor-General's *Report on Ministerial Portfolios, May 1994*, outlined the main features of the Government's wide-ranging reform program for the Victorian water industry. Details of the program had been announced by the Government in October 1993. The Report indicated the program included provision for the establishment of working groups to formulate solutions to pressing health and environmental issues associated with the water industry, including the important question of the quality of rural drinking water in Victoria.

### Working group on rural drinking water quality

**3.4.22** The working group on rural drinking water quality was formed in October 1993 and comprised representatives of the Departments of Conservation and Natural Resources, and Health and Community Services. The group was assigned the task of evaluating the current position within the State and, where necessary, developing a strategy for upgrading the quality of rural drinking water supplies.

**3.4.23** An interim report prepared by the working group was publicly released in August 1994. Matters of significance raised in this report included:

- In 1992-93, some 68 per cent of rural consumers were supplied with water that did not have satisfactory bacteriological quality. This was a very disappointing result when \$80 million had been spent by water authorities on water quality improvement works over the previous 5 years and 59 per cent of consumers received water which had been fully treated and disinfected. The working group concluded that the poor performance was mainly due to a deterioration of water quality within the distribution systems;
- In 1992-93, only 7.5 per cent of the populations of Ballarat, Bendigo and Geelong received water of acceptable bacteriological quality. These 3 cities, which have quality improvement programs in place, undertook works to improve water quality so it can be expected that the authorities will meet water quality guidelines in the next 3 to 5 years. This will increase the overall Statewide compliance with water quality guidelines from 32 per cent to 65 per cent;
- If water supply authorities were required to meet the more stringent 1994 draft guidelines for bacteriological quality, issued by the National Health and Medical Research Council (NHMRC) and the Agricultural and Resource Management Council of Australia and New Zealand, a significant capital investment would be necessary. In the case of the water supplied in the metropolitan area, the additional investment would be approximately \$600 million for new water treatment works (plus annual operating costs of \$40 million);
- Certain areas of the State with food processing industries received poor quality water, which could adversely impact on the quality of the food produced by those industries, with detrimental flow-on effects to domestic and export markets; and
- Thirty-one small water supply systems were not monitored by local authorities for bacteriological quality in 1992-93 due mainly to the cost of monitoring and the fact that tanks are generally used by residents for drinking water in these areas. A number of the relevant authorities have sought exemption from the Health (Quality of Drinking Water) Regulations 1991 which require all drinking water supplies to be monitored at least monthly.

**3.4.24** The recommendations of the working group included:

- the Department of Health and Community Services undertake studies to attempt to determine if there is any correlation between the incidence of illness and the presence of waterborne pathogens (organisms which can cause disease);
- the current guidelines used for non-metropolitan water authorities, the 1984 guidelines issued by the World Health Organization (WHO), be retained for use in 1993-94 and 1994-95;



- the 3 largest non-metropolitan urban water authorities (supplying Ballarat, Bendigo and Geelong) continue to upgrade the bacteriological quality of their drinking water supplies;
- other non-metropolitan water authorities ensure that their supplies meet current guidelines within the next 5 years;
- where a small town water supply has unsatisfactory quality and it can be demonstrated that it is not practicable to upgrade the quality, the Department of Health and Community Services should declare the water supply as *"unsuitable for drinking"* and require adequate warnings and other measures to be given and maintained; and
- operating licences for the new regional water authorities require *"open"* reporting on the quality of their drinking water to both the Government and the communities they serve.

**3.4.25** State Cabinet considered the interim report in August 1994 and, in view of the serious nature of the working group's findings, determined that the second stage of the group's review project, initially intended to involve the preparation of a detailed report, be substantially widened to encompass the following terms of reference:

- *"review and report on monitoring results for the microbiological quality of Victoria's metropolitan and rural drinking water supplies over a period;*
- *review and report on international drinking water quality criteria and level of compliance by international water authorities;*
- *determination of the cost of works required to upgrade the quality of reticulated drinking water supplies to meet current and proposed guidelines for drinking water quality;*
- *performance of a cost-benefit study to demonstrate the significance of different standards of microbiological quality of drinking water;*
- *an examination of current Australian guidelines and proposed revised national guidelines and provision of recommendations on the adoption of appropriate and cost-effective Statewide and local guidelines and performance criteria for drinking water quality; and*
- *preparation of a strategy for upgrading Victoria's drinking water supplies."*

**3.4.26** The need for annual reporting of performance against agreed drinking water quality performance criteria and for public notification of situations where a threat to health is perceived will also be addressed by the working group.

**3.4.27** As part of the widened ambit of the review project, the working group has been expanded to include representatives from the Melbourne Water Corporation. In addition, external specialist assistance to supplement the resources of the working group will be acquired, by way of consultancy arrangements, in areas such as health impacts, risk assessment and costing of water treatment and associated infrastructure. Three consultants have been engaged to date to undertake the following tasks:

- determine the standards applying, and performance against those standards, in other countries, and their relevance to the Victorian (and Australian) situation;

- determine the cost of upgrading rural drinking water systems to meet current (WHO 1984 guidelines) and proposed Australian Drinking Water Guidelines released in draft form in 1994 by the NHMRC and the Agricultural and Resource Management Council of Australia and New Zealand; and
- review risk assessment methodologies used to determine standards for the microbiological quality of drinking water supplies and undertake a cost-benefit analysis to illustrate the impact of adopting various standards for supplies drawn from open and closed water catchments.

**3.4.28** Cabinet has set a target date of August 1995 for issue by the working group of a draft report on the results of the expanded second phase of the review. The report is expected to include recommendations on the adoption of drinking water quality standards for inclusion in operating licences of water authorities and the reporting by authorities of performance against those standards. Audit was advised by the Department of Conservation and Natural Resources that the final report of the group will be made public.

**3.4.29** In summary, it can be seen that the circumstances concerning the status of drinking water quality in Victoria, as presented to Cabinet in August 1994 via the interim report of the working group, were of such significance to persuade Cabinet to substantially expand the boundaries of the initially-envisaged review and to place a tight deadline for the completion of related tasks. Given the nature of the subject matter and its intrinsic nexus with the community's health and well-being, the Cabinet's action is viewed by audit as positive.

□ *RESPONSE provided by Secretary, Department of Conservation and Natural Resources*

*It is pleasing to note that significant improvements have already been achieved in the Statewide results for bacteriological quality. This has occurred largely as a result of works which have been carried out in Geelong, Ballarat and Bendigo. The number of non-metropolitan consumers which received water that did not have satisfactory bacteriological quality has now fallen from 68 per cent in 1992-93 to 40 per cent in 1993-94.*

#### **Outline of audit activity in subject area**

**3.4.30** In May 1994, audit commenced the planning phase of a performance audit review of drinking water quality in Victoria. This subject had previously been identified by audit as a potential performance audit review topic, given its major significance to the community. It was also considered timely that an independent assessment of management strategies in the provision of drinking water and of the performance of Victoria against established international qualitative guidelines be undertaken on behalf of the Parliament.

**3.4.31** At the time of commencement of planning, audit was aware of the initial terms of reference which had been established for the Government's working group. However, audit determined to proceed with the planned review and focus on a range of important issues which, at that time, did not fall within the ambit of the working group's study. The issues earmarked for audit examination included:

- the role and responsibilities of various Victorian Government agencies in respect of drinking water quality and strategies established to ensure that these responsibilities are met;
- relevant legislation, regulations, standards and guidelines pertaining to drinking water quality in Australia and overseas, with a focus on comparing the legislative and regulatory frameworks in Australia with those overseas, particularly the United Kingdom and the United States of America;
- evaluation of past (and proposed future) expenditure by Victorian water authorities on drinking water quality improvement works and any corresponding changes in the quality of drinking water supplied to consumers;
- the extent to which water authorities are seeking opportunities to utilise new and innovative drinking water treatment technology;
- the extent to which water authorities are monitoring drinking water for the presence of potentially harmful parasites and viruses;
- the status of drinking water quality in Victoria, both metropolitan and rural;
- policies, procedures and guidelines developed by Victorian and other water authorities (Australian and overseas) in respect of catchment management and the harvesting, storage, treatment and distribution of drinking water;
- strategies established by government agencies, including water authorities, to improve drinking water quality;
- the actual and potential consequences of poor drinking water quality on public health and food processing industries; and
- the extent to which water authorities provide consumers with relevant, timely and understandable information regarding drinking water quality.

**3.4.32** At an early stage, extensive liaison took place with officers of the Departments of Conservation and Natural Resources, and Health and Community Services on the breadth of the audit planning. Because the audit project incorporated provision for detailed on-site examinations of the management of drinking water quality issues by water authorities, the departmental representatives considered that the audit exercise would complement the Government's reform program, particularly in those areas, such as the on-site examinations, where resource constraints would preclude the group's involvement.

**3.4.33** Shortly after becoming aware of the widened terms of reference for the second stage of the working group's review and of the extent of additional resources allocated by the Government to ensure the successful completion of the review, audit determined not to continue with the planned performance audit project but to provide maximum assistance to the group. This assistance has been principally achieved through extensive liaison with representatives of the 2 key departments. In addition, audit has made available to the group all reference material and specific knowledge acquired during the detailed planning, including information on identified potential risks facing the water industry in the management of drinking water quality in Victoria.

**3.4.34** Audit is hopeful that the assistance provided to the working group will contribute to the best quality outcome in terms of achievement of the Government's strategic objectives in this area of major significance to the community.

**3.4.35** It is the intention of audit to revisit the subject area with a view to assessing the overall effectiveness of the Government's drinking water quality improvement strategy subsequent to its implementation.

**3.4.36** A summation of the issues provided to the working group by audit is presented in the following paragraphs.

### Drinking water quality standards

**3.4.37** According to the WHO guidelines, in order to ensure that the public is supplied with safe and palatable drinking water, countries should have a comprehensive legislative framework in place "... supported by regulatory standards and codes that specify the quality of the water to be supplied to the consumer, practices to be followed in selecting water sources, in treatment and in distribution".

**3.4.38** The Department of Conservation and Natural Resources stated in an earlier report on Drinking Water Quality Victoria 1984-1989 that "...there is no comprehensive 'standard' with statutory force governing drinking water quality in Victoria". This position has not changed in the 4 years since that report. In short, water authorities are still not required, by law, to ensure that the water they supply to consumers meets recognised quality parameters. This situation is unusual in the context of other developed nations in the western world (e.g. the United Kingdom and the United States of America) where regulated standards governing drinking water quality are in place.

**3.4.39** In the absence of legally enforceable standards, water supplied by the Melbourne Water Corporation and the 3 recently established supply companies to metropolitan Melbourne is monitored against 1987 guidelines developed jointly by the NHMRC and the Australian Water Resources Council (AWRC), and water supplied by non-metropolitan water authorities is monitored against the 1984 WHO guidelines.

**3.4.40** The 1984 WHO guidelines stated that "... in developing national drinking water standards based on these guidelines, it will be necessary to take account of a variety of local, geographical, socio-economic, dietary and industrial conditions". The Melbourne Water Corporation has adopted the NHMRC/AWRC guidelines on the basis that they were developed in line with this WHO recommendation and were designed specifically with Australian conditions in mind.

**3.4.41** The Department of Conservation and Natural Resources advised audit that rather than adopting mandatory standards and regulations, its preferred strategy is to use the 1994 draft Australian Drinking Water Guidelines (when finalised) as the basis for standards to be incorporated into proposed operating licences for water authorities. The licences are expected to specify standards for key water quality criteria and target dates for achievement of standards in each water supply system.

**3.4.42** Clearly, the costs and benefits of a highly prescriptive legislative and regulatory framework for drinking water quality need to be recognised when comparing the proposed Victorian approach with that which has been followed in the UK and USA. Also, it can be said that a highly-regulated environment for water quality does not necessarily guarantee absolute protection of public health. In Milwaukee (USA) in 1993, a change in the operation of the water treatment plant, combined with upstream sewage discharges and run-off from agricultural land during a storm, allowed a dangerous form of parasite to pass through the filtration plant and cause severe illness to over 400 000 people. The city has since received more than 1 400 claims seeking some US\$25 million in damages.

**3.4.43** **In the final analysis, the framework ultimately adopted for Victoria will need to ensure that the greater flexibility derived from the use of guidelines will not compromise drinking water quality or community health. Both costs and benefits need to be quantified and community preferences taken into account when formulating this framework.**

□ *RESPONSE provided by Secretary, Department of Health and Community Services*

*While no standards are set in the Health (Quality of Drinking Water) Regulations 1991 for drinking water quality, the Chief General Manager has the power to direct, where a water supply is/or may be contaminated, that the water supply authority meet a quality standard determined by the Chief General Manager.*

### **Impact of poor quality drinking water on public health**

**3.4.44** A critical issue associated with the management of drinking water quality is the potential impact of poor quality drinking water on public health.

**3.4.45** Drinking water quality may generally be assessed by the presence within water of contaminants that might cause adverse health effects and by the water's aesthetic properties.

**3.4.46** The deleterious health effects associated with contaminants include many types of illnesses, permanent body damage or, in extreme cases, death. These effects may result from the presence of disease-causing micro-organisms or harmful chemicals in the water. On the other hand, the aesthetic qualities of water such as appearance, taste and odour, are generally used by the consumer to judge water quality. However, unlike contaminated water, turbid or coloured water which may have an objectionable appearance, flavour or odour is not necessarily unsafe to drink.

**3.4.47** While there have been some very serious consequences in overseas communities from poor quality drinking water, the most serious incident in the past decade in Victoria occurred in Sunbury in 1987, where approximately 6 000 residents became ill with gastroenteritis as a result of drinking untreated water from the local supply.

**3.4.48** Officers of the Department of Health and Community Services have indicated to audit that the level of endemic illness in Victoria associated with drinking water quality is unknown. This point was emphasised in January 1985 by the former Department of Water Resources' Task Force on Urban Drinking Water Quality in its *Strategy Plan to Upgrade Drinking Water Quality in Victoria* which commented that "... epidemiological investigations into waterborne disease are rarely carried out in Victoria, and there is little data on the extent to which contaminated water affects the health of Victorians".

**3.4.49** It is important to stress that the threat of waterborne bacterial gastroenteritis, such as cholera and shigellosis, in Western developed countries including Australia, has been virtually eradicated. However, over the last 2 decades, there has been an improvement in epidemiological surveillance and clinical diagnosis of non-bacterial gastroenteritis worldwide which has identified new forms of waterborne parasitic and viral illnesses directly related to the quality of water, e.g. *Cryptosporidiosis* and *Giardiasis*, which are acute forms of gastrointestinal illness resulting from parasitic infections.

**3.4.50** In Australia, there have been no documented outbreaks of these recently-identified illnesses attributable to a public water supply (although, there was an outbreak of both diseases in 1992 at Monbulk in rural Victoria where a sewage contaminated water tank at a school camp was suspected to be the source of infection).

**3.4.51** In spite of a lack of documented outbreaks, work commissioned by the Sydney Water Board in 1992 dealing with Sydney's major raw water storages indicated some need for concern. Subsequently, the Melbourne Water Corporation carried out, over the period 1993 to 1995 a monitoring program involving approximately 500 water samples to determine whether the parasites *Cryptosporidium* and *Giardia* were present. Audit was advised by the Corporation that in areas where either or both these parasites are at times higher than desirable long-term concentrations, suitable improvement works are implemented as necessary. In addition, the Corporation has found that water from protected catchments generally has a lower detection rate for harmful micro-organisms compared with water from inhabited catchments.

**3.4.52** It is significant that, to date, non-metropolitan water authorities in Victoria have not regularly tested for the presence of *Cryptosporidium*, and *Giardia* in drinking water and that *cryptosporidiosis* is currently not a "reportable disease" to health authorities in Victoria. The Government's working group has recommended that those authorities which draw their water from sources which may be subject to contamination arising from the presence of municipal sewerage and septic tank effluent, urban drainage and farm animals, should undertake periodic testing.

**3.4.53** In addition, audit was advised by the representative of the Department of Health and Community Services that Victoria currently does not have a laboratory capable of testing water for the presence of viruses and relies on facilities in New South Wales and South Australia for such testing.

**3.4.54** **Given the emergence of new forms of water-related diseases in the past 2 decades and the absence of Statewide testing strategies, there is a clear need for guidance aimed at minimising the risk to public health. This could be achieved through:**

- **improved epidemiological investigation of waterborne gastroenteritis (the Melbourne Water Corporation advised audit that it has recently introduced investigations of this nature);**
- **evaluation of catchment management practices and the best available water treatment technology as a means of reducing risk of illness; and**
- **use of risk assessment techniques in assessing the cost and benefits of programs established for the testing of water quality.**

## Factors impacting on the quality of drinking water

**3.4.55** During the planning phase of the review, audit gathered information on the following factors which can impact on the quality of drinking water:

- soundness of catchment management practices;
- effectiveness of water storage management;
- adequacy of treatment and disinfection processes; and
- maintenance of distribution systems.

### *Soundness of catchment management practices*

**3.4.56** The source of water to be used for drinking purposes is an important determinant of the quality of drinking water which will ultimately be delivered to consumers. Water authorities harvest water for drinking and other purposes from catchments. A catchment is defined in the *Catchment and Land Protection Act 1994* as "an area which through run-off or percolation, contributes to the water in a stream or stream system". The land, air and water components of a catchment system are interrelated. When discussing catchments in the context of harvesting water there are 2 types of catchments: open catchments and closed or protected catchments.

**3.4.57** The catchments used by non-metropolitan water authorities are predominantly open, which means they can be impacted upon by land uses and related risks. The issues and risks which should be recognised by water authorities harvesting water from open catchments were summarised as follows by the Land Conservation Council in its *Rivers and Streams, Special Investigation Final Recommendations* report which was released in June 1991, which stated "... where not well managed, the following land uses and activities may cause or increase the risk of detriment to water quality arising from such catchments:

- *intensive agriculture - involving for example row crops, field crops, orchards, piggeries, poultry farms and dairies, which necessitate repeated cultivation, fertiliser or pesticide application, animal access to watercourses or manure disposal;*
- *extensive farming that may involve land clearing, traffic of stock over erodible areas, stock access to stream banks, poor grazing management, exposure of the soil surface, and increased ground water recharge leading to salinity problems;*
- *townships with areas under intensive development, a high population density, stormwater drains, and septic tanks or sewerage treatment and disposal; and*
- *road construction, earthworks or other construction activities, and timber harvesting operations, where any of these leave substantial areas of erodible soil types exposed to storm rainfall or where appropriate conditions are not applied".*

**3.4.58** It can be seen that water authorities harvesting water from open catchments need to be aware of the use made of all land in their catchments.

**3.4.59** Regular inspections are an essential element of catchment management. Although the Health (Quality of Drinking Water) Regulations 1991 require water authorities to inspect their water catchments at least once every 3 years, audit was advised by the representative of the Department of Health and Community Services that regular inspections of catchments are not a feature of the normal operational management of the majority of Victorian water supply authorities.

**3.4.60** In order to avoid the risks of poor catchment management practices, water authorities need to:

- preserve and increase, where possible, areas of catchment where all human activities are not permitted;
- monitor sources of contamination in their catchments;
- effectively liaise with landholders and government agencies to ensure that sound catchment management practices are in place;
- have adequate contingency procedures in place to deal with identified instances of contaminated source water; and
- regularly inspect their water catchments in accordance with the requirements of the Health (Quality of Drinking Water) Regulations 1991.

□ *RESPONSE* provided by General Manager, Water, Melbourne Water Corporation

*The closed catchments managed by the Melbourne Water Corporation ensure significantly better raw water quality entering reservoirs when compared with multiple use water supply catchments.*

#### *Effectiveness of water storage management*

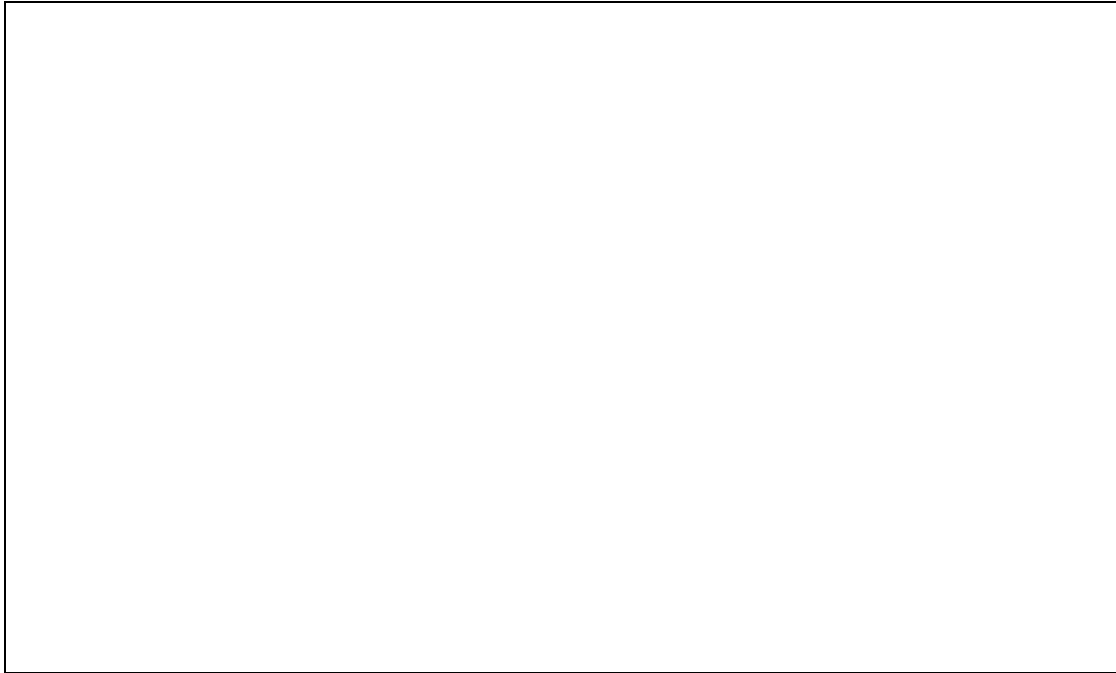
**3.4.61** After water has been harvested from a catchment, it is held in a water storage for treatment and subsequent supply to consumers. The effective management of water storages is an important factor which contributes to the quality of drinking water.

**3.4.62** The previously-mentioned 1994 Draft Australian Drinking Water Guidelines include the following points which are relevant for the storage of water to be used for drinking purposes:

- storage in artificial lakes or dams allows the suspended material in the water to settle;
- most pathogenic micro-organisms of faecal origin do not survive for long periods in the environment as they depend on growth conditions within their human or animal hosts. Significant die-off of these organisms will occur if water can be stored for at least 3 to 4 weeks before consumption;
- retention of water in storages improves clarity and facilitates more effective and efficient disinfection and decreases the level of bacteria in the water; and
- where storages are protected from public access, there is a reduced risk of the water supply becoming contaminated.

**3.4.63** Effective water storage management by water authorities is necessary to ensure that water storages are protected from accidental or deliberate contamination and to maximise the effectiveness and efficiency of subsequent treatment processes.





*The Thomson Dam, a major Victorian water storage.*

#### *Adequacy of treatment and disinfection processes*

**3.4.64** The treatment and disinfection of drinking water prior to its distribution to consumers are the primary means by which water authorities attempt to ensure that water is safe to drink.

**3.4.65** The Draft 1994 Australian Drinking Water Guidelines include the following information regarding the treatment and disinfection of drinking water:

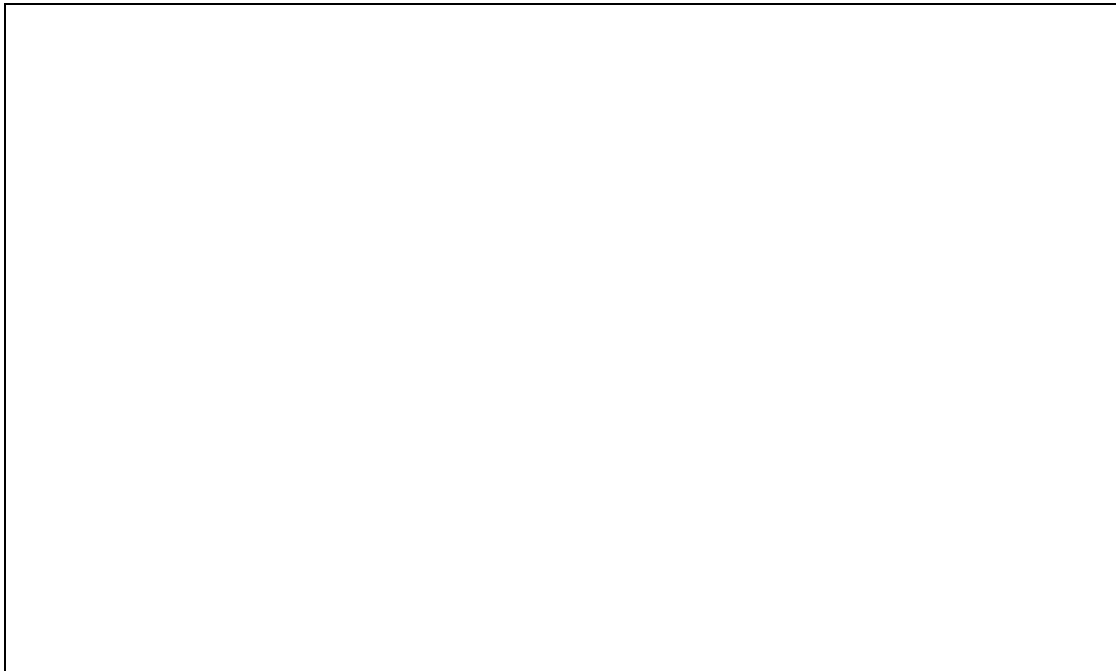
- Water treatment can significantly reduce the number of waterborne micro-organisms and provides an excellent additional barrier to pathogens entering the distribution system;
- Treatment prior to or as an alternative to disinfection may range from simple direct sand filtration to more standard treatments such as the use of aluminium sulphate (more commonly known as alum) followed by sedimentation and filtration. These processes can be very effective in producing water of high microbiological quality;
- Disinfection of water as it enters the reticulation or distribution system is of paramount importance. If the process occurs for an appropriate contact time, it can remove up to 100 per cent of indicator micro-organisms (chlorine and hypochlorite are the most commonly used disinfectants); and
- The effectiveness of the disinfection process is influenced by several factors, including the turbidity of the water, the concentration of the disinfectant, the length of contact time for disinfection and the acidity of the water.

- 3.4.66** The Draft Guidelines further state that *"The ideal disinfectant should:*
- *effectively remove pathogens over a range of physical and chemical conditions;*
  - *produce a disinfectant residual which is stable and easily measured;*
  - *produce no undesirable by-products;*
  - *be easily generated, safe to handle, and suitable for widespread use; and*
  - *be cost-effective."*

*None of the disinfectants currently used meets all of these requirements. Choosing the optimum process often involves a series of compromises, and the choice will be based on the quality of the source water, the origin of the contaminating micro-organisms, the length and complexity of the system and the size of the population served".*

**3.4.67** The Government's working group found that approximately 41 per cent of rural Victorians receive drinking water which has not been fully treated and approximately 19 per cent receive drinking water which has not been disinfected. **These circumstances constitute the primary reasons for the poor quality of drinking water in some parts of Victoria.**

**3.4.68** As mentioned above, aluminium sulphate or alum is commonly used in the treatment of water. Medical researchers in Australia and around the world are attempting to determine if there is any causal relationship between aluminium and detrimental health effects in humans. Aluminium has been identified as a cause of neurological disorders in patients receiving kidney dialysis treatment and as a possible contributor to Alzheimer's disease. This suggestion is the subject of ongoing medical debate worldwide. There is not, at present, a proven link between the presence of aluminium in drinking water and the development of Alzheimer's disease.



*Wurdee Boluc water treatment plant in Geelong.*

**3.4.69** In order to avoid the potential risks to public health arising from inadequate water treatment and disinfection processes, water authorities need to ensure that:

- a consistent approach is adopted to drinking water treatment and disinfection;
- the optimum level of treatment and disinfection is achieved through adequate monitoring of the quality of source water;
- staff responsible for the operation of treatment and disinfection facilities are effectively trained;
- sound repair and maintenance strategies are in place for all associated equipment;
- an appropriate balance is maintained between the various chemicals used in the processes;
- continual evaluations are carried out to provide assurance that the processes reflect best practice; and
- sufficient levels of disinfectant residual are retained in drinking water on release into the distribution system.

**3.4.70** The results of the working party's widened review are expected to assist in the development of qualitative guidelines for water treatment and disinfection for application on a Statewide basis.

*□ RESPONSE provided by General Manager, Water, Melbourne Water Corporation*

*Customer preferences for minimum treatment of water and for disinfectant residual concentrations at or below the threshold of perception must be considered when developing treatment and disinfection strategies.*

#### *Maintenance of distribution systems*

**3.4.71** The distribution system, through which water reaches the consumer's tap, is the final process which impacts on the quality of drinking water.

**3.4.72** Irrespective of the quality of the earlier water management processes, if an authority's distribution system is inadequate, water supplied to consumers is likely to be of poor quality.

**3.4.73** The working group's interim report of August 1994 found that 41 per cent of the rural population of Victoria did not receive fully treated (including filtration and disinfection) water. The report stated that although 59 per cent of the rural population received fully treated water, only 44 per cent of these consumers received water at the tap of satisfactory bacteriological quality. The working group concluded that as most treatment plants produced water which met the guidelines for bacteriological quality at the point of entering the distribution system, the deterioration in water quality appeared to occur within that system.

**3.4.74** The 1994 draft guidelines include the following comments which, in audit opinion, emphasise the need for water authorities to effectively maintain their water distribution systems:

- *"... the structural integrity and cleanliness of water distribution systems must be maintained in order to minimise any decline in water quality after treatment and to prevent external contamination. This can be influenced by:
 
  - plumbing regulations;
  - construction specifications; and
  - maintenance practices.*
- *water distribution systems should be fully enclosed so that re-contamination from open sections cannot occur. This also helps in maintaining a disinfectant residual. There should be effective procedures for mains repair and local disinfection following bursts in the distribution system; and*
- *Corrosion of pipes can affect both public health and the aesthetic quality of water, and does increase the cost of providing safe water. Cadmium and lead, both potentially toxic metals, occur in tap water almost entirely as a result of leaching caused by corrosion. Corrosion in the distribution system can shield bacteria and other micro-organisms from the effects of disinfectant residual, which can then reproduce and cause problems including bad tastes, odours and slimes. Growths of micro-organisms can also cause additional corrosion".*

**3.4.75** It will be important that all water authorities be required to ensure that their maintenance practices for distribution systems are consistent with these guidelines, when finalised.

**3.4.76** In conclusion, audit wishes to acknowledge the professional and co-operative approach followed by the Departments of Conservation and Natural Resources, and Health and Community Services, and the Melbourne Water Corporation during both the planning phase of the initially-intended performance audit review and in the compilation of material for this Report.

**□ RESPONSE** provided by Secretary, Department of Conservation and Natural Resources

*It is noted that your Office has decided not to proceed with a detailed audit at this stage due to a number of reasons including the extensive structural changes which are occurring in the Victorian water industry and the work being carried out at present by this Department (in conjunction with Health and Community Services and Melbourne Water) to determine appropriate and cost-effective standards to be included in future water supply operating licences.*

*As you have noted in your Report enormous costs could be incurred if the Government adopted a single standard for all drinking water supplies throughout Victoria. Our approach is to look carefully at the levels of risk and the cost and benefits of various water quality scenarios before writing relevant standards into individual operating licence conditions. We will be taking into account the latest guidelines from the World Health Organisation (1994) and the draft Australian drinking water guidelines and looking at standards and levels of performance in other countries to ensure that the standards we adopt are appropriate for both our local and national interests.*

*As you are aware it is expected that we will be reporting to the Government later this year with recommendations on a whole range of issues dealing with drinking water quality including appropriate standards and monitoring and reporting arrangements. We will be recommending a strategy for achieving a significant improvement in drinking water quality over the next 5 years. An audit after these measures have been implemented could be useful.*

*Thank you for providing the Working Group on Drinking Water Quality with the information from your preliminary investigations into this important matter. I will arrange for your officers to be consulted during the current studies and to take their views and comments into account when preparing our final recommendations to the Government.*

*It is pleasing to note that significant improvements have already been achieved in the Statewide results for bacteriological quality. This has occurred largely as a result of works which have been carried out in Geelong, Ballarat and Bendigo. The number of non-metropolitan consumers which received water that did not have satisfactory bacteriological quality has now fallen from 68 per cent in 1992-93 to 40 per cent in 1993-94.*

**□ RESPONSE** provided by General Manager - Water, Melbourne Water Corporation

*Melbourne Water concurs with the response provided by the Secretary of the Department of Conservation and Natural Resources. In particular, we believe there would be enormous costs for additional water treatment if Victoria adopted a single standard such as the World Health Organisation Guidelines (1994) or the Draft Australian Drinking Water Guidelines (1994). There is a need to define the real levels of risk associated with the provision of drinking water which I expect will vary widely across the State. Melbourne Water, in partnership with the Department of Conservation and Natural Resources' Working Group on Drinking Water Quality, is currently undertaking a range of projects to develop tools which can be used to quantify risks, costs and benefits.*

## MELBOURNE WATER CORPORATION

### WRITE-OFF OF INFORMATION SYSTEM DEVELOPMENT COSTS

**3.4.77** During 1989, the Melbourne Water Corporation adopted a 5 year Information Technology (IT) Strategic Plan to direct the development of future IT services. At that time, the Corporation had identified a number of shortcomings in the internally delivered IT services, including:

- **absence of an effective overall strategic IT management framework;**
- **application systems more orientated to operational activities than strategic business needs;**
- **lack of accountability and customer service in the delivery of IT services; and**
- **long lead times and high costs of systems development.**

**3.4.78** A major initiative under the plan was the establishment of a separate IT company, Melbourne Information Technology Services Limited (MITS), to maintain existing IT systems and to develop new information systems in accordance with future organisational needs. (The Auditor-General's *Report on Ministerial Portfolios, May 1993* detailed the arrangements for the outsourcing of IT services to MITS).

**3.4.79** One of the major development projects identified in the IT strategic plan was the design, development and implementation of an integrated customer management information system, known as *Customlink*, incorporating customer billing, a customer service system and a customer contract system. It was intended that the system would facilitate access to all customer service-related systems through one application, as opposed to the then existing systems where client information could only be accessed at the relevant regional locations.

## Development of Customlink

**3.4.80** The *Customlink* project was estimated to cost \$42.6 million and commenced in February 1991 with a request for expressions of interest from private sector organisations to develop an appropriate customer billing system. After an evaluation of submissions the Corporation, in October 1992, decided to refine the project requirements and to develop the system internally rather than proceed with an externally-developed system.

**3.4.81** A development plan was established, incorporating major milestones, which anticipated that the system would be fully operational by December 1994. However, in April 1993, 6 months after adoption of the plan, the Corporation realised that the milestones were unattainable and developed a new strategy. The revised strategy represented a fundamental change to the nature and scope of the project.

**3.4.82** Up to March 1994, the *Customlink* project encountered continual delays and constant changes in the direction and focus of the project. As at that date, the Corporation engaged an external consultant to undertake an independent status review of the overall *Customlink* project. The external consultant identified a number of shortcomings in its development, including:

- **There was no direct project management participation by MITS although at that time it provided IT services to Melbourne Water. The role of project manager was performed by a consulting firm although a formal contract had not been entered into. This meant that decisions of a strategic nature were actioned by Melbourne Water on advice from a non-contracted third party;**
- **Melbourne Water did not have sufficiently experienced people to oversee the implementation of the project;**
- **An overall risk management plan, covering such things as costs, completion schedule, performance and technical issues together with strategies for addressing the risks, had not been prepared; and**
- **The project reporting framework did not provide an overall view of progress against projections and, therefore, it was not possible for Melbourne Water to assess the actual position of the project at any point of time.**

**3.4.83** In addition, the consultant's report made a number of recommendations to improve the management of the project.

**3.4.84** While the consultant's report was under consideration by Melbourne Water, the Government announced a major restructure of the Corporation into 5 separate entities. At that time, no physical asset in the form of developed software had been produced. **Subsequently, Melbourne Water decided that *Customlink* would not meet the future operational needs of the entities and the Board determined to write-off the total expenditure to date of \$17.5 million.**

□ *REPOSE* provided by Managing Director, Melbourne Water Corporation

*Melbourne Water notes the Report and does not have any further comments to add.*

**RURAL WATER CORPORATION****WRITE-DOWN OF WATER MANAGEMENT SYSTEM DEVELOPMENT COSTS**

**3.4.85** In September 1990, the Rural Water Corporation's predecessor, the Rural Water Commission of Victoria, released an Information Technology Strategic Plan which provided future direction in the development and use of integrated computer and telecommunication systems to assist the former Commission in achieving its strategic objectives.

**3.4.86** A major focus of the Plan was the in-house development of a computerised Water Management System (WMS) designed to integrate the planning, operating and infrastructure management functions for the Victorian rural water system which operated through the Corporation's head office and 5 regional offices. The planned budget for the project was \$16 million over a 5 year period.

**3.4.87** The Plan envisaged that WMS would undertake a wide range of activities, including:

- remote surveillance and control of management sites;
- data capture from operational sites;
- seasonal planning models; and
- capacity planning.

**3.4.88** The expected benefits of implementing WMS were considered to be:

- increased productivity savings resulting from increased automation;
- management and accounting for water flow and quality;
- scheduling and forecasting of water supply and demand;
- increased water savings from improved distribution efficiency;
- improved customer service resulting from improved planning; and
- greater ability to address water quality and environmental concerns resulting from more comprehensive and timely information.

**3.4.89** Development of WMS commenced in 1991 and continued during a period of extensive government reforms including the disaggregation of the Rural Water Corporation into 5 autonomous regional water authorities on 1 July 1994 with the Corporation to be dissolved on 30 June 1995. The areas serviced by the regional water authorities is essentially the same as that covered by the Corporation's regional offices.

**3.4.90** **Prior to disaggregation, WMS assets were valued at \$4.6 million by the Corporation.**

**3.4.91** Following the Government's announcement of the restructure of the Corporation, the Board considered that certain WMS assets would not provide any future commercial return and determined to write-down net assets by \$2 million. This write-down was disclosed as an abnormal item of expenditure in the Corporation's 1993-94 financial statements.

**3.4.92** In November 1994, a review of the future of the WMS project was undertaken by the Corporation. The review noted inter-alia that information needs of the regional water authorities were not in line with those originally established by the Corporation and that the rural authorities did not necessarily wish to adopt the standards, integrated technology and common support strategies inherent in the project. In addition, a report by an independent consultant in January 1995 stated that the rural water authorities expressed a low confidence level in the WMS project due to perceptions of too many system failures, cost overruns and delivery targets not being achieved.

**3.4.93** It is audit's view that the lack of effective communication between the Corporation's former regional offices, the rural authorities and the Corporation over expected outcomes of the WMS project, together with changing needs resulting from the water reform process hindered the delivery of suitable systems for the rural water sector and contributed to the write-down of the WMS assets.

**□ RESPONSE** provided by General Manager, Corporate Office, Rural Water Corporation

*The Corporation agrees with the general thrust of the audit report's comments on the Water Management System, particularly with regard to the view that the lack of effective communication and the changing needs resulting from the water reform process hindered the development of suitable systems. Notwithstanding, the Corporation is concluding the sale of the Irrigation Planning Management System to the Rural Water Authorities.*

*In addition, it should also be noted that, effective from 29 April 1995, the Corporation's equity in and ownership of other Water Management System assets were assigned and transferred to Goulburn Murray Rural Water Authority pursuant to an Order made by the Minister for Natural Resources under the Water Act 1989. This assignment and transfer of ownership will facilitate the continuation of the project, as required by the Rural Water Authorities with respect to other components of the Water Management System, which the Corporation believes have considerable future value.*



**SCHEDULE A  
STATUS OF MATTERS RAISED IN PREVIOUS REPORTS**

| <i>Report</i> | <i>Subject</i> | <i>Status at date of preparation of this Report</i> |
|---------------|----------------|---|
|---------------|----------------|---|

**MATTERS RESOLVED OR ACTION COMMENCED**

**DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES**

|   |   |  |
|---|---|--|
| <p><i>Second Reports, 1985-86 and 1986-87. Ministerial Portfolios, May 1989, pp. 45-6. May 1990, pp. 68-70.</i></p> | <p>Deficiencies in the debtors/revenue collection system. Potential interest forgone.</p> | <p>The Department has instituted legal proceedings against long outstanding debtors, and has assigned an officer to follow-up outstanding debts.</p> |
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**ENVIRONMENT PROTECTION AUTHORITY**

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| <p><i>Ministerial Portfolios, April 1991, pp. 59-60.</i></p> | <p>The Authority needs to extend its role into the areas of environment protection and pollution prevention to more adequately fulfil its role.</p> | <p>Self-monitoring by industry is complemented by EPA enforcement action.</p> |
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**MELBOURNE WATER CORPORATION**

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|---|--|---|
| <p><i>Ministerial Portfolios, May 1993, pp. 90-1.</i></p> | <p>The delay and subsequent breakdown in negotiations on the joint venture relating to the Braeside Park project resulted in substantial costs to the Corporation and a delay in disposal of the property.</p> | <p>The Corporation is currently in the process of subdividing the property (now known as Woodlands Industrial Estate) which will be sold in 5 or 6 stages. Stage 1 is complete and all lots sold. The Corporation's Board has recently approved the development of stage 2.</p> |
|---|--|---|

**ROYAL BOTANIC GARDENS BOARD**

|   |  |  |
|---|--|--|
| <p><i>Ministerial Portfolios, May 1994, pp. 136-46.</i></p> | <p>The Board needs to further develop strategic planning processes and establish performance measures as a means of managing and monitoring activities.</p> <p>Agreement with the Government is required on the future level of funding to be provided to the Board.</p> <p>Action is required to ensure adequate registration and storage of the National Herbarium collection.</p> | <p>A Site Master Plan has been completed for Cranbourne. The plan for South Yarra is expected to be completed in 1996. The performance of each of the Board's operational divisions is assessed annually against specific targets.</p> <p>While there has been no agreement yet reached, funding will be addressed in the Board's business plan covering the period 1996 to 2000.</p> <p>Plans developed to address backlog in registration. Capital funding requirements will be included in the Board's Business Plan.</p> |
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**VICTORIAN INSTITUTE OF MARINE SCIENCES**

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|--|---|---|
| <p><i>Ministerial Portfolios, May 1994, pp. 149-150.</i></p> | <p>Restructuring of the Institute's Council and organisational framework is required to ensure effective control over operations and appropriate accountability to the Department, Minister and Parliament.</p> | <p>Amended legislation provides for accountability framework.</p> |
|--|---|---|

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - continued**

| <i>Report</i> | <i>Subject</i> | <i>Status at date of preparation of this Report</i> |
|---------------|----------------|---|
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**MATTERS RESOLVED OR ACTION COMMENCED - continued**

**VICTORIAN INSTITUTE OF MARINE SCIENCES - continued**

|  |  |  |
|--|--|--|
| <i>Ministerial Portfolios, May 1994, pp 151-3.</i> | To ensure the future financial viability of the Institute, action is required to implement effective management and financial policies, practices and information systems. | While new project and financial management systems have been implemented, administration and accounting policies have not been documented. |
|--|--|--|

**NO ACTION TAKEN**

**ALPINE RESORTS COMMISSION**

|  |  |                     |
|--|--|---------------------|
| <i>Ministerial Portfolios, April 1991, p. 408.</i> | There was an absence of appropriate performance measures which provide assurance to the Government that the Commission is meeting the aims of the Tourism strategy and fulfilling its role and objectives under its legislation. | Position unchanged. |
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**MELBOURNE WATER CORPORATION**

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|---|--|---------------------|
| <i>Second Report, 1986-87, pp. 164-5. Ministerial Portfolios, May 1990, p. 343. May 1992, p. 432.</i> | The enabling legislation does not confer on the Corporation the authority to levy interest on arrears of rates and charges. In contrast, the legislation of other major rating bodies provides for the levying of interest on overdue amounts. | Position unchanged. |
|---|--|---------------------|

**VICTORIAN INSTITUTE OF MARINE SCIENCES**

|   |   |                                |
|---|---|--------------------------------|
| <i>Ministerial Portfolios, May 1994, pp. 154-5.</i> | Annual action plans, incorporating performance measures, should be developed and implemented as a means of supporting the Institute's strategic direction plan. | Plans have not been developed. |
|---|---|--------------------------------|

**SCHEDULE B**  
**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> |
|--|-----------------------------|---|--|--|
| <b>COMPLETED AUDITS</b>                          |                             |   |  |  |
| Department of Conservation and Natural Resources | 30 June 1994                | 31 Oct. <i>Annual Reporting Act 1983, s.8.</i>  | 27 Oct. 1994                                 | 31 Oct. 1994                           |
| <b>CONSERVATION AND ENVIRONMENT</b>              |                             |   |  |  |
| Environment Protection Authority                 | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>   | 29 Aug. 1994                                 | 29 Sept. 1994                          |
| Olympic Park Management                          | 30 June 1994                | No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.            | 29 Sept. 1994                                | 14 Dec. 1994                           |
| Penguin Reserve Committee of Management          | 30 June 1993                | No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.            | 29 April 1994                                | 23 Dec. 1994 (a)                       |
| Penguin Reserve Committee of Management          | 30 June 1994                | " "   | 16 Dec. 1994                                 | 23 Dec. 1994 (a)                       |
| Port Bellarine Committee of Management           | 30 Sept. 1992               | No reporting requirements. <i>Port Bellarine Tourist Reserve Act 1981, s.21</i> , provides for the audit of the accounts. | 1 July 1994                                  | 28 Oct. 1994                           |
| Port Bellarine Committee of Management           | 30 Sept. 1993               | " "   | 1 July 1994                                  | 28 Oct. 1994                           |
| Recycling and Resource Recovery Council          | 30 June 1994                | 30 Sept. <i>Environment Protection (Resource Recovery) Act 1992, s.49</i> provides for audit of the accounts.             | 30 Sept. 1994                                | 30 Sept. 1994                          |
| Royal Botanic Gardens Board                      | 30 June 1994                | 30 Sept. <i>Royal Botanic Gardens Act 1991, s.37</i> provides for audit of the accounts.                                  | 14 Nov. 1994                                 | 15 Nov. 1994                           |
| Shrine of Remembrance Trustees                   | 30 June 1993                | No reporting requirements. Audit conducted at request of the Treasurer.   | 7 July 1994                                  | 8 July 1994                            |
| State Swimming Centre Committee of Management    | 30 June 1993                | No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.            | 28 April 1994                                | 3 June 1994 (a)                        |
| Victorian Conservation Trust                     | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>   | 2 Aug. 1994                                  | 30 Sept. 1994 (a)                      |
| Victorian Institute of Marine Sciences           | 31 Dec. 1992                | 31 March. <i>Victorian Institute of Marine Sciences Act 1974, s.26.</i>   | 8 March 1994                                 | 20 Jan. 1994 (a)                       |

**SCHEDULE B**  
**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> |
|--|-----------------------------|---|--|--|
| <b>COMPLETED AUDITS - continued</b>                        |                             |   |  |  |
| Victorian Institute of Marine Sciences                     | 31 Dec. 1993                | 31 March. <i>Victorian Institute of Marine Sciences Act 1974, s.26.</i> | 31 Jan. 1995                                 | 3 March 1995 (a)                       |
| Yarra Bend Park Trust                                      | 30 June 1994                | 31 Oct. <i>Kew and Heidelberg Lands Act 1933, s.15.</i>                 | 28 Oct. 1994                                 | 3 Feb 1995                             |
| Zoological Board of Victoria                               | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                         | 2 Sept. 1994                                 | 6 Sept. 1994                           |
| Zoological Board of Victoria Superannuation Fund           | 30 June 1993                | No reporting requirements. Audit conducted at request of Treasurer.     | 15 June 1994                                 | 30 June 1994                           |
| <b>NATURAL RESOURCES</b>                                   |                             |   |  |  |
| Alpine Resorts Commission                                  | 31 Oct. 1994                | 31 Jan. <i>Annual Reporting Act 1983, s.9.</i>                          | 29 Dec. 1994                                 | 30 Dec 1994                            |
| Melbourne Water Corporation                                | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                         | 16 Aug. 1994                                 | 16 Aug. 1994                           |
| Melbourne Water Corporation Employees' Superannuation Fund | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                         | 29 Aug. 1994                                 | 29 Aug. 1994                           |
| Rural Water Corporation                                    | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                         | 15 Sept. 1994                                | 30 Sept. 1994 (a)                      |
| Victorian Plantations Corporation                          | 30 June 1994                | 30 June. <i>State Owned Enterprises Act 1992, s.58.</i>                 | 29 Sept. 1994                                | 30 Sept. 1994                          |
| Water Training Centre                                      | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                         | 30 Sept. 1994                                | 10 Oct. 1994 (a)                       |

**SCHEDULE B**  
**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> |
|--|---|---|--|--|
| <b>INCOMPLETE AUDITS</b>                                   |   |   |  |  |
| <b>CONSERVATION AND ENVIRONMENT</b>                        |   |   |  |  |
| Bundoora Park Committee of Management                      | 30 June 1994                                | 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.    |  |
| Mount Macedon Memorial Cross Committee of Management       | 31 Dec. 1992, 31 Dec. 1993 and 31 Dec. 1994 | No reporting requirements. Audit conducted at request of Treasurer.   | Financial statements not yet received from Committee.    |  |
| Port Bellarine Committee of Management                     | 30 Sept. 1994                               | No reporting requirements. <i>Port Bellarine Tourist Reserve Act 1981, s.21</i> provides for the audit of the accounts. | Financial statements not yet received from Committee.    |  |
| Shrine of Remembrance Trustees                             | 30 June 1994                                | No reporting requirements. Audit conducted at request of the Treasurer.   | Financial statements not yet received from the Trustees. |  |
| State Swimming Centre Committee of Management              | 30 June 1994                                | 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.    |  |
| Zoological Board of Victoria Superannuation Fund           | 30 June 1994                                | No reporting requirements. Audit conducted at request of Treasurer.   | Audit substantially completed.                           |  |
| <b>NATURAL RESOURCES</b>                                   |   |   |  |  |
| Victorian Institute of Marine Sciences                     | 31 Dec. 1994                                | 31 March. <i>Victorian Institute of Marine Sciences Act 1974, s.26.</i>   | Financial statements not yet received.                   |  |
| Victorian Institute of Marine Sciences Superannuation Fund | 30 June 1989 and 30 June 1990               | No reporting requirements. Audit conducted at request of Treasurer.   | Audits substantially completed.                          |  |

(a) Qualified audit report issued.

# Part 3.5

## Education

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**3.5.1** Two Ministers, namely the Minister for Education and the Minister for Tertiary Education and Training have responsibility for operations within the Education sector. These Ministers have collective responsibility for the Department of Education.

**3.5.2** Details of the specific ministerial responsibilities for public bodies within the Education sector are listed in Table 3.5A. These public bodies, together with the Department of Education, were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.5A  
MINISTERIAL RESPONSIBILITIES FOR  
PUBLIC BODIES WITHIN THE EDUCATION SECTOR**

| <i>Ministerial portfolio</i>           | <i>Entities subject to audit</i>  |
|--|---|
| <b>Education</b>                       | Board of Studies<br>Telematics Course Development Fund Trust<br>Victorian Tertiary Admissions Centre  |
| <b>Tertiary Education and Training</b> | Adult, Community and Further Education Board<br>Council of Adult Education<br>State Training Board<br>Post-secondary education institutions -<br>8 universities and 38 associated companies, trusts<br>and foundations<br>25 colleges of technical and further education<br>Sir John Monash Business Centre Pty Ltd |

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

## DEPARTMENT OF EDUCATION

### REVIEW OF SCHOOL REORGANISATION

**3.5.4** In September 1994, audit commenced a review of the State school reorganisation implemented by the Directorate of School Education in May 1993. The review will examine the processes put in place by the Directorate to effect school reorganisations and the extent to which the expected results and goals for improving the quality of educational opportunities for students has been achieved. The results of the review are expected to be presented in a Special Report to the Parliament planned for tabling in the 1995 Spring session.



## LOSSES, THEFTS AND IRREGULARITIES

**3.5.5** Major incidences of property losses caused by fires at school locations were reported to audit during 1994. Details of these losses are detailed in Table 3.5B.

**TABLE 3.5B**  
**PROPERTY LOSSES CAUSED BY FIRE DURING 1994**

| <i>Location</i>                 | <i>Value</i> | <i>Nature of losses</i>  |
|---------------------------------|--------------|--|
| Beaumaris Primary School        | \$1 650 000  | Fire, apparently due to a faulty power point, caused total destruction to administrative block and 4 classrooms. |
| Sale Secondary College          | \$700 000    | Deliberately lit fire destroyed administration building and contents.  |
| Traralgon Primary School        | \$335 000    | Fire, deliberately lit, destroyed several classrooms.  |
| Fawkner School Support Centre   | \$200 000    | Fire, deliberately lit, severely damaged a relocatable building.   |
| Valkstone Primary School        | \$155 000    | Fire, apparently deliberately lit, destroyed a building in the final stages of construction.                     |
| Preston Girls Secondary College | \$100 000    | Fire, apparently deliberately lit, destroyed and damaged several portable classrooms.                            |
| Upfield Secondary College       | \$90 000     | Fire, apparently deliberately lit, destroyed 2 portable classrooms.  |
| Kealba Secondary College        | \$90 000     | Appears a faulty heater caused a number of portable rooms to be destroyed by fire.                               |
| Mountain Gate Primary School    | \$65 000     | Fire, apparently deliberately lit, destroyed a portable classroom.   |
| St Kilda Primary School         | \$42 000     | Deliberately lit fire caused extensive damage to school hall.  |
| Sunshine Secondary College      | \$25 000     | Fire, apparently deliberately lit, caused minor damage to general office and Principal's office.                 |
| Werribee Secondary College      | \$24 500     | Fire, apparently deliberately lit, destroyed school storage shed and contents.                                   |

**3.5.6** During the period 1 January 1994 to 31 December 1994 a significant number of other losses, thefts and irregularities occurred and were reported to audit by the Directorate of School Education. These losses, thefts and irregularities totalled \$1 480 000.

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS**

| <i>Report</i>                                       | <i>Subject</i>   | <i>Status at date of preparation of this Report</i>  |
|---|--|--|
| <b>MATTERS RESOLVED OR ACTION COMMENCED</b>         |  |  |
| <i>Ministerial Portfolios, May 1994, pp. 167-8.</i> | Lack of accountability and strategic management focus has contributed to the ineffective and inefficient use of resources in the provision of personnel and payroll services.  | The introduction of the Schools of the Future (SOF) program has meant that schools can now access centrally stored personnel data. Facilities are now available electronically to SOF's to make personnel data more readily available. Under the SOF program schools are more accountable for ensuring complete, comprehensive and accurate data is maintained.                                |
| <i>Ministerial Portfolios, May 1994, pp. 168-9.</i> | Principals must ensure that all changes affecting teachers' entitlements are promptly notified to Directorate administrative staff so that the occurrence of overpayments is minimised.  | The SOF program has transferred full responsibility for maintaining employee entitlement records to schools. By July 1995 all schools will be on the SOF program and therefore responsible for maintaining all employee entitlements records.  |
| <i>Ministerial Portfolios, May 1994, pp. 170.</i>   | The Directorate's past practice of utilising the temporary payroll system for a large volume of transactions is not efficient or effective and represents a high risk to management.   | All temporary Payroll payments are to be certified as accurate and the entitlement to payment verified by a senior officer before payment is processed. Manual payments are only processed if authorised by the General Manager of Finance & Administration, and the General Manager of People Services. This process will be continued until the new personnel/payroll system is operational. |
| <i>Ministerial Portfolios, May 1994, pp. 170-1.</i> | Duplicate and often inconsistent information has been produced as a result of the Directorate operating two personnel systems that are not fully integrated and do not share a common database. Maintaining 2 duplicate service history and salary databases is uneconomic, and leads to confusion, inaccuracies and inefficiencies. | The Directorate has written programs to validate, cross-check and identify employees with possible data discrepancies. A number of staff have also been appointed to review the accuracy of payroll data.  |
| <i>Ministerial Portfolios, May 1994, pp. 170-1.</i> | With the proposed move to the new payroll/personnel computing environment the integrity of the database be established and maintained both before and after conversion.  | Refer to above comments.   |
| <i>Ministerial Portfolios, May 1994, pp. 171-4.</i> | The challenge associated with the introduction of a new personnel/payroll system requires strong leadership and involvement by executive management.   | A steering committee has been established in order to monitor the introduction of the new personnel/payroll system. Included on the steering committee are the General Manager of Finance & Administration and the General Manager of People Services and senior officers from the Office of the Secretary.  |

**SCHEDULE B  
COMPLETED/INCOMPLETE AUDITS**

| <i>Entity</i>                                   | <i>Financial<br/>year<br/>ended</i> | <i>Reporting to Parliament</i>  | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|-------------------------------------|---|--|---|
| <b>COMPLETED AUDITS</b>                         |                                     |   |  |   |
| Department of Education                         | 30 June<br>1995                     | 31 Oct. <i>Annual Reporting<br/>Act 1983, s.8.</i>                            | 6 Oct.<br>1995   | 6 Oct.<br>1995                                      |
| <b>EDUCATION</b>                                |                                     |   |  |   |
| Board of Studies                                | 30 June<br>1995                     | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.9.</i>                           | 18 Sept.<br>1995   | 29 Sept.<br>1995                                    |
| Telematics Course<br>Development Fund Trust     | 31 Dec.<br>1993                     | No reporting requirements.<br>Audit conducted at request<br>of the Treasurer. | 10 May<br>1994   | 10 Nov.<br>1994                                     |
| Victorian Tertiary<br>Admissions Centre         | 30 June<br>1994                     | No reporting requirements.<br>Audit conducted at request<br>of Treasurer.     | 24 Feb.<br>1995  | 25 Feb.<br>1995                                     |
| Victorian Education<br>Foundation               | 30 June<br>1995                     |   | 19 Sept<br>1995  | 9 Oct<br>1995                                       |
| Victorian Education<br>Foundation Pty. Ltd.     | 30 June<br>1995                     |   | 19 Sept<br>1995  | 9 Oct<br>1995                                       |
| <b>TERTIARY EDUCATION AND TRAINING</b>          |                                     |   |  |   |
| Adult, Community and<br>Further Education Board | 30 June<br>1995                     | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.9.</i>                           | 25 Sept.<br>1995   | 29 Sept.<br>1995                                    |
| Council of Adult Education                      | 31 Dec.<br>1994                     | 31 Mar. <i>Annual Reporting<br/>Act 1983, s.9.</i>                            | 8 Mar.<br>1995   | 16 Mar.<br>1995                                     |
| Sir John Monash Business<br>Centre Pty Ltd      | 31 Dec.<br>1994                     | No reporting requirements.<br>Audit conducted at request<br>of the Treasurer. | 30 Mar.<br>1995  | 6 April<br>1995                                     |
| <b>Post-secondary education institutions</b>    |                                     |   |  |   |
| <i>Universities and associated companies</i>    |                                     |   |  |   |
| State Training Board                            | 30 June<br>1995                     | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.9.</i>                           | 19 Sept.<br>1995   | 28 Sept.<br>1995                                    |
| Australian Music<br>Examination Board (Vic) Ltd | 31 Dec.<br>1994                     | 30 April. <i>Melbourne<br/>University Act 1958, s.41.</i>                     | 22 Feb.<br>1995  | 13 Mar.<br>1995                                     |
| University of Ballarat                          | 31 Dec.<br>1994                     | 30 April. <i>Annual Reporting<br/>Act 1983, s.9.</i>                          | 5 April<br>1995  | 10 April<br>1995                                    |
| Citytech Pty Ltd                                | 31 Dec.<br>1994                     | " "   | 21 April<br>1995   | 23 April<br>1995                                    |
| Deakin University                               | 31 Dec.<br>1994                     | " "   | 23 Mar.<br>1995  | 3 April<br>1995                                     |
| Deakin University<br>Foundation Ltd             | 31 Dec.<br>1994                     | 30 April. <i>Deakin University<br/>Act 1974, s.34A.</i>                       | 10 Mar.<br>1995  | 3 April<br>1995                                     |
| Deakin University<br>Foundation Trust           | 31 Dec.<br>1994                     | " "   | 10 Mar.<br>1995  | 3 April<br>1995                                     |

|  |                 |  |                 |                 |
|--|-----------------|--|-----------------|-----------------|
| Hawthorn Institute of<br>Education Ltd | 31 Dec.<br>1994 | 30 April. <i>Annual Reporting<br/>Act 1983, s.9.</i> | 4 April<br>1995 | 4 April<br>1995 |
|--|-----------------|--|-----------------|-----------------|

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>  | <i>Financial<br/>year<br/>ended</i> | <i>Reporting to Parliament</i>  | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|--|-------------------------------------|---|--|---|
| <b>COMPLETED AUDITS - continued</b>                              |                                     |   |  |   |
| <b>Post-secondary education institutions - continued</b>         |                                     |   |  |   |
| <i>Universities and associated companies - continued</i>         |                                     |   |  |   |
| Institute for Innovation and Enterprise Ltd                      | 31 Dec. 1994                        | 30 April. <i>Swinburne University of Technology Act 1992, s.44.</i>     | 23 Feb. 1995   | 6 April 1995  |
| La Trobe   | 31 Dec. 1994                        | 30 April. <i>Annual Reporting Act 1983, s.9.</i>                        | 27 April 1995  | 1 May 1995  |
| La Trobe University Housing Ltd                                  | 31 Dec. 1994                        | 30 April. <i>La Trobe University Act 1971, s.37.</i>                    | 17 Feb. 1995   | 28 Feb. 1995  |
| Melbourne University   | 31 Dec. 1994                        | 30 April <i>Annual Reporting Act 1983 s.37.</i>                         | 29 Mar. 1995   | 4 April 1995  |
| Melbourne Business School Ltd                                    | 31 Dec. 1994                        | 30 April. <i>Melbourne University Act 1958, s.41.</i>                   | 8 Feb. 1995  | 13 Mar. 1995  |
| Meltech Services Pty Ltd   | 31 Dec. 1994                        | 30 April <i>Royal Melbourne Institute of Technology Act 1992, s.39.</i> | 6 April 1995   | 21 April 1995                                       |
| Milake Pty Ltd   | 31 Dec. 1994                        | 30 April. <i>Deakin University Act 1974, s.34A.</i>                     | 10 Mar. 1995   | 3 April 1995  |
| Monash University  | 31 Dec. 1994                        | 30 April. <i>Annual Reporting Act 1983, s.9.</i>                        | 3 April 1995   | 4 April 1995  |
| Monash - ANZ Centre of International Briefing Pty Ltd            | 31 Dec. 1994                        | 30 April. <i>Monash University Act 1958, s.35B.</i>                     | 23 Feb. 1995   | 27 Mar. 1995  |
| Monash International Pty Ltd                                     | 31 Dec. 1994                        | " "   | 8 Mar. 1995  | 10 Mar. 1995  |
| Monash IVF Pathology Services Trust                              | 31 Dec. 1994                        | " "   | 23 Feb. 1995   | 27 Mar. 1995  |
| Monash IVF Pathology Services Pty Ltd                            | 31 Dec. 1994                        | " "   | 23 Feb. 1995   | 27 Mar. 1995  |
| Monash IVF Pty Ltd   | 31 Dec. 1994                        | " "   | 27 Feb. 1995   | 27 Mar. 1995  |
| Monash Merchandising Unit Trust                                  | 31 Dec. 1994                        | " "   | 20 Feb. 1995   | 3 April 1995  |
| Monash Merchandising Company Pty Ltd                             | 31 Dec. 1994                        | " "   | 20 Feb. 1995   | 3 April 1994  |
| Monash - Mt Eliza Graduate School of Business and Government Ltd | 31 Dec. 1994                        | " "   | 14 Mar. 1995   | 3 April 1995  |
| Monash Ultrasound Trust  | 31 Dec. 1994                        | " "   | 23 Feb. 1995   | 27 Mar. 1995  |
| Monash Ultrasound Pty Ltd  | 31 Dec. 1994                        | " "   | 23 Feb. 1995   | 27 Mar. 1995  |

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>  | <i>Financial<br/>year<br/>ended</i> | <i>Reporting to Parliament</i>   | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|--|-------------------------------------|--|--|---|
| <b>COMPLETED AUDITS - continued</b>                      |                                     |  |  |   |
| <b>Post-secondary education institutions - continued</b> |                                     |  |  |   |
| <i>Universities and associated companies - continued</i> |                                     |  |  |   |
| Monash University Foundation                             | 31 Dec. 1994                        | 30 April. <i>Monash University Act 1958, s.35B.</i>                      | 30 Mar. 1995   | 3 April 1995  |
| Montech Pty Ltd  | 31 Dec. 1994                        | " "  | 22 Feb. 1995   | 10 Mar. 1995  |
| Mycell International Pty Ltd                             | 31 Dec. 1994                        | 30 April <i>Latrobe University Act 1964, s.37A</i>                       | 17 Feb. 1995   | 28 Feb. 1995  |
| Neurometric Systems Pty Ltd                              | 31 Dec. 1994                        | 30 April. <i>Swinburne University of Technology Act 1992, s.44.</i>      | 15 Feb. 1995   | 6 April 1995  |
| Opening Learning Agency of Australia Pty Ltd             | 31 Dec. 1994                        | 30 April. <i>Monash University Act 1958, s.35B.</i>                      | 10 Mar. 1995   | 3 April 1995  |
| Pelletray Pty Ltd  | 31 Dec. 1994                        | " "  | 15 Feb. 1995   | 3 April 1995  |
| Qualitive Solutions and Research Ltd                     | 31 Dec. 1994                        | 30 April. <i>Latrobe University Act 1964, s.37A.</i>                     | 12 April 1995  | 27 April 1995                                       |
| RMIT   | 31 Dec. 1994                        | 30 April. <i>Annual Reporting Act 1983, s.9.</i>                         | 12 April 1995  | 26 April 1995                                       |
| RMIT Foundation  | 31 Dec. 1994                        | 30 April. <i>Royal Melbourne Institute of Technology Act 1992, s.39.</i> | 20 April 1995  | 23 April 1995                                       |
| RMIT Ltd   | 31 Dec. 1994                        | 30 April. <i>Annual Reporting Act 1983, s.9.</i>                         | 21 April 1995  | 23 April 1995                                       |
| RMIT Union   | 31 Dec. 1994                        | " "  | 7 April 1995   | 21 April 1995                                       |
| Swinburne Ltd  | 31 Dec. 1994                        | " "  | 21 Mar. 1995   | 6 April 1995  |
| Swinburne University of Technology                       | 31 Dec. 1994                        | " "  | 21 Mar. 1995   | 6 April 1995  |
| Technisearch Ltd   | 31 Dec. 1994                        | " "  | 7 April 1995   | 26 April 1995                                       |
| Unilink  | 31 Dec. 1994                        | 30 April. <i>Deakin University Act 1974, s.34A.</i>                      | 14 Mar. 1995   | 3 April 1995  |
| Unimelb Ltd  | 31 Dec. 1994                        | 30 April. <i>Melbourne University Act 1958, s.41.</i>                    | 24 Mar. 1995   | 24 Mar. 1995  |
| Victoria University of Technology                        | 31 Dec. 1994                        | 30 April. <i>Annual Reporting Act 1983, s.9.</i>                         | 21 Mar. 1995   | 2 May 1995  |

**SCHEDULE B**  
**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> |
|---|-----------------------------|---|--|--|
| <b>COMPLETED AUDITS - continued</b>                           |                             |   |  |  |
| <b>Post-secondary education institutions - continued</b>      |                             |   |  |  |
| <i>Universities and associated companies - continued</i>      |                             |   |  |  |
| Victoria University of Technology Foundation Ltd              | 31 Dec. 1994                | 30 April. <i>Victoria University of Technology Act 1990, s.42.</i>      | 28 April 1995                                | 1 May 1995                             |
| Victorian College of Agriculture and Horticulture Ltd         | 31 Dec. 1994                | 30 April. <i>Annual Reporting Act 1983, s.9.</i>                        | 28 Mar. 1995                                 | 3 April 1995                           |
| Victorian College of the Arts                                 | 31 Dec. 1994                | " "   | 2 Mar. 1995                                  | 21 Mar. 1995                           |
| Western Melbourne Business Developments Pty Ltd               | 31 Dec 1994                 | 30 April. <i>Victoria University of Technology Act 1990, s.42.</i>      | 28 April 1995                                | 1 May 1995                             |
| <b>Institutes/Colleges of Technical and Further Education</b> |                             |   |  |  |
| Box Hill  | 31 Dec. 1994                | 30 April. <i>Annual Reporting Act 1983, s.9.</i>                        | 31 Mar. 1995                                 | 21 April 1995                          |
| Kangan(b)   | 31 Dec. 1994                | " "   | 10 April 1995                                | 13 April 1995                          |
| Central Gippsland   | 31 Dec. 1994                | " "   | 17 Mar. 1995                                 | 10 April 1995                          |
| Casey (a)   | 31 Dec. 1994                | " "   | 4 April 1995                                 | 18 April 1995                          |
| East Gippsland  | 31 Dec. 1994                | " "   | 28 Feb. 1995                                 | 10 April 1995                          |
| Peninsula Institute (c)                                       | 31 Dec. 1994                | " "   | 27 Feb. 1995                                 | 6 April 1995                           |
| Gordon Institute  | 31 Dec. 1994                | " "   | 23 Mar. 1995                                 | 9 April 1995                           |
| Goulburn Valley   | 31 Dec. 1994                | " "   | 10 Mar. 1995                                 | 29 Mar. 1995                           |
| Goulburn Valley Driver Training Complex Ltd                   | 31 Dec. 1994                | No reporting requirements. Audit conducted at request of the Treasurer. | 27 Feb. 1995                                 | 4 April 1995                           |
| Holmesglen  | 31 Dec. 1994                | 30 April. <i>Annual Reporting Act 1983, s.9.</i>                        | 6 April 1995                                 | 10 April 1995                          |
| John Batman   | 31 Dec. 1994                | " "   | 23 Mar. 1995                                 | 29 Mar. 1995                           |
| Loddon-Campaspe   | 31 Dec. 1994                | " "   | 16 Mar. 1995                                 | 4 April 1995                           |
| Melbourne College of Printing and Graphic Arts                | 31 Dec. 1994                | " "   | 5 April 1995                                 | 18 April 1995                          |

|                                  |                 |   |   |                 |                 |
|----------------------------------|-----------------|---|---|-----------------|-----------------|
| Melbourne College of<br>Textiles | 31 Dec.<br>1994 | " | " | 27 Mar.<br>1995 | 30 Mar.<br>1995 |
|----------------------------------|-----------------|---|---|-----------------|-----------------|



**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>  | <i>Financial<br/>year<br/>ended</i>  | <i>Reporting to Parliament</i>   | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|--|--------------------------------------|--|--|---|
| <b>COMPLETED AUDITS - continued</b>                      |                                      |  |  |   |
| <b>Post-secondary education institutions - continued</b> |                                      |  |  |   |
| <i>Universities and associated companies - continued</i> |                                      |  |  |   |
| Barton (d)   | 31 Dec.<br>1994                      | 30 April. <i>Annual Reporting<br/>Act 1983, s.9.</i>                         | 22 Mar.<br>1995  | 5 April<br>1995                                     |
| Northern Metropolitan                                    | 31 Dec.<br>1994                      | " "  | 15 Mar.<br>1995  | 6 April<br>1995                                     |
| Outer Eastern  | 31 Dec.<br>1994                      | " "  | 3 Mar.<br>1995   | 21 Mar.<br>1995                                     |
| School of Mines and<br>Industries Ballarat Ltd           | 31 Dec.<br>1994                      | " "  | 22 Feb.<br>1995  | 27 Feb.<br>1995                                     |
| South West   | 31 Dec.<br>1994                      | " "  | 29 Mar.<br>1995  | 5 April<br>1995                                     |
| Sunraysia  | 31 Dec.<br>1994                      | " "  | 23 Mar.<br>1995  | 3 April<br>1995                                     |
| Wangaratta   | 31 Dec.<br>1994                      | " "  | 28 Feb.<br>1995  | 11 April<br>1995                                    |
| Western Metropolitan                                     | 31 Dec.<br>1994                      | " "  | 10 April<br>1995   | 18 April<br>1995                                    |
| William Angliss  | 31 Dec.<br>1994                      | " "  | 28 Mar.<br>1995  | 3 April<br>1995                                     |
| Wimmera Community  | 31 Dec.<br>1994                      | " "  | 20 April<br>1995   | 24 April<br>1995                                    |
| Wodonga  | 31 Dec.<br>1994                      | " "  | 6 Mar.<br>1995   | 4 April<br>1995                                     |
| <b>INCOMPLETE AUDITS</b>                                 |                                      |  |  |   |
| Institute of Educational<br>Administration               | 5 months<br>ended<br>30 Nov.<br>1993 | 30 April. <i>Annual Reporting<br/>Act 1983, s.9.</i>                         | 30 May - 1 Aug.<br>1995 1995                             |   |
| Telematics Course<br>Development Fund                    | 31 Dec.<br>1994                      | No reporting requirements.<br>Audit conducted at request<br>of the Treasurer | Audit substantially<br>completed.                        |   |

(a) Casey College of TAFE was previously known as Dandenong College of TAFE.

(b) Kangan College of TAFE was previously known as Broadmeadows College of TAFE.

(c) Peninsula College of TAFE was previously known as Frankston College of TAFE.

(d) Barton College of TAFE was previously known as Moorabin College of TAFE.

# Part 3.6

## Health and Community Services

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### KEY FINDINGS

#### DEPARTMENT OF HEALTH AND COMMUNITY SERVICES

##### Financial viability of hospitals

- A large metropolitan public hospital and 2 large country hospitals were, in audit opinion not financially viable without the continuing financial support from the Department of Health and Community Services.

*Paras 3.6.12 to 3.6.21*

- The Government has initiated a review of metropolitan hospitals which it is hoped will, among other things, address concerns raised in my *Report on Ministerial Portfolios, May 1994* as to the supply and distribution of beds in the hospital systems.

*Para. 3.6.23*

##### Pensioner concessions

- The Department of Health and Community Services has introduced important improvement measures to address an urgent need to upgrade the quality of the strategic management framework in place for municipal and water and sewerage concessions.

*Paras 3.6.36 to 3.6.43*

- The real value of financial assistance provided to eligible recipients of municipal, water and sewerage rate concessions has been substantially eroded over the years.

*Paras 3.6.44 to 3.6.52*



**3.6.1** Four Ministers, namely the Minister for Aboriginal Affairs, the Minister for Aged Care, the Minister for Community Services and the Minister for Health have responsibility for operations within the Health and Community Services sector. These Ministers have collective responsibility for the Department of Health and Community Services.

**3.6.2** Details of the specific ministerial responsibilities for public bodies within the Health and Community Services sector are listed in Table 3.6A. These public bodies, together with the Department of Health and Community Services, were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.6A  
MINISTERIAL RESPONSIBILITIES FOR PUBLIC BODIES  
WITHIN THE HEALTH AND COMMUNITY SERVICES SECTOR**

| <i>Ministerial portfolio</i>  | <i>Entities subject to audit</i>  |
|-------------------------------|---|
| <b>Aboriginal Affairs (a)</b> | -   |
| <b>Aged Care (a)</b>          | -   |
| <b>Community Services (a)</b> | -   |
| <b>Health</b>                 | Advanced Dental Technicians Qualifications Board<br>Ambulance Officers' Training Centre<br>Ambulance Services (7)<br>Chiropodists Registration Board<br>Chiropractors and Osteopaths Registration Board<br>Dental Board of Victoria<br>Dental Technicians Licensing Committee<br>Fawkner Crematorium and Memorial Park<br>Geelong Cemeteries Trust<br>Mental Health Review Board<br>Optometrists Registration Board<br>Pharmacy Board of Victoria<br>Physiotherapists Registration Board<br>Prince Henry's Institute of Medical Research<br>Psychosurgery Review Board<br>Public hospitals and nursing homes (138)<br>Royal District Nursing Service<br>The Memorial Park, Altona<br>The Necropolis Springvale<br>Victorian Health Promotion Foundation<br>Victorian Nursing Council<br>Victorian Psychological Council |

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

**3.6.3** Comment on matters of significance arising from the audit of certain of the above entities is provided on the following pages.

## DEPARTMENT OF HEALTH AND COMMUNITY SERVICES

### FINANCIAL VIABILITY OF PUBLIC HOSPITALS

**3.6.4** When the Government was elected in 1992 it had as part of its mandate the improvement of the State's financial position and the achievement of increased efficiencies from public sector entities. Since that time, public sector expenditures have been significantly reduced.

**3.6.5** In 1993, as part of the Government's reform process, the Department of Health and Community Services introduced the Casemix funding system for acute health care services provided by the State's public hospitals. Under the system, individual public hospitals were contracted to provide a minimum number and type of services at standardised Statewide fees.

**3.6.6** For the 1993-94 financial year, payments under the Casemix system comprised:

- variable payments which were dependent on the number of patients treated per medical diagnosis category; and
- guaranteed fixed payments, which included a compensation grant that applied only for 1993-94 to cover the initial impact of the transfer to the new funding system.

**3.6.7** Additional payments were also available where hospitals exceeded the targets set for the number of patients treated.

**3.6.8** When the 1993-94 State Budget was introduced, which provided for the introduction of Casemix funding, the majority of public hospital financial statements for the 1992-93 financial year had not been finalised. The audit review of public hospitals for that period identified that a number of hospitals were experiencing financial difficulties and that, without the continued support of the Government, several hospitals could be regarded as not being financially viable.

**3.6.9** In the case of 2 hospitals, audit found it necessary to issue a qualified audit report on their 1992-93 financial statements as significant doubt existed as to their ongoing ability to meet their financial obligations as they fell due. This doubt arose as the responsible Boards of Management had not taken action, nor identified the need to act, to increase revenues or reduce expenditures so as to improve the financial viability of their entities. In addition, the Department of Health and Community Services had not indicated whether adequate financial support would be provided to these hospitals in future years to help overcome their financial difficulties.

#### Hospitals experiencing financial difficulties

**3.6.10** As a consequence of the previously identified financial problems of hospitals and the impact of the 1993-94 State Budget, including the introduction of Casemix funding, audit analysed the financial viability of each public hospital as at 30 June 1994 by reviewing the:

- overall cash position and the movement in cash holdings over the past 2 years;
- nature and extent of any current liabilities in excess of current assets;
- nature and extent of any non-current liabilities;
- likelihood of achievement of established targets included in the 1994-95 business plan based on prior performance; and
- likely impact on future operations of the loss of the compensation grant.

**3.6.11** The audit review found that a number of public hospitals were continuing to experience financial difficulties which had the potential to inhibit their ability to meet their debts as they fell due. In the case of 3 hospitals, audit was of the opinion that they were not financially viable without continuing financial support from the Department of Health and Community Services. The following comments detail audit concerns with each of the 3 hospitals.

#### *Western Hospital*

**3.6.12** An audit review of the financial statements of the Western Hospital as at 30 June 1994 indicated that its net current liabilities had increased since 30 June 1993. In addition, the cash generated from operations in 1993-94 had substantially declined as compared with the prior year.

**3.6.13** Throughout the 1993-94 financial year, the Hospital's Board of Management had expressed concern as to the ability of the Hospital to remain financially viable under the Casemix funding system. As a consequence, in June 1994, the Board commissioned independent reviews of the Hospital's financial position which concluded that the Hospital was not viable within the parameters of the existing Casemix funding arrangements. Of particular concern were the operations of one of its campuses and anomalies within the Casemix formula as it applied to the unique configuration of services provided by the Hospital, such as operating accident and emergency services at 2 locations.

**3.6.14** In October 1994, the Department of Health and Community Services indicated that the funding anomalies would be addressed from the commencement of the 1994-95 financial year on the condition that the Hospital would commence action to reduce inpatient costs, pursue work practice efficiencies, implement additional savings in the treatment of outpatients and undertake enhancements in operational systems.

#### *Ballarat Base Hospital*

**3.6.15** Over the period 1991 to 1993, the Ballarat Base Hospital had experienced high operational losses with its overall financial position continuing to deteriorate.

**3.6.16** An audit analysis of the results for the 1993-94 financial year showed that :

- despite management assurances that the financial operations of the Hospital would improve during 1993-94, the deficit for the year increased by 136 per cent;
- the Hospital had experienced difficulties in paying major creditors and was in breach of its overdraft conditions;
- net current liabilities had increased by 33 per cent; and
- the overall cash position had deteriorated by 15 per cent.

**3.6.17** The Department of Health and Community Services had been aware of the financial problems of the Hospital and had instigated a review of its operations. As a consequence of the findings of the review, the senior management of the Hospital was changed and reform processes commenced.

**3.6.18** On 5 October 1994, the Department of Health and Community Services confirmed its ongoing financial support of the Hospital subject to specified actions being implemented and targets achieved.

### *Latrobe Regional Hospital*

**3.6.19** The financial position of the Latrobe Regional Hospital declined in the 1993-94 period as evidenced by :

- a significant reduction in the cash generated from operations;
- a substantial increase in the bank overdraft; and
- an increased exposure relating to the activities of a local psychiatric centre.

**3.6.20** The Hospital's financial position was likely to be further impacted by the reduction in income of \$3 million due to the cessation of the compensation grant.

**3.6.21** On 26 October 1994, the Department of Health and Community Services formally indicated its intention to provide ongoing financial support subject to the Hospital implementing certain reforms.

### **Actions taken by the Department**

**3.6.22** The financial viability and geographic coverage of the State's rural public hospitals has been reviewed by the Department. As an outcome of this review, the Department, in June 1994, announced a range of initiatives aimed at improving the viability of small rural hospitals. Since that date, rural hospitals have revised their operating strategies to expand the range of health services provided within their local communities and, in some instances, have amalgamated with other hospitals or health services to provide a more efficient and effective health service within an expanded regional area.

**3.6.23** The Government has also initiated a review of metropolitan hospitals and has appointed a Metropolitan Hospitals Planning Board to undertake this task. The Board will advise the Government on the required number and location of public hospitals for the Melbourne metropolitan area into the next century. In the Auditor-General's *Report on Ministerial Portfolios, May 1994*, comment was made on the oversupply of beds in the public and private hospital systems and that significant variations existed in the distribution of public beds per head of population between the various metropolitan health regions. It is hoped that the outcome of the Government's current review will address the problems identified in my May 1994 Report to the Parliament.

#### **□ RESPONSE** *provided by Secretary, Department of Health and Community Services*

*For many years, public hospitals were funded on an historical budget build-up basis with little focus on the matching of outputs with inputs. Comparative data on hospitals performances were published for a number of years. This data showed substantial variations in the cost of outputs across the public hospital system. In addition to these variances in the cost of outputs, substantial numbers of patients were awaiting excessive time for access to urgent treatment.*

*The Audit Commission Report of 1993 and previous Commonwealth Grant Commission Reports identified that the cost of providing public hospital services in Victoria were substantially higher than in other States and in particular New South Wales. A major contributing factor was the high cost of labour. The Audit Commission Report clearly enunciated this cost differential in making comparisons with New South Wales. The application of the budget reductions announced in the Treasurer's Economic Statement of April 1993 were largely designed to reduce the cost of labour inputs and to increase the overall cost-efficiency of hospitals.*

*The introduction of Casemix funding in 1993-94 set out to redress some of the imbalances in the system and to improve patient access. Incentives were introduced to focus on patient treatment with a view to reducing waiting times for urgent treatment.*

*The application of Casemix funding to hospitals meant that there would be a reallocation of resources across the system and at the same time return the cost of services to interstate benchmarks. To assist with the implementation of Casemix, hospitals were allowed a compensation grant of 50 per cent of the cost in excess of benchmarks in the first 12 months. This compensation grant was withdrawn in the second year.*

*Additionally, hospitals were given access to funding to meet payments for voluntary departure packages to enable workforce restructuring to take place. The allocation per hospital was based on the level of savings to be achieved to manage within Casemix and to ensure ongoing financial stability.*

*The final outcome for the hospital system for the first year of Casemix showed total profits of in excess of \$100 million prior to allowing for depreciation which is treated as a non-funded item in the published accrual reports of the hospitals. Nearly all hospitals reported a surplus for the year.*

*The 3 hospitals identified in the Report have been of concern to the Department for a number of different reasons. Ballarat Base Hospital, as identified in the Report, has had a history of poor and unresponsive management resulting in budgets being exceeded and extensive negotiations took place during the past 2 years to focus on improving financial management performance. Substantial changes have taken place at Board and senior management level and strategies have been developed and implemented to restore the financial viability of the Hospital.*

*Latrobe Regional Hospital, likewise, has developed financial management strategies which will again restore viability. Duplication of services has been addressed and human resource levels have been reduced where efficiencies were identified - unnecessary duplication was evident.*

*The major concern with the Western Hospital was in relation to the effective utilisation of both locations with the opening of new facilities at both the Footscray and Sunshine sites. Extensive service planning, resource development and the eradication of unnecessary duplication was required by the Hospital's Board and senior management. Modifications were necessary in the funding arrangements to recognise costs associated with levels of care for the aged and for non-admitted patients as these services developed.*

## MUNICIPAL, WATER AND SEWERAGE RATE CONCESSIONS

### Background

**3.6.24** An extensive range of concessions is made available by the Commonwealth Government to disadvantaged groups such as low income earners, aged pensioners and returned servicemen. In addition to this assistance, the Victorian Government provides concessions on various State rates and charges, including electricity, gas, transport, municipal, water and sewerage, to eligible persons. These concessions are an important element of the Government's social program.

**3.6.25** This section of this Report deals with municipal, water and sewerage rate concessions provided within the State.

**3.6.26** Municipal rate concessions were first introduced in Victoria in December 1973 as a means of providing Commonwealth income security recipients, who were in receipt of a full pension and owned their homes, with financial assistance towards the payment of council rates. The concessions were initially established to compensate homeowners who were ineligible for assistance provided by the Commonwealth to pensioners in rental accommodation.

**3.6.27** From 1975, the ambit of concessional assistance made available by the State Government was extended beyond municipal rate concessions to encompass water and sewerage rates.



**3.6.28** When **municipal** rate concessions were first introduced, the level of concession was established at a maximum of 50 per cent of municipal rates with a ceiling of \$40 per recipient. This ceiling was subsequently raised in 1980-81 to \$120 and again in 1982-83 to **\$135**.

**3.6.29** The **water and sewerage** rate concessions were also introduced at 50 per cent of the rate up to a maximum of \$67.50 for each rate category, giving a combined maximum level of concession, covering both water and sewerage, of **\$135**. A claim against water quantity used by the concession recipient may be made where the concession on water rates is less than the maximum allowable assistance.

**3.6.30** **The maximum level of financial assistance to persons eligible to claim municipal, water and sewerage rate concessions has remained at \$270 per annum over the past 12 years.** This financial assistance consists of a maximum level of \$135 for the municipal rate concession, with the water and sewerage rate concessions having a maximum value of \$67.50 each.

**3.6.31** The key legislation which governs the provision of concessions on municipal and water and sewerage rates is the *State Concessions Act* 1986. This Act consolidated the definitions of eligibility for State concessions previously contained in a number of individual statutes. In broad terms, the main categories of persons eligible to claim these concessions were initially those holding a Pensioner Health Benefits card, a Totally and Permanently Incapacitated badge or a Transport Concessions card. In April 1993, the Commonwealth introduced additional categories of cardholders, including part-pensioners and older long-term unemployed, which had the automatic effect of widening the eligibility criteria for State concessions to incorporate these new categories. The Commonwealth provided financial assistance of \$18.6 million for 1992-93 and \$29.5 million for 1993-94 to the State for outlays relating to these additional categories of eligible recipients.

**3.6.32** Expenditure by the Government in respect of municipal, water and sewerage rate concessions for 1993-94 totalled \$92 million (\$114 million; estimate for 1994-95).

**3.6.33** During 1993 and 1994, audit carried out a review of the management of municipal and water and sewerage rate concessions. The review encompassed the activities of the Department of Health and Community Services (which has prime policy responsibility in the area), the Office of Local Government within the Department of Planning and Development (which has been responsible for day-to-day management of concessions including verification of claimants' eligibility), the Melbourne Water Corporation and certain rural water authorities.

**3.6.34** Preliminary audit findings were conveyed to the Department of Health and Community Services in discussions held early in 1994. At that time, major government reform programs were underway in the municipal and water sectors which have subsequently resulted in far-reaching structural and management changes in both sectors. These changes have included:

- a reduction in the number of municipal councils from 211 to 78, following decisions by the Local Government Board on Council amalgamations and mergers;
- the disaggregation of the Melbourne Water Corporation into 5 separate entities (3 new catchment-based water supply companies, one headworks company and a metropolitan parks and waterways company);
- the restructure of the Rural Water Corporation into 5 regional boards; and
- the acceleration of amalgamation processes for non-metropolitan water authorities with the number of authorities falling from 133 in 1993 to 18 at February 1995.

**3.6.35** In view of the magnitude of government changes occurring in the municipal and water sectors, audit determined to defer completion of the review of concessions to enable action to commence on the preliminary findings and management to take account of the extensive structural changes in both industries. A revisit to the area by audit took place during February 1995.

### Soundness of strategic management framework for concessions

**3.6.36** When audit commenced its initial review, a very striking feature of the processes followed for the management of the concessions program was the cumbersome nature of the strategic management framework in place. At the time, the program involved annual outlays of between \$75 and \$90 million, and the various shortcomings in the strategic management arrangements were certainly not conducive to systematic evaluation of the efficiency and effectiveness of a program of such financial magnitude and community importance.

**3.6.37** The principal weaknesses in the strategic management framework, as initially identified by audit at the time, were as follows:

- The main policy advisory unit for concessions within the Department of Health and Community Services, namely the Concessions Steering Committee, did not regularly meet (at times the gap between meetings exceeded 18 months). Also, its meetings involved several organisations with attendance often exceeding 15 representatives which led to a high turnover of members and a lack of continuity in deliberations. Notwithstanding its role as the prime vehicle for the provision to Government of advice on policy developments in the area, there had been very little involvement by the Committee in matters relating to municipal and water and sewerage rate concessions over the past 4 years;
- Key criteria for assessment of the effectiveness of the program including such matters as performance targets (e.g. the soundness of publicity awareness strategies and extent of the level of usage of concessions by eligible persons) and procedures for systematic monitoring of actual performance against targets had not been developed;
- The resourcing of the Department's main organisational unit for management of concessions, its Income Maintenance Unit, had not been adjusted to take account of expanded responsibilities of the Unit in recent years;
- Collection of information to support decision-making and performance measurement on concessions was adversely impacted by the absence of a database to enable Statewide statistical analyses of emerging developments and trends on concession;
- Full costs of administration of the program had not been centrally compiled and, as a consequence, complete assessments of the program's efficiency could not be carried out;
- Many of the State's rating authorities were unaware of the existence of the main policy document dealing with Government concessions, namely *The Victorian Government Concessions - A Handbook for Government Agencies*, which had been issued by the Department in February 1989;
- Minimal attention had been directed towards capitalising on the benefits offered by information technology advancements in terms of improving the quality and cost-effectiveness of data transfers between rating authorities and the Office of Local Government (for verification and reimbursement purposes), and of establishing a common database for all concessional categories; and
- Information on concessions reported annually to the Parliament on both a Statewide and individual agency basis was insufficient to enable the Parliament to meaningfully evaluate the soundness of the management of the program.

**3.6.38** In short, there existed an urgent need to upgrade the quality of the strategic management framework in place for municipal and water and sewerage concessions.

**3.6.39** It was particularly pleasing to find, during the re-visit by audit, that the Department had commenced implementation of a number of positive measures aimed at addressing previous problem areas and streamlining its overall management approach to rate concessions.

**3.6.40** Against the backdrop of the major structural changes underway within the water and municipal sectors, the Department has moved to link the policy framework for concessions with the Government's policy document on community service obligations issued by the Department of the Treasury in August 1994. In line with this approach, service agreements governing the provision of water and sewerage rate concessions are to be developed with the 3 new water supply companies in the metropolitan area. The Department advised audit that these agreements would be used as models for similar agreements to be entered into with non-metropolitan water authorities and municipal councils. It is expected that the use of service agreements will facilitate establishment of specific performance standards against which rating authorities will be required to pursue improvements in the delivery of services and meet related qualitative yardsticks.

**3.6.41** Following government action to consolidate responsibility for all community service obligations under the Minister for Community Services, the Department is now well placed to adopt a global approach to the management of concessions. In this regard, the Income Maintenance Unit has been assigned additional resources to handle its expanded responsibilities covering all concessions and community service obligations. The Unit has developed a business plan for 1995-96 which incorporates a range of improvement initiatives including:

- completion of the service agreements with the various rating authorities;
- preparation of complete and accurate data on community usage of the different categories of concessions;
- rationalisation of administrative arrangements by transfer from the Office of Local Government to the Department of key functions relating to maintenance of prime records, liaison with Commonwealth authorities for verification of claimants' eligibility and the reimbursing of authorities for concessions allowed to ratepayers; and
- enhancement of the existing information database to facilitate moves to a structured and efficient framework for achievement of uniformity in the management of all concessions on a Statewide basis.

**3.6.42** More meaningful reporting to the Parliament each year on the performance of the Department in the management of concessions is expected to be an important outworking of the initiatives taken in the area. Information on the extent to which eligible members of the community are aware of the existence of the different types of concessions, the resultant level of usage of concessions, the degree of efficiency achieved in the delivery of services to the community and assurance on the effectiveness of management control processes to guard against the provision of concessions to ineligible persons are examples of areas which are expected to be available in the future to assist the Parliament in its scrutiny of the Department's performance.

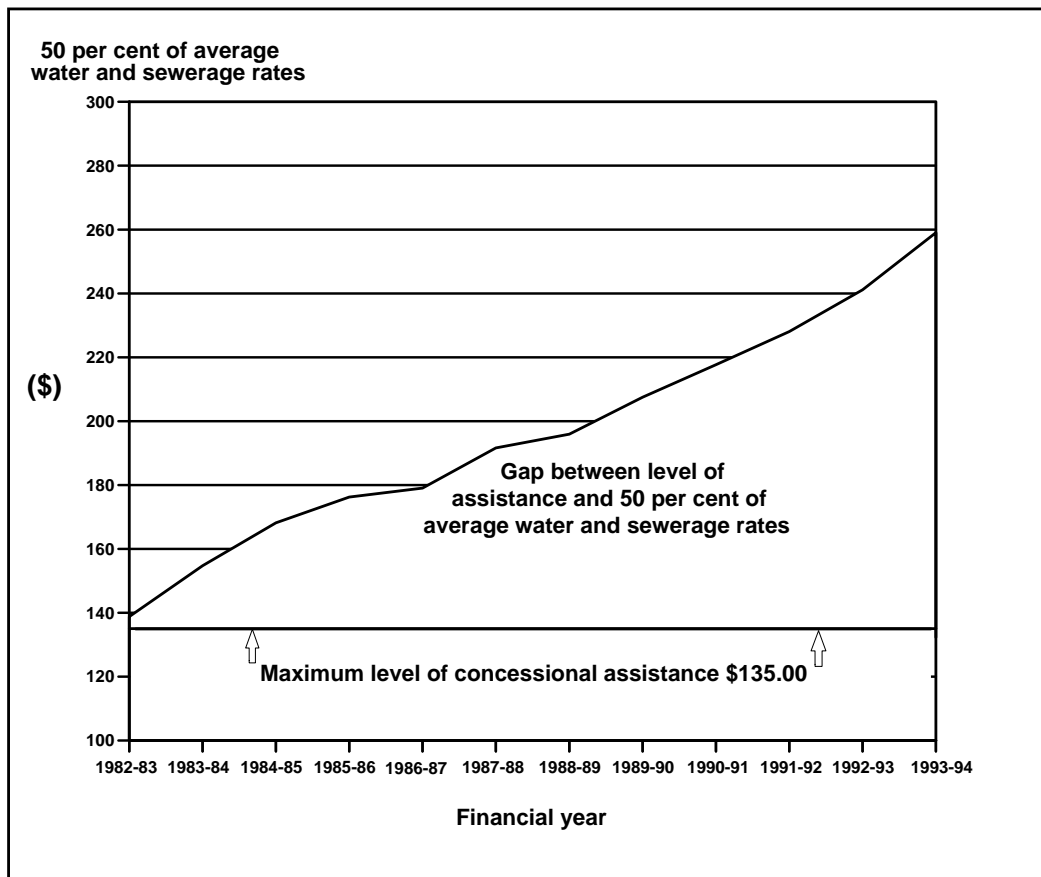
**3.6.43** The important improvement measures currently underway within the Department of Health and Community Services are positive in nature and designed to elevate management decision-making and action to a level commensurate with the financial magnitude and social significance of programs dealing with provision of concessions to the less-advantaged sections of the community.

### Diminishing real value of concessions to recipients

**3.6.44** As mentioned in an earlier paragraph, the maximum level of annual financial assistance to persons eligible to claim municipal, water and sewerage rate concessions in the State has remained at an aggregate of \$270 since 1982-83, comprising of \$135 for the municipal rate concession and \$67.50 for water and sewerage rates concessions respectively. Over the same period, municipal, water and sewerage rates have steadily increased.

**3.6.45** Some indication of the diminishing real value of concessions to recipients can be gleaned from Chart 3.6B which compares 50 per cent of average water and sewerage rates (the maximum level of concessional assistance when concessions were first introduced) of the Melbourne Water Corporation for the period 1982-83 to 1993-94 with the maximum ceiling for concessions of \$135 which has applied since 1982-83.

**CHART 3.6B**  
**LEVEL OF CONCESSIONAL ASSISTANCE COMPARED WITH AVERAGE WATER AND SEWERAGE RATES WITHIN METROPOLITAN AREA, 1982-83 TO 1993-94**



**3.6.46** It can be seen that, based on movements in average rates, the portion of water and sewerage rates payable by pensioners and other concession cardholders within the metropolitan area has progressively increased over the years.

**3.6.47** With regard to municipal rates, the Department of Health and Community Services had identified, through a survey it carried out as far back as 1989, that the real value of concessions when measured against rate movements was declining markedly. By 1992, the Department had determined that, on average, the level of the concessional rebate had fallen to between 10 and 20 per cent of total municipal rates.

**3.6.48** The increasing application by the Government of user-pays principles to the State's water rating framework is likely to further impact on the diminishing value of concessions to pensioners and other groups. Under these principles, an increasing proportion of water charges has been based on water quantity usage rather than property valuation. The Government has projected that, by the year 2002, 50 per cent of a consumer's water charge will be based on water usage and 50 per cent on property valuation.

**3.6.49** In addition, in January 1995, the Government introduced, under its metropolitan pricing strategy, a sewerage disposal charge for wastewater discharged into the sewerage system. Under this strategy, which will also involve application of the user-pays principles, the total sewerage charge will be determined increasingly on actual water usage and less on the valuation of properties. As with water charges, the Government's objective is that, by the year 2002, half of the sewerage charge will be based on actual water usage and half based on property valuation. At the time of finalisation of the audit review, the Government indicated that it was considering the matter of a concessional framework for its new sewerage pricing arrangements.

**3.6.50** To facilitate the progressive transition to the new water and sewerage pricing structures, the Government has frozen until 1997 the price of water and sewerage services and the proportion of water charges based on property valuations. The Government expects that the changes to the pricing structures will give consumers greater control over their water bills and an incentive to conserve water. In addition, the Government has recently set aggregate savings targets of around \$400 million over the next 3 financial years for all municipalities under its local government reform program in order to maximise rate reductions to ratepayers.

**3.6.51** During the review, audit held discussions with a number of groups who either represent members of the community likely to be in receipt of concessions or who have a particular involvement in the area. It was very evident to audit from these discussions that the adequacy of assistance available to pensioners and other concession cardholders was considered by the groups to be their most significant issue of concern in relation to the Government's rate concessions.

**3.6.52** In summary, the real value of financial assistance provided to eligible recipients of municipal, water and sewerage rate concessions has been substantially eroded over the years.

## Adequacy of publicity strategies

**3.6.53** A key objective of the Department's Income Maintenance Unit is to ensure that all eligible members of the community are aware of the availability of concessions.

**3.6.54** During the review, audit examined the publicity arrangements in place for concessions. This examination revealed that, while certain functions are undertaken centrally by the Department, individual rating authorities were primarily responsible for all local advertising and mechanisms had not been established to ensure co-ordination and consistency of advertising on a Statewide basis. In this regard, the quality and level of advertising across authorities varied considerably. In addition, minimal attention was directed by the authorities to evaluating the effectiveness of any advertising undertaken for rate concessions and few authorities considered that such action was, in fact, their responsibility.

**3.6.55** It was also evident that some rating authorities had not published material in languages other than English to assist those members of the community of ethnic origin. **In one municipality visited by audit, no material in non-English languages had been distributed to the community even though around 40 per cent of residents in the area were of ethnic background.** The need for dissemination of publicity material on the availability of concessions and their eligibility criteria was an issue stressed to audit in discussions held with ethnic groups during the course of the review. The groups also advised audit that the publicity literature available to them was invariably material issued by the Commonwealth Department of Social Security and it was therefore not immediately apparent to their members that the Department of Health and Community Services played a significant role in the provision of concessions.

**3.6.56** In recent years, the Department has undertaken important publicity-awareness initiatives for concessions including the establishment of a telephone access line for public use and the distribution of information brochures. **As part of its upgrading of management arrangements for concessions, the Department is currently examining avenues for further improving the quality and consistency of advertising across the State, including the important question of effective dissemination of publicity material to persons of ethnic background.**

## Importance of reliable information on level of usage of concessions

**3.6.57** The level of usage of concessions by eligible members of the community constitutes a key measure of the effectiveness of the rate concessions program. The availability of such information can provide the basis for future research and the development of policies (including special advertising campaigns) aimed at encouraging eligible members of the community to avail themselves of their entitlement to concessions.

**3.6.58** Very little substantive information has been available to the Department in the past to indicate, with any confidence, the likely level of the community's usage of rate concessions. During the review, audit obtained statistical data from the Commonwealth Departments of Social Security and Veterans' Affairs on the total population of pensioners residing within postcode boundaries of 7 rating authorities (4 water authorities and 3 municipalities). This data was adjusted by audit utilising information provided by the Australian Bureau of Statistics in order to determine an estimate of the number of eligible pensioners in each area. A comparison of the number of potentially-eligible pensioners with actual numbers of recipients of concessions for the area within each selected authority revealed **a variation of usage of concessions across the State, with the range extending from 63 per cent to 99 per cent usage.**

**3.6.59** While the results of the audit analysis are not totally definitive, in that they have been broadly derived from State aggregate statistics, they do illustrate the possibility of significant variations in concessional usage in different residential areas. **The Department recognises this position and has reached agreement with the Commonwealth authorities for provision, on a quarterly basis, of relevant eligibility statistics for use in compiling more accurate data on levels of usage.**

□ **RESPONSE** provided by Secretary, Department of Health and Community Services

*Responsibility for the management of rate concessions for municipal water and sewerage rates is with the Minister for Community Services, however, the Office of Local Government, as agency with functional responsibility for the making of payments in respect of claims for rebates, manages the publicity on the level and category of concessions available. The individual rating authorities are not responsible for the publicity on concessions, however, information is disseminated through rating authorities and other consumer representative groups and organisations.*

*The Department of Health and Community Services is responsible for the policy development and monitoring of the usage of concessions, and manages the budget, including negotiations with the Government on relevant adjustments.*

*As acknowledged in the audit report, the Department has, in recent years, increased the level of resources to improve the efficiency of the service provision. Resources have been made available to improve the information base on eligible claimants. Action taken to acquire relevant information from the Commonwealth authorities will enable the Department to address service deficiencies in the future.*

*The level of the rate concessions is a policy decision for the Government, and should be considered within the context of the overall concessions budget and the major reforms currently being carried out by the Government in the municipal and water sectors. For example, the Government has recently announced savings targets for municipalities under its local government reform program in order to maximise rate reductions. The Government commits substantial resources to the total concessions program (including transport and energy) which has grown from \$111 million in 1989-90 to \$198 million in 1994-95, a nominal increase of some 78 per cent which is substantially above the rate of inflation. The total number of payments to eligible persons has also increased from 1 246 000 in 1989-90 to around 2 300 000 in 1994-95.*

*As the audit report notes, when rate concessions were first introduced the payment ceiling was set at no more than 50 per cent of the rate and no more than \$40 per recipient. The 50 per cent cap was established as a constraint on payment levels rather than a benchmark entitlement. To compare 50 per cent of current rates as a benchmark does not reflect a policy commitment. Comparison, over time, of water and sewerage rates against a 50 per cent concession does not appropriately reflect government policy objectives.*

□ **RESPONSE** provided by Manager, Corporate Strategy, Melbourne Water

*The aspects relevant to Melbourne Water's pricing policies and the level of concessions provided are factually correct.*

*You should note that from 1 January 1995, responsibility for the delivery of water and sewerage rate concessions in the metropolitan area transferred to the 3 newly created retail companies - City West, Yarra Valley and South-East.*

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS**

| <i>Report</i>                                   | <i>Subject</i>  | <i>Status at date of preparation of this Report</i>   |
|---|---|---|
| <b>MATTERS RESOLVED OR ACTION COMMENCED</b>     |   |   |
| <i>Ministerial Portfolios, May 1993, p.157.</i> | Only 67 per cent of eligible school children participated in the 1991-92 Schools Dental Health Program, which was the lowest of all Australian States and Territories, except for New South Wales.  | In 1994 the Department conducted a parental survey on the use of dental services by primary school children which determined that 99 per cent of children in grade 1 or older grades had received dental care in either the public or private sectors in the previous 3 years. Children who used private dentists as well as the Schools Dental Health Service generally did so either for emergency care or because their parents considered that the School Dental Service's 2 year period between checks for low risk children was too long. |
| <i>Ministerial Portfolios, May 1993, p.163.</i> | The failure of the Schools Dental Health 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 lower dental health outcome for Victoria children.                                   | Guidelines introduced in 1994 to assist dental operators in the identification and follow-up of children with high dental care needs has seen an increase in the number of high risk children being treated.  |
| <i>Ministerial Portfolios, May 1993, p.153.</i> | Due to the failure of the Schools Dental Health Service and the Department to adequately examine alternate service delivery methods, such as outsourcing, taxpayers could not be assured that the current Schools Dental Health Program was provided in the most cost-efficient manner. | The Department is considering becoming a purchaser of dental services rather than remaining as a provider of dental care services in schools. Services would be purchased on an output basis at the lowest cost consistent with service and quality standards.  |
| <i>Ministerial Portfolios, May 1993, p.154.</i> | The coverage of dental services provided to Victorian school children is limited in comparison with services provided in other States.  | Limited per capita funding from the Commonwealth has restricted the service coverage.   |
| <i>Ministerial Portfolios, May 1993, p.293.</i> | Excess hospital infrastructure and public beds exist in the metropolitan area.  | Metropolitan Hospitals Planning Board is reviewing the overall provision of hospital services for the next 50 years.  |



**SCHEDULE B  
COMPLETED/INCOMPLETE AUDITS**

| <i>Entity</i>                                   | <i>Financial<br/>year<br/>ended /<br/>period</i> | <i>Reporting to Parliament</i>  | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|--|---|--|---|
| <b>COMPLETED AUDITS</b>                         |  |   |  |   |
| Department of Health and Community Services     | 30 June 1994                                     | 31 Oct. <i>Annual Reporting Act 1983, s.8.</i>  | 29 Sept. 1994  | 14 Oct. 1994  |
| <b>HEALTH</b>                                   |  |   |  |   |
| Advance Dental Technicians Qualifications Board | 30 June 1994                                     | 30 Sept. <i>Annual Reporting Act 1983, s.8.</i>   | 27 Sept. 1994  | 28 Sept. 1994                                       |
| Ambulance Officers' Training Centre             | 30 June 1994                                     | " "   | 19 Sept. 1994  | 23 Sept. 1994                                       |
| Alexandra and District Ambulance Service        | 30 June 1994                                     | No reporting requirements. <i>Ambulance Services Act 1986, s.38</i> provides for the audit of the accounts. | 1 Sept. 1994   | 23 Nov. 1994  |
| Ambulance Service Victoria -                    |  |   |  |   |
| Metropolitan Region                             | 30 June 1994                                     | 30 Sept. <i>Annual Reporting Act 1983, s.8.</i>   | 12 Sept. 1994  | 27 Sept. 1994                                       |
| North Eastern Region                            | 30 June 1994                                     | " "   | 16 Aug. 1994   | 9 Sept. 1994  |
| North Western Region                            | 30 June 1994                                     | " "   | 11 Aug. 1994   | 9 Sept. 1994 (a)                                    |
| South Eastern Region                            | 30 June 1994                                     | " "   | 1 Aug. 1994  | 31 Aug. 1994 (a)                                    |
| South Western Region                            | 30 June 1994                                     | " "   | 4 Aug. 1994  | 7 Sept. 1994 (a)                                    |
| Western Region                                  | 30 June 1994                                     | " "   | 12 Aug. 1994   | 7 Sept. 1994 (a)                                    |
| Chiropodists Registration Board of Victoria     | 31 Dec. 1994                                     | 31 Mar. <i>Annual Reporting Act 1983, s.8.</i>  | 14 Mar. 1995   | 20 Mar. 1995  |
| Chiropractors and Osteopaths Registration Board | 31 Dec. 1994                                     | " "   | 31 Mar. 1995   | 31 Mar. 1995  |
| Dental Board of Victoria                        | 30 Sept. 1994                                    | 31 Dec. <i>Annual Reporting Act 1983, s.8.</i>  | 24 Nov. 1994   | 28 Nov. 1994  |
| Dental Technicians Licensing Committee          | 30 June 1994                                     | 30 Sept. <i>Annual Reporting Act 1983, s.8.</i>   | 27 Sept. 1994  | 28 Sept. 1994                                       |
| Fawkner Crematorium and Memorial Park           | 31 Dec. 1994                                     | 31 Mar. <i>Annual Reporting Act 1983, s.8.</i>  | 30 Mar. 1995   | 30 Mar. 1995  |
| Geelong Cemeteries Trust                        | 31 Dec. 1994                                     | " "   | 21 Mar. 1995   | 31 Mar. 1995  |
| Mental Health Review Board                      | 30 June 1994                                     | 30 Sept. <i>Annual Reporting Act 1983, s.8.</i>   | 27 Sept. 1994  | 28 Sept. 1994                                       |

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>                                       | <i>Financial<br/>year<br/>ended /<br/>period</i> | <i>Reporting to Parliament</i>   | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|--|--|--|---|
| <b>COMPLETED AUDITS - continued</b>                 |  |  |  |   |
| <b>HEALTH - continued</b>                           |  |  |  |   |
| Memorial Park Altona                                | 31 Dec.<br>1994                                  | 31 Mar. <i>Annual Reporting<br/>Act 1983, s.8.</i>                                   | 30 Mar.<br>1995  | 4 May<br>1995                                       |
| Optometrists Registration Board                     | 30 June<br>1994                                  | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.8.</i>                                  | 23 Sept.<br>1994   | 30 Sept.<br>1994                                    |
| Pharmacy Board of Victoria                          | 30 June<br>1994                                  | " "  | 30 Aug.<br>1994  | 16 Sept.<br>1994                                    |
| Physiotherapists Registration Board                 | 30 June<br>1994                                  | " "  | 26 Sept.<br>1994   | 30 Sept.<br>1994                                    |
| Prince Henry's Institute of Medical Research        | 31 Dec.<br>1994                                  | 31 Mar. <i>Annual Reporting<br/>Act 1983, s.8.</i>                                   | 28 Mar.<br>1995  | 29 Mar.<br>1995                                     |
| Psychosurgery Review Board                          | 30 June<br>1994                                  | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.8.</i>                                  | 27 Sept.<br>1994   | 28 Sept.<br>1994                                    |
| Royal District Nursing Service                      | 30 June<br>1994                                  | " "  | 12 Oct.<br>1994  | 24 Oct.<br>1994 (a)                                 |
| The Necropolis Springvale                           | 31 Dec.<br>1994                                  | 31 Mar. <i>Annual Reporting<br/>Act 1983, s.8.</i>                                   | 31 Mar.<br>1995  | 31 Mar.<br>1995                                     |
| Victorian Health Promotion Foundation               | 30 June<br>1994                                  | " "  | 16 Sept.<br>1994   | 21 Sept.<br>1994                                    |
| Victorian Nursing Council                           | 30 June<br>1994                                  | " "  | 22 Sept.<br>1994   | 30 Sept.<br>1994                                    |
| Victorian Psychological Council                     | 31 Dec.<br>1994                                  | 31 Mar. <i>Annual Reporting<br/>Act 1983, s.8.</i>                                   | 31 Mar.<br>1995  | 31 Mar.<br>1995                                     |
| <b>VICTORIAN PUBLIC HOSPITALS AND NURSING HOMES</b> |  |  |  |   |
| Alexandra District Hospital                         | 30 June<br>1994                                  | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.8. Extension<br/>granted to 31 Oct.</i> | 2 Sept.<br>1994  | 30 Sept.<br>1994                                    |
| The Alfred Group of Hospitals                       | 30 June<br>1994                                  | " "  | 1 Sept.<br>1994  | 5 Oct.<br>1994 (a)                                  |
| Altona District Hospital                            | 30 June<br>1994                                  | " "  | 16 Sept.<br>1994   | 18 Oct.<br>1994                                     |
| The Angliss Hospital                                | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 27 Sept.<br>1994                                    |
| Anne Caudle Centre                                  | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 10 Oct.<br>1994 (a)                                 |
| Apollo Bay and District Memorial Hospital           | 30 June<br>1994                                  | " "  | 20 Sept.<br>1994   | 16 Oct.<br>1994 (a)                                 |
| Ararat and District Hospital                        | 30 June<br>1994                                  | " "  | 23 Aug.<br>1994  | 11 Oct.<br>1994                                     |
| Austin Hospital                                     | 30 June<br>1994                                  | " "  | 7 Oct. 1994  | 7 Oct.<br>1994 (a)                                  |

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>   | <i>Financial<br/>year<br/>ended /<br/>period</i> | <i>Reporting to Parliament</i>   | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|--|--|--|---|
| <b>COMPLETED AUDITS - continued</b>                             |  |  |  |   |
| <b>VICTORIAN PUBLIC HOSPITALS AND NURSING HOMES - continued</b> |  |  |  |   |
| Bacchus Marsh and Melton Memorial Hospital                      | 30 June<br>1994                                  | 30 Sept. <i>Annual Reporting Act 1983, s.8. Extension granted to 31 Oct.</i> | 8 Sept.<br>1994  | 7 Oct.<br>1994 (a)                                  |
| Bairnsdale Regional Health Service                              | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 13 Oct.<br>1994                                     |
| Ballarat Base Hospital  | 30 June<br>1994                                  | " "  | 26 Sept.<br>1994   | 26 Oct.<br>1994 (a)                                 |
| Beeac and District Hospital                                     | 30 June<br>1994                                  | " "  | 7 Oct. 1994  | 9 Oct.<br>1994 (a)                                  |
| The Beechworth Hospital   | 30 June<br>1994                                  | " "  | 19 Oct.<br>1994  | 7 Nov.<br>1994                                      |
| Benalla and District Memorial Hospital                          | 30 June<br>1994                                  | " "  | 9 Aug.<br>1994   | 23 Sept.<br>1994 (a)                                |
| The Bendigo Hospital  | 30 June<br>1994                                  | " "  | 27 Sept.<br>1994   | 24 Oct.<br>1994                                     |
| Bethlehem Hospital Incorporated                                 | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 16 Oct.<br>1994                                     |
| Birregurra and District Community Hospital                      | 30 June<br>1994                                  | " "  | 16 Sept.<br>1994   | 16 Oct.<br>1994 (a)                                 |
| Boort District Hospital   | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 9 Oct.<br>1994                                      |
| Box Hill Hospital   | 30 June<br>1994                                  | " "  | 1 Sept.<br>1994  | 27 Sept.<br>1994                                    |
| Bright District Hospital  | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 9 Oct.<br>1994 (a)                                  |
| Bundoora Extended Care Centre                                   | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 23 Oct.<br>1994                                     |
| Burwood and District Community Hospital                         | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 11 Oct.<br>1994                                     |
| Camperdown District Hospital                                    | 30 June<br>1994                                  | " "  | 6 Sept.<br>1994  | 21 Oct.<br>1994 (a)                                 |
| Caritas Christi Hospice Limited                                 | 30 June<br>1994                                  | " "  | 23 Sept.<br>1994   | 23 Oct.<br>1994                                     |
| Casterton Memorial Hospital                                     | 30 June<br>1994                                  | " "  | 30 Aug.<br>1994  | 26 Sept.<br>1994 (a)                                |
| Clunes District Hospital  | 30 June<br>1994                                  | " "  | 11 Oct.<br>1994  | 3 Nov.<br>1994                                      |
| Cobram District Hospital  | 30 June<br>1994                                  | " "  | 2 Aug.<br>1994   | 19 Aug.<br>1994 (a)                                 |

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>   | <i>Financial<br/>year<br/>ended /<br/>period</i> | <i>Reporting to Parliament</i>   | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|--|--|--|---|
| <b>COMPLETED AUDITS - continued</b>                             |  |  |  |   |
| <b>VICTORIAN PUBLIC HOSPITALS AND NURSING HOMES - continued</b> |  |  |  |   |
| Cohuna District Hospital  | 30 June<br>1994                                  | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.8. Extension<br/>granted to 31 Oct.</i> | 9 Sept.<br>1994  | 13 Oct.<br>1994 (a)                                 |
| Colac District Hospital   | 30 June<br>1994                                  | " "  | 15 Sept.<br>1994   | 16 Sept.<br>1994 (a)                                |
| Coleraine and District<br>Hospital                              | 30 June<br>1994                                  | " "  | 19 Sept.<br>1994   | 25 Oct.<br>1994 (a)                                 |
| Corryong District Hospital                                      | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 9 Oct.<br>1994                                      |
| Creswick District Hospital                                      | 30 June<br>1994                                  | " "  | 8 Sept.<br>1994  | 23 Oct.<br>1994                                     |
| Dandenong Hospital  | 30 June<br>1994                                  | " "  | 25 Aug.<br>1994  | 27 Sept.<br>1994                                    |
| Daylesford District Hospital                                    | 30 June<br>1994                                  | " "  | 28 Sept.<br>1994   | 23 Oct.<br>1994                                     |
| Dimboola District Hospital                                      | 30 June<br>1994                                  | " "  | 17 Oct.<br>1994  | 4 Nov.<br>1994                                      |
| Donald District Hospital  | 30 June<br>1994                                  | " "  | 22 Sept.<br>1994   | 23 Oct.<br>1994                                     |
| Dunmunkle Health Services                                       | 30 June<br>1994                                  | " "  | 17 Sept.<br>1994   | 23 Oct.<br>1994                                     |
| Eastern Suburbs Geriatric<br>Centre                             | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 6 Oct.<br>1994 (a)                                  |
| Echuca District Hospital (b)                                    | 31 Oct.<br>1993                                  | " "  | 6 Oct. 1994  | 7 Nov.<br>1994 (a)                                  |
| Echuca Regional Health  | 30 June<br>1994                                  | " "  | 13 Oct.<br>1994  | 7 Nov.<br>1994 (a)                                  |
| Edenhope & District<br>Memorial Hospital                        | 30 June<br>1994                                  | " "  | 13 Sept.<br>1994   | 23 Oct.<br>1994                                     |
| Eildon & District Community<br>Hospital (b)                     | 15 Dec.<br>1993                                  | " "  | 21 Sept.<br>1994   | 23 Oct.<br>1994                                     |
| Elmore District Hospital (b)                                    | 31 Oct.<br>1993                                  | " "  | 23 May<br>1994   | 29 Aug.<br>1994 (a)                                 |
| Fairfield Hospital  | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 9 Oct.<br>1994 (a)                                  |
| Geelong Hospital  | 30 June<br>1994                                  | " "  | 26 Aug.<br>1994  | 30 Sept.<br>1994                                    |
| Gippsland Base Hospital   | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 6 Oct.<br>1994                                      |
| Gippsland Southern Health<br>Service                            | 30 June<br>1994                                  | " "  | 15 Sept.<br>1994   | 20 Oct.<br>1994                                     |

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>   | <i>Financial<br/>year<br/>ended /<br/>period</i> | <i>Reporting to Parliament</i>   | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|--|--|--|---|
| <b>COMPLETED AUDITS - continued</b>                             |  |  |  |   |
| <b>VICTORIAN PUBLIC HOSPITALS AND NURSING HOMES - continued</b> |  |  |  |   |
| Glenview Community Care Inc.                                    | 30 June 1994                                     | 30 Sept. <i>Annual Reporting Act 1983, s.8. Extension granted to 31 Oct.</i> | 2 Sept. 1994   | 9 Oct. 1994   |
| Goulburn Valley Base Hospital                                   | 30 June 1994                                     | " "  | 6 Sept. 1994   | 12 Oct. 1994  |
| Grace McKellar Centre   | 30 June 1994                                     | " "  | 2 Sept. 1994   | 9 Oct. 1994   |
| Hamilton Base Hospital  | 30 June 1994                                     | " "  | 1 Sept. 1994   | 13 Oct. 1994  |
| Hampton Rehabilitation Hospital                                 | 30 June 1994                                     | " "  | 5 Sept. 1994   | 19 Oct. 1994  |
| Healesville and District Hospital                               | 30 June 1994                                     | " "  | 28 Aug. 1994   | 22 Sept. 1994                                       |
| Heathcote District Hospital                                     | 30 June 1994                                     | " "  | 20 Oct. 1994   | 21 Oct. 1994  |
| Heywood and District Memorial Hospital                          | 30 June 1994                                     | " "  | 26 Sept. 1994  | 23 Oct. 1994 (a)                                    |
| Inglewood Hospital  | 30 June 1994                                     | " "  | 2 Sept. 1994   | 9 Oct. 1994   |
| Kaniva District Hospital  | 30 June 1994                                     | " "  | 31 Aug. 1994   | 23 Oct. 1994  |
| Kerang and District Hospital                                    | 30 June 1994                                     | " "  | 8 Sept. 1994   | 11 Oct. 1994 (a)                                    |
| The Kilmore and District Hospital                               | 30 June 1994                                     | " "  | 1 Sept. 1994   | 18 Oct. 1994 (a)                                    |
| Kingston Centre   | 30 June 1994                                     | " "  | 4 Oct. 1994  | 2 Sept. 1994 (a)                                    |
| Koroit and District Memorial Hospital                           | 30 June 1994                                     | " "  | 1 Sept. 1994   | 26 Sept. 1994 (a)                                   |
| Kyabram and District Memorial Community Hospital                | 30 June 1994                                     | " "  | 31 Aug. 1994   | 27 Sept. 1994                                       |
| Kyneton District Hospital                                       | 30 June 1994                                     | " "  | 2 Sept. 1994   | 9 Oct. 1994   |
| Latrobe Regional Hospital                                       | 30 June 1994                                     | " "  | 5 Sept. 1994   | 27 Oct. 1994 (a)                                    |
| Lismore and District Hospital                                   | 30 June 1994                                     | " "  | 24 Oct. 1994   | 10 Nov. 1994  |
| Lorne Community Hospital  | 30 June 1994                                     | " "  | 23 Sept. 1994  | 18 Oct. 1994 (a)                                    |

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>   | <i>Financial year ended / period</i> | <i>Reporting to Parliament</i>   | <i>Financial statements signed by entity</i> | <i>Auditor-General's report signed</i> |
|---|--------------------------------------|--|--|--|
| <b>COMPLETED AUDITS - continued</b>                             |                                      |  |  |  |
| <b>VICTORIAN PUBLIC HOSPITALS AND NURSING HOMES - continued</b> |                                      |  |  |  |
| Lyndoch Warrnambool   | 30 June 1994                         | 30 Sept. <i>Annual Reporting Act 1983, s.8. Extension granted to 31 Oct.</i> | 9 Sept. 1994                                 | 11 Oct. 1994 (a)                       |
| Macarthur and District Memorial Hospital                        | 30 June 1994                         | " "  | 1 Sept. 1994                                 | 9 Oct. 1994 (a)                        |
| Maffra District Hospital  | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 20 Oct. 1994                           |
| Maldon Hospital   | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 16 Oct. 1994                           |
| Manangatang and District Hospital                               | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 9 Oct. 1994                            |
| Mansfield District Hospital                                     | 30 June 1994                         | " "  | 24 Aug. 1994                                 | 23 Oct. 1994                           |
| Maroondah Hospital  | 30 June 1994                         | " "  | 9 Sept. 1994                                 | 10 Oct. 1994                           |
| Maryborough District Health Service                             | 30 June 1994                         | " "  | 31 Aug. 1994                                 | 21 Oct. 1994                           |
| Mercy Public Hospitals Inc.                                     | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 9 Oct. 1994 (a)                        |
| Mildura Base Hospital   | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 9 Oct. 1994                            |
| Monash Medical Centre   | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 6 Oct. 1994 (a)                        |
| Mordialloc-Cheltenham Community Hospital                        | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 9 Oct. 1994 (a)                        |
| Mornington Peninsula Hospital                                   | 30 June 1994                         | " "  | 1 Sept. 1994                                 | 22 Oct. 1994                           |
| Mortlake District Hospital                                      | 30 June 1994                         | " "  | 9 Sept. 1994                                 | 29 Sept. 1994 (a)                      |
| The Mount Eliza Centre  | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 9 Oct. 1994 (a)                        |
| Mt Alexander Hospital   | 30 June 1994                         | " "  | 1 Sept. 1994                                 | 20 Oct. 1994                           |
| Myrtleford District War Memorial Hospital                       | 30 June 1994                         | " "  | 9 Aug. 1994                                  | 16 Oct. 1994                           |
| Nathalia District Hospital                                      | 30 June 1994                         | " "  | 1 Sept. 1994                                 | 26 Sept. 1994                          |
| Nhill Hospital  | 30 June 1994                         | " "  | 15 Sept. 1994                                | 21 Oct. 1994                           |

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>   | <i>Financial<br/>year<br/>ended /<br/>period</i> | <i>Reporting to Parliament</i>   | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|--|--|--|---|
| <b>COMPLETED AUDITS - continued</b>                             |  |  |  |   |
| <b>VICTORIAN PUBLIC HOSPITALS AND NURSING HOMES - continued</b> |  |  |  |   |
| North West Hospital   | 30 June<br>1994                                  | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.8. Extension<br/>granted to 31 Oct.</i> | 9 Sept.<br>1994  | 20 Oct.<br>1994                                     |
| Numurkah and District War<br>Memorial Hospital                  | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 9 Oct.<br>1994                                      |
| Omeo District Hospital  | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 7 Oct.<br>1994 (a)                                  |
| Orbost and District Hospital                                    | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 10 Oct.<br>1994 (a)                                 |
| Ouyen and District Hospital                                     | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 9 Oct.<br>1994 (a)                                  |
| O'Connell Family Centre<br>(Grey Sisters) Inc.                  | 30 June<br>1994                                  | " "  | 31 Aug.<br>1994  | 18 Oct.<br>1994                                     |
| Penshurst and District<br>Memorial Hospital                     | 30 June<br>1994                                  | " "  | 27 Sept.<br>1994   | 27 Sept.<br>1994                                    |
| Peter MacCallum Cancer<br>Institute                             | 30 June<br>1994                                  | " "  | 8 Sept.<br>1994  | 18 Oct.<br>1994                                     |
| Port Fairy Hospital   | 30 June<br>1994                                  | " "  | 9 Sept.<br>1994  | 19 Oct.<br>1994 (a)                                 |
| Portland and District Hospital                                  | 30 June<br>1994                                  | " "  | 12 Aug.<br>1994  | 4 Oct.<br>1994                                      |
| Preston and Northcote<br>Community Hospital                     | 30 June<br>1994                                  | " "  | 1 Sept.<br>1994  | 20 Oct.<br>1994 (a)                                 |
| Queen Elizabeth Centre  | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 10 Oct.<br>1994 (a)                                 |
| Queen Elizabeth Centre<br>Ballarat                              | 30 June<br>1994                                  | " "  | 8 Sept.<br>1994  | 14 Oct.<br>1994 (a)                                 |
| Ripon Peace Memorial<br>Hospital                                | 30 June<br>1994                                  | " "  | 31 Oct.<br>1994  | 31 Oct.<br>1994 (a)                                 |
| Rochester and District War<br>Memorial Hospital (b)             | 31 Oct.<br>1993                                  | " "  | 23 May<br>1994   | 29 Aug.<br>1994                                     |
| Rochester and Elmore<br>District Health Service                 | 30 June<br>1994                                  | " "  | 17 Oct.<br>1994  | 31 Oct.<br>1994 (a)                                 |
| Royal Children's Hospital                                       | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 9 Oct.<br>1994 (a)                                  |
| Royal Dental Hospital of<br>Melbourne                           | 30 June<br>1994                                  | " "  | 31 Aug.<br>1994  | 6 Oct.<br>1994                                      |
| Royal Melbourne Hospital  | 30 June<br>1994                                  | " "  | 29 Aug.<br>1994  | 3 Oct.<br>1994 (a)                                  |
| Royal Victorian Eye and Ear<br>Hospital                         | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 11 Oct.<br>1994                                     |

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>   | <i>Financial<br/>year<br/>ended /<br/>period</i> | <i>Reporting to Parliament</i>   | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|--|--|--|---|
| <b>COMPLETED AUDITS - continued</b>                             |  |  |  |   |
| <b>VICTORIAN PUBLIC HOSPITALS AND NURSING HOMES - continued</b> |  |  |  |   |
| Royal Women's Hospital  | 30 June<br>1994                                  | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.8. Extension<br/>granted to 31 Oct.</i> | 2 Sept.<br>1994  | 9 Oct.<br>1994 (a)                                  |
| Sandringham and District<br>Memorial Hospital                   | 30 June<br>1994                                  | " "  | 25 Oct.<br>1994  | 28 Oct.<br>1994                                     |
| Seymour District Memorial<br>Hospital                           | 30 June<br>1994                                  | " "  | 20 Sept.<br>1994   | 25 Oct.<br>1994                                     |
| Skipton and District<br>Memorial Hospital                       | 30 June<br>1994                                  | " "  | 24 Oct.<br>1994  | 4 Nov.<br>1994 (a)                                  |
| South Gippsland Hospital  | 30 June<br>1994                                  | " "  | 5 Sept.<br>1994  | 7 Oct.<br>1994                                      |
| St. Arnaud District Hospital                                    | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 16 Oct.<br>1994 (a)                                 |
| St George's Hospital and<br>Inner Eastern Geriat. Service       | 30 June<br>1994                                  | " "  | 9 Sept.<br>1994  | 20 Oct.<br>1994                                     |
| St Vincent's Hospital<br>(Melbourne) Limited                    | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 9 Oct.<br>1994                                      |
| Stawell District Hospital                                       | 30 June<br>1994                                  | " "  | 30 Aug.<br>1994  | 21 Oct.<br>1994                                     |
| Swan Hill District Hospital                                     | 30 June<br>1994                                  | " "  | 1 Sept.<br>1994  | 10 Oct.<br>1994 (a)                                 |
| Tallangatta Hospital  | 30 June<br>1994                                  | " "  | 29 Aug.<br>1994  | 9 Oct.<br>1994 (a)                                  |
| Tawonga District General<br>Hospital                            | 30 June<br>1994                                  | " "  | 30 Aug.<br>1994  | 9 Oct.<br>1994                                      |
| Terang and District (Norah<br>Cosgrave) Community<br>Hospital   | 30 June<br>1994                                  | " "  | 5 Sept.<br>1994  | 26 Sept.<br>1994 (a)                                |
| Timboon and District<br>Hospital                                | 30 June<br>1994                                  | " "  | 8 Sept.<br>1994  | 26 Oct.<br>1994 (a)                                 |
| Tweddle Child and Family<br>Health Service                      | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 9 Oct.<br>1994                                      |
| Wangaratta District Base<br>Hospital                            | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 20 Oct.<br>1994 (a)                                 |
| Waranga Memorial Hospital                                       | 30 June<br>1994                                  | " "  | 1 Sept.<br>1994  | 27 Sept.<br>1994                                    |
| Warracknabeal District<br>Hospital                              | 30 June<br>1994                                  | " "  | 7 Sept.<br>1994  | 18 Oct.<br>1994 (a)                                 |
| Warrnambool and District<br>Base Hospital                       | 30 June<br>1994                                  | " "  | 2 Sept.<br>1994  | 6 Oct.<br>1994 (a)                                  |



**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>   | <i>Financial year ended / period</i> | <i>Reporting to Parliament</i>   | <i>Financial statements signed by entity</i> | <i>Auditor-General's report signed</i> |
|---|--------------------------------------|--|--|--|
| <b>COMPLETED AUDITS - continued</b>                             |                                      |  |  |  |
| <b>VICTORIAN PUBLIC HOSPITALS AND NURSING HOMES - continued</b> |                                      |  |  |  |
| Werribee District Hospital (b)                                  | 28 Feb. 1994                         | 30 Sept. <i>Annual Reporting Act 1983, s.8. Extension granted to 31 Oct.</i> | 9 Nov. 1994                                  | 9 Nov. 1994 (a)                        |
| West Gippsland Hospital   | 30 June 1994                         | " "  | 15 Sept. 1994                                | 23 Oct. 1994                           |
| Western Hospital  | 30 June 1994                         | " "  | 9 Sept. 1994                                 | 31 Oct. 1994 (a)                       |
| Westernport Memorial Hospital                                   | 30 June 1994                         | " "  | 16 Sept. 1994                                | 23 Oct. 1994                           |
| Willaura and District Hospital                                  | 30 June 1994                         | " "  | 25 Aug. 1994                                 | 9 Oct. 1994                            |
| Williamstown Hospital   | 30 June 1994                         | " "  | 9 Sept. 1994                                 | 25 Oct. 1994                           |
| Wimmera Base Hospital   | 30 June 1994                         | " "  | 7 Sept. 1994                                 | 23 Oct. 1994                           |
| Winchelsea and District Hospital                                | 30 June 1994                         | " "  | 7 Sept. 1994                                 | 9 Oct. 1994                            |
| Wodonga District Hospital                                       | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 9 Oct. 1994                            |
| Wonthaggi and District Hospital                                 | 30 June 1994                         | " "  | 25 Aug. 1994                                 | 10 Oct. 1994                           |
| Wycheproof District Hospital                                    | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 9 Oct. 1994 (a)                        |
| Yarram and District Health Service                              | 30 June 1994                         | " "  | 4 Sept. 1994                                 | 16 Oct. 1994                           |
| Yarrawonga District Hospital                                    | 30 June 1994                         | " "  | 2 Sept. 1994                                 | 9 Oct. 1994                            |
| Yea and District Memorial Hospital                              | 30 June 1994                         | " "  | 1 Sept. 1994                                 | 27 Sept. 1994                          |

(a) Qualified audit report issued.

(b) Entity ceased existence on the day after the indicated reporting period.

# Part 3.7

## Justice

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### KEY FINDINGS

#### DEPARTMENT OF JUSTICE

##### Magistrates' Court

- Attainment of meaningful progress in the key twin goals of improved timeliness and lower costs in the delivery of Court services should ultimately be the resultant outcome of recent initiatives by the Department of Justice and the Chief Magistrate.  
*Paras 3.7.17 to 3.7.20*
- The Magistrates' Court needs to establish a modern management framework encompassing corporate and business planning, and a management structure which provides full autonomy and responsibility for the strategic direction and control of Court operations to the Chief Magistrate.  
*Paras 3.7.21 to 3.7.36*
- Case management processes within the Court would be further enhanced by the formulation of well-defined case management policies, the expansion of time standards as a means of monitoring performance and the introduction of more effective case scheduling techniques.  
*Paras 3.7.49 to 3.7.74*
- Many of the features of the Court's computerised information system have placed it at the leading edge when compared with the majority of other Australian States.  
*Paras 3.7.92 to 3.7.93*
- Delays in implementing key components of the information system indicate a need for reassessment of the system's strategic plan and priorities for future development.  
*Paras 3.7.94 to 3.7.96*

##### Crimes Compensation Tribunal

- In the 6 year period ending 30 June 1994, there has been a substantial increase in compensation payments to victims of crime (\$10.6 million in 1988-89; \$43.9 million in 1993-94).  
*Paras 3.7.114 to 3.7.120*
- Awards made for sex-related offences represented 31 per cent of the total amounts awarded in 1993-94 (9 per cent in 1988-89). Given this upward trend, coupled with recent rulings by the Administrative Appeals Tribunal relating to the issues of recovered memory and multiple claims, a substantial growth in future payments made by the Tribunal for this category of offence is likely.  
*Paras 3.7.133 to 3.7.138*

## **KEY FINDINGS - continued**

### **Crimes Compensation Tribunal - continued**

- Over the 6 year period ending 30 June 1994, the Tribunal has made awards totalling \$16 million for compensation for pain and suffering to persons who have sustained work-related injuries arising from criminal acts. *Paras 3.7.164 to 3.7.171*
- The Act empowers the Director of Public Prosecutions to apply to the Tribunal to make an order for the convicted offender to refund the whole or part of an award of compensation. To date, this power has not been exercised. *Paras 3.7.175 to 3.7.178*

### **Victorian Government Solicitors Office**

- The high level of outstanding legal fees, due to the Office has resulted in insufficient funds being available to the Office to pay for professional assistance it has engaged. *Paras 3.7.182 to 3.7.185*
- The benefits of improving the efficiency and effectiveness of legal services provided to the Government through the fee-for-service concept could ultimately be eroded due to failure by departments and public bodies to pay their accounts, in a timely manner, for services provided. *Paras 3.7.186 to 3.7.188*

### **SOLICITORS' GUARANTEE FUND**

- In the period June 1989 to June 1994, there has been a significant deterioration in the Fund's financial position. The Fund's financial position peaked in 1991-92 with net assets of \$21.2 million and deteriorated to a net liability position of \$9.2 million in 1993-94. *Paras 3.7.184 to 3.7.198*
- There has been a significant reduction in funding to the Legal Aid Commission of Victoria by the Fund since 1992 which has been compensated by increased State contributions. *Paras 3.7.203 to 3.7.206*
- The Solicitors' Guarantee Fund meets expenditure of a regulatory and educational nature before payment of claims. In contrast, expenditure of a regulatory and educational nature from the Estate Agents' Guarantee Fund is met from any surplus remaining after claims have been paid. An anomalous situation therefore exists between the 2 Funds. *Paras 3.7.207 to 3.7.210*

**3.7.1** Five Ministers, namely the Attorney-General, the Minister for Corrections, the Minister for Fair Trading, the Minister for Police and Emergency Services and the Minister for Women's Affairs, have responsibility for operations within the Justice sector. These Ministers have collective responsibility for the Department of Justice.

**3.7.2** Details of the specific ministerial responsibilities for public bodies within the Justice sector are listed in Table 3.7A. These public bodies, together with the Department of Justice, were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.7A**  
**MINISTERIAL RESPONSIBILITIES FOR PUBLIC BODIES WITHIN THE FINANCE SECTOR**

| <i>Ministerial portfolio</i>         | <i>Entities subject to audit</i>   |
|--------------------------------------|--|
| <b>Attorney-General</b>              | Estate Agents Board<br>Guardianship and Administration Board<br>Legal Aid Commission of Victoria<br>Legal Aid Commission Staff Superannuation Fund<br>Office of the Director of Public Prosecutions<br>Office of the Public Advocate<br>Solicitors Guarantee Fund<br>State Electoral Office<br>State Trust Corporation of Victoria<br>Victorian Financial Institutions Commission<br>Victorian Institute of Forensic Pathology |
| <b>Corrections (a)</b>               | Victorian Prison Industries Commission   |
| <b>Fair Trading (a)(b)</b>           | -  |
| <b>Police and Emergency Services</b> | Country Fire Authority<br>Metropolitan Fire Brigades Board<br>National Institute of Forensic Science<br>National Police Ethnic Advisory Bureau<br>Office of the Chief Commissioner of Police<br>Police Board of Victoria   |
| <b>Women's Affairs (a)</b>           | -  |

(a) Minister has responsibility for certain functions of the Department of Justice.

(b) Includes responsibility for Residential Tenancy Fund.

**3.7.3** Comment on matters of significance arising from the audit of the Department of Justice is provided on the following pages.

## DEPARTMENT OF JUSTICE

**MAGISTRATES' COURT -  
REVIEW OF RESOURCE MANAGEMENT PROCESSES****Background**

**3.7.4** The Magistrates' Court of Victoria forms an integral part of the Victorian justice system with a wide jurisdiction over criminal, civil, family and children's matters. It constitutes the initial stage of hearing for more serious matters which are to be pursued through the higher Victorian courts, namely the Supreme and County Courts.

**3.7.5** The *Magistrates' Court Act 1989* constitutes the prime legislative authority for the operation of the Magistrates' Court. This Act amended and consolidated pre-existing law relating to the jurisdiction and procedure of the Court and provides for its fair and efficient operation.

**3.7.6** The objective of the Magistrates' Court, as documented in the *1993-94 Annual Report* of the Department of Justice, is to "... *make all decisions according to law and on the facts as presented in Court and to contribute to the provision of an effective, comprehensive and responsive justice system that provides protection of individuals' rights, access to justice by the public, prompt resolution of disputes and ancillary services*".

**3.7.7** The Court operates across a wide area of jurisdictions encompassing criminal offences, civil actions and matters before the Children's Court, Crimes Compensation Tribunal, Coroner's Court and the Penalty Enforcement by Registration of Infringement Notice (PERIN) Court.

**3.7.8** The Court comprises over 60 court locations situated throughout the State. These locations vary from single courtroom premises to complexes comprising up to 30 separate courtrooms.

**3.7.9** Separate locations of the Court within the central business district of Melbourne have been dedicated to either criminal, civil, children's or coroner's court matters. Magistrates at these locations may deal solely with cases within a particular jurisdiction. In contrast, in smaller metropolitan and country court locations, one magistrate would generally be allocated to preside over cases arising from all jurisdictions, with oversight exercised by a regional co-ordinating magistrate.

**3.7.10** Under a major government capital project, the separate locations of the Court within the Melbourne business district were moved to a new modern complex in December 1994.



*New Melbourne Magistrates' Court complex - operational from December 1994.*

**3.7.11** The responsibilities of the senior magistrate of the Court, the Chief Magistrate, have traditionally been largely focused on the position's key judicial functions incorporating the scheduling of magistrates to particular court locations.

**3.7.12** Over the years, staff within the Department of Justice have performed the bulk of the Court's central administrative functions such as budgetary and financial control and payroll and personnel functions.

**3.7.13** The operation of the Magistrates' Court represents a significant cost to the Government and the taxpayer in the form of:

- Substantial levels of annual direct operating expenditure (\$23 million, 1993-94; \$24 million, estimated 1994-95);
- Administrative support provided by the Department of Justice (departmental records do not identify specific costs attributable to the Magistrates' Court. However, aggregate costs of administrative support provided to all State courts and tribunals in 1993-94 were \$785 000.);
- Costs incurred by the Victoria Police, the Director of Public Prosecutions, the Legal Aid Commission of Victoria and the Department of Health and Community Services through their involvement in court processes; and
- The cost of legal representation to the public.

**3.7.14** A large volume of matters are handled annually by the Court, including:

- charges against more than 180 000 defendants under its criminal jurisdiction;
- in excess of 130 000 matters under the civil jurisdiction;
- 400 000 cases in the PERIN Court;
- around 8 500 matters in the Children's Court; and
- approximately 7 000 applications for criminal injuries compensation

**3.7.15** An audit review was undertaken to assess the efficiency and effectiveness of resource management processes in place to support the judicial operation of the Magistrates' Court.

**3.7.16** The Chief Magistrate, other magistrates and court staff, and representatives of the Department of Justice provided significant support and valuable assistance to audit during the course of the review. Audit wishes to acknowledge the contribution that the support and assistance made to the preparation of material for this section of this Report.

### OVERALL CONCLUSION

**3.7.17** Since the mid-1980s, the Magistrates' Court has introduced a range of initiatives aimed at facilitating timely and efficient resolution of cases. While the collective impact of the various initiatives has been improved co-ordination and earlier completion of cases, the lack of key statistical information available on matters handled by the Court, e.g. trend analyses of case backlogs, has restricted a complete assessment of the beneficial consequences to overall resource management at the Court from the initiatives.

**3.7.18** There are several important areas where scope exists to further upgrade the quality and soundness of resource management processes within the Court. The more significant of these areas are:

- application of a modern corporate and business planning framework which focuses on strategic goals, implementation strategies, planning timeframes and specific performance benchmarks;
- a major upgrading of performance management and reporting processes to drive the Court's strategic management framework and to support key decisions on resource allocation and utilisation;
- substantial expansion in the use of time standards as evaluative yardsticks for case management and performance monitoring; and
- the formulation and circulation within the Court of well-defined case management policies.

**3.7.19** In summary, the Chief Magistrate now has the major challenge of ensuring that maximum benefits, in terms of enhanced resource management, are derived from the various techniques and practices implemented within the Court over recent years. The challenge also extends to the identification and evaluation of new opportunities to further improve the Court's performance in case management. Matters which will warrant attention in the pursuit of these aims include:

- clear articulation of performance goals and targets;
- adequate participation by magistrates and court staff in the goal setting process;
- a well-developed framework for the recording and monitoring of progressive performance on cases against benchmarks; and
- the integration of performance management and reporting for cases within the overall court machinery developed to govern corporate and business planning processes.

## OVERALL CONCLUSION - *continued*

**3.7.20** Recent initiatives by the Department of Justice to devolve greater levels of management responsibility to the Court, and the support expressed by the current Chief Magistrate for the occupant of that position to receive widened authority and responsibility for the strategic management of Court operations, are positive developments which provide a valuable impetus to guide the future management direction of the Court. Attainment of meaningful progress in the key twin goals of improved timeliness and lower costs in the delivery of Court services should ultimately be the resultant outcome.

### **□ RESPONSE** by Secretary, Department of Justice

*In considering this report in its entirety, the positive manner in which it is presented must be commended. While the report recognises major initiatives and changes within the Magistrates' Court's jurisdiction over the past 10 years, it recommends a number of further initiatives to enhance service delivery in this jurisdiction. Your comments, with particular emphasis on strategic planning, management improvement, and revised statistical reporting add constructively to a scenario that will allow the Magistrates' Court to further develop its business plan, building on the firm foundation already established. I also make specific comment upon the positive working relationship between officers of our respective departments in the production of this report. In particular, audit is to be commended for its positive approach to the audit and the way in which it conducted the investigation. In addition, the co-operation of the Chief Magistrate must also be noted.*

*Finally, before commenting on the recommendations contained in the report, I must make mention of the significant response by the Magistrates' Court to the many changes in recent years. This jurisdiction has coped with substantially increased workloads during a time of reducing resources. The benefits of technology and respective computer systems, together with revised management structures and significantly improved case management techniques, place the Magistrates' Court in Victoria as one of the leaders in this jurisdiction in Australia.*

### **Scope for enhanced strategic planning and management**

**3.7.21** The development and implementation of strategic planning within the Magistrates' Court began in the early 1980s in response to:

- an expectation by the Court that case numbers would increase substantially over time; and
- a recognition that improvements were necessary both in the time taken to resolve cases and in the level and quality of services and facilities provided to users of the court system.

**3.7.22** In 1984, the Government initiated a reform process known as the "*Courts Management Change Program*" with the aim of increasing the efficiency and effectiveness of the entire Victorian court system and including, as a major component, the Magistrates' Court. This Program was the key influence on the direction of review activities relating to the Court during the balance of the 1980s and incorporated implementation of a regional structure for the Court and a forward capital works masterplan for the development of court buildings and facilities throughout the State.

**3.7.23** The main focus of the audit review was directed towards strategic management measures pursued by the Court in more recent years and whether its strategic planning processes in operation adequately reflected modern business planning principles.

**3.7.24** In late 1993, a Senior Court Registrars' planning conference was convened to consider potential avenues for improving a number of identified problem areas within



the Court. This conference resolved to establish separate working parties to review and formulate recommendations in the following areas:

- administration of the civil jurisdiction;
- case flow management;
- conduct of pre-hearing conferences;
- regionalisation of the Crimes Compensation Tribunal;
- administration of the *Crimes (Family Violence) Act 1987*;
- effectiveness, efficiency and consistency of client services; and
- human resource development and management practices.

**3.7.25** The reviews by working parties were completed throughout 1994 and the resultant reports and recommendations were consolidated into a major document of the Court known as the *Magistrates' Court Management Plan*.

**3.7.26** The formulation of the Management Plan represented a positive step towards improving many operational aspects of the Court. However, audit considered that, from a strategic management viewpoint, the Plan was of limited usefulness as it comprised entirely of the reports of the various working parties which, in many cases, articulated actions of a procedural nature rather than the Court's higher-level strategic direction. In other words, the Plan did not resemble a modern strategic planning document or constitute an effective basis for guiding the future direction of resource and operational management of the Court.

**3.7.27** In discussions with the Chief Magistrate and representatives of the Department of Justice, audit indicated that a well-structured strategic planning document for the Court would, ideally, incorporate the following elements:

- clear statements of the overall mission and corporate objectives of the Court;
- details of key planned tasks linked to the stated objectives;
- reference to the specific strategies to be implemented to achieve tasks; and
- timeframes and performance indicators as a means of monitoring and measuring the progressive actions undertaken to achieve planned tasks.

**3.7.28** In audit opinion, the absence of a soundly-based strategic planning framework creates uncertainty within the Court as to its overall strategic aims and hinders the identification and awareness by magistrates and staff of those areas accorded the highest priority for improved services or productivity. Such circumstances make it extremely difficult for the Chief Magistrate to be assured that the scarce resources available for the Court's operational needs have been utilised and managed with maximum efficiency and effectiveness.

**3.7.29** **Given the size and significance of the Court, audit considers that its operations can be equated with that of a significant business enterprise. Accordingly, a modern management framework encompassing corporate and business planning appropriate to such an enterprise, should be established to govern the future operations of the Court.**

**3.7.30** It is also important to recognise, from a resource management viewpoint, that the judicial responsibilities of the Court need to be complemented by a management structure which facilitates the delivery of timely and efficient support services such as personnel and payroll functions, budgetary control of financial resources and accommodation.

**3.7.31** The Australian Institute of Judicial Administration has discussed 3 potential models suitable for the management and administration of courts in Australia, namely:

- *The Traditional Model* - under which an administrative unit of government provides support to the court and all other justice agencies such as Corrections and Police. All essential administrative services are rendered in consultation and co-operation with senior magistrates and court officers;
- *The Separate Department Model* - where an administrative unit of government provides service support to the court system only and not to other justice-related agencies; and
- *The Autonomous Model* - which assigns responsibility to the Court for all management and administrative functions independently of an administrative unit of government.

**3.7.32** The Victorian justice system has, in the past, been based on the traditional model in that the Department of Justice has provided substantial administrative support, including financial management activities, to all State courts and tribunals. While the use of a traditional management structure for the Court has enabled the separation of independent judicial responsibilities of magistrates from associated administrative functions, it has also distanced decision-making authority for resource management from magistrates and court staff who are in closest proximity to the delivery of services, and therefore best placed to reach decisions on the allocation and use of scarce resources within the Court.

**3.7.33** Over recent years, the Department of Justice has progressively assigned greater management responsibility, including control of court budgets and monitoring of court operations, to the Court's Principal Registrar. The Department advised audit that the level of devolved responsibility to the Court is likely to be expanded in future years to eventually encompass all major administrative activities.

**3.7.34** Despite the increasing delegation of responsibility to the Principal Registrar, the level of management and administrative authority accorded to the Chief Magistrate has continued to be very limited in that, in reality, the Principal Registrar has been viewed as predominantly accountable to the Department. During discussions with audit, the Chief Magistrate indicated that he had advised the Department of his support for any measures which involve the allocation of greater levels of autonomy and responsibility to the position of Chief Magistrate for the direct management and administration of Court operations.

**3.7.35** The current moves to assign an increasing level of management and administrative responsibility to the Court is consistent with the management devolution principles identified in the Government's *Management Improvement Initiative*. **In audit opinion, such action, which effectively changes the Court's management structure from the traditional model to the autonomous model, will help to enhance the overall management framework of the Court.**

**3.7.36** As part of the change process, full autonomy and responsibility for the strategic direction and control of Court operations should rest directly with the Chief Magistrate. With the assumption of higher levels of management authority, there should be no doubt within the changing environment as to the Chief Magistrate's clear authority and accountability for ensuring that maximum efficiency and effectiveness is achieved in the utilisation of court resources.

□ **RESPONSE** by Secretary, Department of Justice

*The Magistrates' Court Management Plan in late 1993 was the first step in modernising management since the Courts Management Change Program of the 1980s. This document was never intended to be a modern strategic planning document.*

*Audit observations in relation to a well-structured strategic planning document are most appropriate and agreed. In January 1995, a more strategic Magistrates' Court planning document was finalised and approved by the Chief Magistrate. The "Magistrates' Court 1995-96 Business Plan" is linked to the major objectives and strategies in the Department of Justice's Business Plan. While it now picks up the majority of issues raised by audit, it was completed before this report was to hand. In these circumstances, the "Business Plan" will be reviewed during the month of April and updated to include recommendations contained in the audit report.*

*It is agreed with audit that a modern management framework is required to govern the future of the Magistrates' Court operations. However, while this will be further commented upon in the following paragraphs, the precise administrative responsibilities of the Chief Magistrate remain to be determined as part of the consultation process on Court Governance.*

*The Attorney-General and the Department of Justice are in the process of consulting with the respective court jurisdictions as to their future management and administration. As part of this process, the lines of accountability in all areas of operations and service delivery may be re-established. The management models referred to in the audit report are already being considered as part of this process and further recommendations concerning the various areas of management authority, including that of the Chief Magistrate, will receive full consideration. It is anticipated that the system of administration of courts in Victoria will be agreed between the respective parties by 1 July 1995.*

## Case management

**3.7.37** While the primary obligation of courts is to decide cases, their responsibility also encompasses the expedient provision of justice on behalf of the community, at an affordable cost, while maintaining the independence and high standards of the justice system. Delays in the hearing and finalisation of cases can result in a loss or deterioration of evidence, create backlogs, waste court resources, and cause inconvenience and unnecessary costs to litigants, the legal profession and prosecuting agencies.

**3.7.38** **Case management** within a court environment can be described as the range of processes and hearings established by a court to efficiently manage the flow of cases. It is the most critical element of resource management procedures within a court and can include the formulation of policies and standards to govern cases, the scheduling of cases for daily court sessions, the use of preliminary hearings to resolve matters at the earliest possible stage, and the compilation and analysis of statistics of past performance for particular categories of cases as the basis for decisions on the allocation of court resources to efficiently meet workloads.

### *Past initiatives to improve case management*

**3.7.39** For many years, case management throughout the Court's system was confined mainly to the scheduling of cases for a particular hearing date and venue based on requests by solicitors and other court users. Very limited consideration was given to alternative processes such as preliminary hearings to shorten the time likely to be taken to resolve cases. This somewhat passive approach to case management led to inefficient use of court resources at those locations where insufficient cases were listed and a significant backlog in matters awaiting to be heard at locations with an excessive number of cases.

**3.7.40** Over the years, and particularly since the mid-1980s, several actions have been taken to increase the effectiveness and efficiency of the Victorian court system. In

terms of the Magistrates' Court, the main initiatives introduced to strengthen case management have been:

- Establishment of the **Penalty Enforcement by Registration of Infringement Notice (PERIN) Court** which operates as a computerised system for the enforcement of unpaid and uncontested fixed penalty offences, such as speeding and parking fines and red light camera offences. PERIN currently handles in excess of 400 000 cases annually, of which less than 2 per cent proceed to a court hearing. Prior to PERIN, these infringements would have required separate hearings in the wider Magistrates' Court. This enhanced framework for the handling of cases has resulted in substantial cost and time savings to the Court and the agencies responsible for the issue of infringements and offenders.
- Introduction of the process known as the **Mention Court system** for all criminal cases. The major beneficial impact of this system on case management has been that it has enabled court staff to more easily identify the likely length of time needed to hear a case. Under the system, all persons charged with criminal offences are advised of the requirement to appear before the Court. Defendants are obliged to advise the Court of their plea and book their case for hearing, with the timing of the hearing process dependent on the plea. Where defendants plead guilty, cases are heard and sentences passed in the Court on the scheduled day. For these cases, police and witnesses are generally not required to attend which results in relatively brief hearing times. Where a not guilty plea is advised by the defendant, the case is listed for a contested hearing at a future date. Given the knowledge of a not guilty plea, court staff are in a better position to more accurately estimate the time necessary to hear the matter. The Mention Court system now represents the major case management technique within the criminal jurisdiction.
- Subsequent extension of the Mention Court system by the introduction of the **Contest Mention Hearings system**. Under this latter system, a further stage in the criminal process is utilised for those cases proceeding beyond the initial mention hearing and with a potential hearing time in excess of one day. During this additional hearing process, the not guilty plea is confirmed and other matters concerning the case are clarified. The key to the success of the contest mention hearings system in reducing court time and costs is an awareness by defendants that a discounted sentence is likely to be given as an inducement to enter a guilty plea at the earliest stage of the court process.
- Implementation of **Pre-hearing Conferences** in the civil jurisdiction. These conferences take the form of informal meetings between the parties in dispute and are convened by the Court to facilitate resolution of disputes.

- Development of **larger court complexes** to enable greater flexibility in the scheduling of cases. In larger court complexes, the court list can be purposely over-scheduled to allow for expected variations in the length of individual hearings which might arise as a result of adjournments or late plea changes. In December 1994, the new Melbourne Magistrates' Court complex commenced operations. This complex, constructed at a cost of around \$54 million, comprises over 30 courtrooms and 2 hearing rooms which has enabled consolidation of the civil, criminal and crimes compensation jurisdictions of the Court which were previously spread throughout a range of courtrooms in the Melbourne and inner metropolitan area. In addition to creating opportunities for further enhancement of case management procedures, the new Melbourne Court complex provides for more effective security arrangements and greatly improved facilities for parties to Court hearings through the availability of interview rooms and other accommodation.

**3.7.41** In addition to the above initiatives, several improvement measures for the management of criminal cases have been introduced by the Court following recommendations arising from the September 1992 report of a special government task force known as the Pegasus Task Force. In its report entitled "*Reducing Delays in Criminal Cases*", the Task Force identified significant delays in the finalisation of criminal cases and commented that:

*"Proceedings for indictable offences are subject to very long delays at the committal stage (in the Magistrates' Court) and again at the trial stage. The substantial waiting lists at ... the Melbourne Magistrates' Court indicate that the system is overloaded. However, the problem is not simply due to a lack of resources. Case processing is at present inefficient in a number of critical respects. This leads to a significant waste of the system's resources".*

**3.7.42** In reaching the above conclusion, the Task Force commented on the lack of detailed information available at the Court on times taken to resolve criminal cases. It went on to estimate that:

- the average time taken between arrest and committal was 6.9 months, with 90 per cent of committals held within 13.5 months of arrest; and
- approximately 700, cases (or 50 per cent) pending disposition in the Court, had been waiting longer than 5 months, the specific time benchmark set in 1988 by a government committee known as the Criminal Delay Reduction Steering Committee.

**3.7.43** The following strategies aimed at reducing delays experienced in the processing of criminal matters have been introduced by the Court in response to the Pegasus Task Force Report:

- appointment of a full-time committal co-ordinator at the Melbourne Court to more actively manage criminal matters;
- agreement reached with the Director of Public Prosecutions and the Director of the Legal Aid Commission of Victoria for the stationing of full-time prosecution and legal aid representatives at the Court to facilitate timely hearing of cases; and
- implementation of a process known as *Status Hearings* from March 1994 which take place within 14 days of the laying of a charge and at which both the prosecution and defence parties must notify the Court of any perceived difficulties likely to delay or hinder the preparation and service of the brief for listing of the case.

**3.7.44** It can be seen that a wide range of techniques and procedures have been implemented over the years at the Court to upgrade the quality and timeliness of case management.

*□ RESPONSE by Secretary, Department of Justice*

*The summary of initiatives in respect of case management is basically correct.*

#### *Difficulties in assessing the full impact of past case management initiatives*

**3.7.45** Some specific information was available to audit during the review to indicate that the past case management initiatives embarked upon by the Court have resulted in more effective and efficient case management strategies and practices, e.g. the approximately 400 000 cases which have been resolved in the PERIN Court and which would previously have been required to be heard separately before a magistrate, and of the 176 000 matters handled under the Mention Court system in 1993, over 48 per cent, or around 85 000 cases, were resolved on the day of the mention hearing (prior to the introduction of the Mention Court system, these matters would have been scheduled for a full hearing with little advance notice of the time necessary to achieve resolution of cases).

**3.7.46** Apart from the above information relating to the PERIN and Mention Court systems, very little definitive data was available at the Court to enable determination by audit of the full impact of all past case management initiatives. This situation was due to:

- the absence of performance management and reporting processes identifying targeted benchmarks, timelines for achievement of targets and the results of progressive monitoring by management of action against targets;
- failure of the Court to conduct detailed post-implementation evaluations of initiatives; and
- a general lack of historical court data on case trends.

**3.7.47** A failure by the Court to systematically measure the progressive implementation of initiatives against targeted benchmarks increases the risk that planned improvements to the management of cases may not be fully achieved.

**3.7.48** **The progressive outcomes of all enhancement initiatives implemented in the Court should be systematically evaluated as key elements of the Court's business planning processes. In this way, any specific strategic goals assigned to particular initiatives can be linked to targeted benchmarks with the results of ongoing action monitored and measured against established targets.**

*□ RESPONSE by Secretary, Department of Justice*

*It is agreed that there is an absence of performance management and reporting processes in Magistrates Courts together with a lack of historical Court data on case trends including detailed post-implementation evaluation of initiatives.*

*The Chief Magistrate has been most concerned at the lack of statistical data to support the Magistrates' Court jurisdiction in general. As part of the Courtlink computer system, a wide range of statistical reports are produced which reflect the requirements of previous administrations. The Chief Magistrate has already commenced a review of existing statistical reports with the requirement to upgrade them significantly to better monitor future Court performance. Audit's recommendations are accepted and will be included in the revised Business Plan so as to provide appropriate performance indicators for the future.*

### *Characteristics of effective case management processes*

**3.7.49** The various initiatives outlined in the preceding paragraphs have generally been joint efforts by the Department of Justice and the Court to achieve more effective case management through the streamlining of the hearings process. However, in order for the benefits expected to result from these initiatives to be maximised, it is important that the overall framework in place for the management of cases is soundly based and encompasses, from commencement through to termination of cases, actions designed to streamline case performance and minimise elapsed time. Characteristics of well-structured management processes for cases within the Court would include:

- clearly-defined case management policies to guide court operations and ensure the consistent application of procedures throughout the Court's system;
- development and application of appropriate time standards against which the progress of cases can be measured; and
- use of case scheduling techniques to facilitate efficient allocation of magisterial time and court resources.

**3.7.50** These characteristics were used by audit as the main evaluative criteria for assessing the current case management environment at the Court.

#### *Importance of clearly defined case management policies*

**3.7.51** The formulation and circulation of well-defined case management policies are the key means of achieving compliance with relevant quality assurance standards set within the Court. The policies should be distributed to all magistrates and staff involved in the management of cases.

**3.7.52** During the review, audit indicated to Court and departmental representatives that the core elements of a structured case management policy framework for the Court would include:

- documented guidance on the basic objectives of case management;
- specification of priorities to be assigned to particular case types after consideration of any potential limiting factors such as the availability of magistrates, court time and other court resources;
- an outline of the features of the Court's current case scheduling techniques such as the previously described mention and status hearings in the criminal jurisdiction and pre-trial conferences in the civil jurisdiction;
- identification of the significance of time standards and other performance measures in the monitoring and control of cases;
- description of those issues which can impact on the continuity of cases such as criteria for the granting and authorisation of adjournments; and
- strategies for the ongoing review of court operations.

**3.7.53** Policy and related implementation matters relevant to the Court are currently documented in the *Magistrates' Court Act* 1989 and a number of manuals, memoranda and minutes developed by the Court including the Court's Civil Procedure Rules, the Clerk of Courts Manual and Practice Directions issued by the Principal Registrar. Audit concluded, from an examination of these documents, that their principal focus was on procedural aspects of the Court's operations and, as such, they did not provide effective policy guidance on case management.

**3.7.54** With this absence of central policy direction on the subject, the identification and development of case management initiatives have been largely left to the foresight of individual regions of the Court. While this approach has enabled regional courts to implement improvements suited to their particular circumstances, the lack of a centralised policy approach has contributed to the generally slow pace of case management reform throughout the Court system. In this regard, opportunities to improve the timeliness of case throughput and to reduce associated costs on a broad scale have been principally reliant upon the initiatives taken in the regional courts having sufficient beneficial qualities to warrant wider application. These circumstances have been conducive to delays in the global implementation across the Court of reforms designed to enhance the management of cases. As one example, the widespread implementation throughout the Court system of pre-hearing conferences for civil cases, which were initiated at the Prahran Court in 1985, was not achieved until after a period of over 5 years.

**3.7.55** Mindful of the above position, audit sought to establish during the review the nature of action underway within the Court to upgrade the overall policy setting framework for case management.

**3.7.56** A recent impetus within the Court for improvements to case management policy came from the Senior Court Registrars Planning Conference of July 1993 (referred to in an earlier paragraph), where a working party was specifically assigned the task of assessing case management practices and of developing a uniform system of policy guidance. While the findings of this working party identified that inconsistencies in case management practices existed across court locations, they were generally couched in narrative of a procedural nature and had limited value in terms of strategic policy direction.

**3.7.57** A further recent initiative, which audit considers has the greatest potential to upgrade the policy and performance monitoring framework for case management, was commenced during 1994 by the Chief Magistrate. Under this initiative, a Deputy Chief Magistrate has been assigned specific responsibility for the strategic co-ordination and control of case management throughout the court system. Key activities already undertaken by this Deputy Magistrate include:

- commencement of a project which aims to consolidate the implementation of the Contest Mention system throughout the State;
- establishment of magisterial lines of responsibility within the new Melbourne Magistrates' Court complex; and
- development of a series of statistics for the monitoring of cases as performance benchmarks to apply to all significant components of the Court's jurisdiction.

**3.7.58** It is important to recognise the positive direction of action currently underway within the Court to strengthen the policy framework for case management.



**3.7.59** The principal challenge facing the Chief Magistrate for this key facet of the Court's functioning is to ensure that maximum benefit is derived from the various techniques and practices implemented in recent years and that opportunities with potential for further enhancing the Court's performance in case management are identified and evaluated in a structured and timely manner. Matters which will require attention in the pursuit of these aims and in the formulation of the related policy setting for the Court include:

- clear articulation of performance goals and targets;
- adequate participation by magistrates and court staff in the goal setting process;
- a well-developed framework for the recording and monitoring of progressive performance against benchmarks; and
- the integration of performance management and reporting for case management within the overall Court machinery developed to govern corporate and business planning processes.

**□ RESPONSE** by Secretary, Department of Justice

*The above comments and recommendations are noted and will receive full consideration by the Chief Magistrate together with implementation where possible. Again, it is recognised that there does need to be a well-developed framework for the recording and monitoring of progressive performance against benchmarks.*

*Time standards and performance measurement*

**3.7.60** Fundamental to effective case management within a court environment is the use of time standards as part of the ongoing assessment of actual performance. Such standards should measure the progress of each stage of cases from initial notification to the court through to their final determination.

**3.7.61** As an action designed to improve the management of cases, the Chief Magistrate has implemented a specific standard benchmark to apply to the amount of time taken to schedule cases for a hearing after the point of initial notification. In this regard, a standard time of 12 weeks was set to cover cases estimated to require a hearing time in excess of one day. This initiative represents the only time standard currently used by court management to evaluate performance.

**3.7.62** Information maintained by the Court on the actual performance of Court locations against this time standard revealed that in 1994 over 75 per cent of cases were scheduled for hearing within 12 weeks of initial notification. With its information base now established for this particular time standard, the Court is confident of substantially improving its current level of performance against the standard.

**3.7.63** A specific shortcoming of the use of only one time standard by the Court is that performance benchmarks are not in place to measure:

- the total time taken for disposition of cases from original notification through to final determination; and
- all specific stages of the court process such as the time taken for preliminary hearings.

**3.7.64** The Court should substantially expand the use of time standards as a case management and performance monitoring tool. Individual standards should be developed for the principal stages of cases and constitute a significant element of the Court's performance management and monitoring processes. In the setting of additional time standards, input should be sought from those external parties extensively involved in the Court system to obtain feedback on any perceived problem areas and to promote acceptance of the standards.

**□ RESPONSE** by Secretary, Department of Justice

*Time standards in Magistrates' Courts were established as a result of the recommendations of the Criminal Delay Reduction Committee, under the Chairmanship of the Chief Justice, of which the Chief Magistrate was a member. Time standards were established as part of the work of that Committee by the Chief Magistrate.*

*Any expansion of time standards is a matter solely for consideration by the Chief Magistrate and Council of Magistrates. Case management is constantly under review by the Chief Magistrate and as with the previous establishment of time standards, there has been extensive consultation with external parties involved in the Court system. Audit's comments are noted and will be given appropriate consideration by the Chief Magistrate.*

#### Case scheduling techniques

**3.7.65** Case scheduling involves the planning and development of daily case lists and administering court activities in accordance with determined schedules. It encompasses a wide range of factors including the number and anticipated length of cases awaiting hearing, the availability of magistrates, courtrooms and other facilities, and the readiness of participating parties. It is also aimed at minimising the time and cost of court attendances for police, witnesses and other parties to proceedings. In short, effective case scheduling is an integral part of achieving efficient court operations and the timely disposition of cases.

**3.7.66** The review identified that each court location has developed its own case mix model to assist in case scheduling. These models have been based on the long-term experience with cases at each location and encompass the following factors:

- the mix of criminal and civil matters and trends in new cases coming to the Court; and
- the likelihood of cases not proceeding as planned because of a withdrawal of charges, changes in pleas, the unavailability of witnesses, out-of-court settlements and adjournments (on this latter point, the number of scheduled cases normally exceeds available court time by up to 30 per cent to cater for adjournments).

**3.7.67** Staff at each location supplement the local case mix model with their own knowledge and experience of numerous factors that need to be considered when estimating the length of each case, such as:

- estimates of time for prosecutors and legal counsel;
- number of charges and their severity or the number of issues in dispute;
- the nature of hearings, e.g. mention or contest hearings;
- number of witnesses to be called; and
- the styles of legal representatives and of the presiding magistrate.

**3.7.68** Following consideration of these factors, a manual diary of cases to be heard each week is prepared and becomes the main management tool for the monitoring of cases and court workloads.

**3.7.69** It was difficult for audit to form a clear opinion on the effectiveness of case scheduling processes within the Court because of the absence of a structured

performance management and reporting framework, e.g. specific information was not routinely recorded on finishing times, performance targets or the number of scheduled cases not heard because of over-scheduling. In addition, the various case mix models developed at court locations had not been updated to reflect both the many initiatives introduced by the Court over recent years to streamline the hearing process and the greater flexibility in case scheduling which has emerged from the consolidation of court locations into larger complexes.

**3.7.70** As part of the process of upgrading its overall performance management and reporting framework, the Court needs to formulate specific performance measures for case scheduling. In addition, existing case scheduling models should be updated to reflect all recent enhancements to case management techniques.

□ *RESPONSE by Secretary, Department of Justice*

*While audit comment with regard to the existing case scheduling models was correct at the time of review, enhancements have now been made in this area. In readiness for the opening of the new Melbourne Magistrates' Court, the Magistrates' Courtlink computer system was upgraded to provide for enhanced diary and Human Resource Management for the benefit of both Co-ordinators and Magistrates.*

*In addition, the Caseflow Management report as part of the 1994 working parties reported on case management techniques to ensure consistency in practices. This report has been endorsed by the Chief Magistrate and Co-ordinating Magistrates for implementation. Practices will be reviewed and monitored to ensure that the inconsistencies referred to in the audit report no longer emerge.*

**3.7.71** Because an important purpose of case scheduling is to facilitate the efficient use of court resources and minimise the time and costs of court participants, the audit examination in this area also encompassed an assessment of the appropriateness of court commencement times and the magnitude of costs reimbursed to parties from the *Appeals Cost Fund* for cases that have not proceeded as scheduled.

*Court commencement times*

**3.7.72** All court locations commence proceedings daily at 10.00 a.m. At this time, all parties listed to appear, their counsel and witnesses to cases must be present regardless of when cases are heard during the day. Audit was advised by court personnel that this approach was necessary because of the high rate and unpredictability of cases not proceeding because of adjournments and other factors.

**3.7.73** It is reasonable to expect that the rate and level of unpredictability of postponed cases should progressively fall as a consequence of the case management initiatives introduced by the Court, particularly those initiatives which are aimed at streamlining the hearings process. **With a resultant increased confidence that particular cases scheduled will proceed on a given day and a sounder basis for estimating case times, it is appropriate that the Court re-assesses the suitability of its long-standing practice which requires all parties to be present from the start of proceedings each day.**

**3.7.74** Consideration should also be given to the introduction of scheduled appointments throughout a day for certain types of matters or the adoption of both morning and afternoon commencement times to facilitate the apportionment of cases. **The introduction of appointment-based scheduling would complement arrangements already in place for pre-hearing conferences in the civil jurisdiction and would lead to more effective scheduling of cases.**

**□ RESPONSE** by Secretary, Department of Justice

*While it is traditional for courts to commence in Victoria at 10.00 a.m., the Chief Magistrate is keen to explore other opportunities to conduct court hearings outside traditional times. However, it should be noted that staggered hearings have been tried over recent years at various Magistrates' Court locations, generally without success. While the unpredictability of case length is a major issue, human factors during a court hearing will continue to affect this no matter how well Case Management practices are established.*

*Legislation, and in particular the Evidence Act, makes appointment-based scheduling extremely difficult. This is not to say that some steps cannot be taken in this regard and the recommendations by audit will be given full consideration by the Chief Magistrate.*

*The Chief Magistrate is currently looking at the introduction of more flexible commencement and completion times to achieve better utilisation of court facilities.*

*Level of disbursements from the Appeals Cost Fund*

**3.7.75** A major adverse consequence of ineffective case scheduling is the extent of time, inconvenience and cost which accrues to parties to proceedings when, through over-scheduling, cases listed for hearing do not proceed on the planned date. Over-scheduling of cases can also have a financial impact to the general taxpayer for the costs of operating the Victorian court system in terms of the level of payments to external parties made from the Appeals Cost Fund.

**3.7.76** The Appeals Cost Fund was established under the *Appeals Cost Fund Act* 1964 and operates as a trust fund within the State's bank account, the Public Account. The purpose of this Fund is to reimburse litigants and their counsel for the cost of attending Victorian courts when a case is not heard as scheduled. Reasons for a case not proceeding as scheduled may include the unavailability of a courtroom or magistrate, or when parties to the case are not ready to proceed.

**3.7.77** Parties make application for an Appeals Cost certificate from a presiding magistrate which is subsequently lodged for approval of the Appeals Cost Board constituted under the legislation.

**3.7.78** In 1993-94, payments from the Fund in respect of the operations of the Court amounted to \$1.4 million. In early 1994, the Department raised concerns over the level of payments made from the Fund and conducted a detailed evaluation of the reasons for payments disbursed during the period June 1992 to March 1994. This exercise revealed that, in many cases, claims for awards by parties to proceedings resulted from poor administration of cases rather than from circumstances beyond the control of the court and other parties. The analysis revealed that 31 per cent (or approximately \$420 000) of total payments were caused directly by the Court, and, in many cases, could have been avoided with improved case scheduling.

**3.7.79** Following its evaluation, the Department initiated action to place greater responsibility on the Court to reduce the level of appeal costs awarded as a result of administrative inefficiencies. Action included the provision of monthly management reports to each court location to highlight the number of, and reasons for, awards granted so that corrective action could be taken in circumstances where shortcomings in procedures had led to the need for payment of the award.

**3.7.80** **Audit acknowledges the action taken by the Department aimed at containing the level of future drawdowns from the Appeals Cost Fund by emphasising the responsibility and accountability of court officials for better decision-making on case scheduling. It will be important that the Court responds in a positive manner to this pro-active initiative taken by the Department.**

**□ RESPONSE** by Secretary, Department of Justice

*The comments by audit in respect to the Appeals Cost Fund are accepted. Stricter control has been taken by all courts during the 1994-95 financial year and it is expected that there will be \$1 million in savings from a \$4.5 million budget. The significant support by the magistracy in improved case scheduling and enforcing the requirement for police officers to be ready to proceed on listed days have contributed significantly to this result.*

### **Case management in the Children's Court**

**3.7.81** The Children's Court hears cases involving people up to 17 years of age and comprises 2 Divisions, namely:

- *The Family Division* - which determines protection orders and applications involving irreconcilable differences between parties. Outcomes of Family Division proceedings include supervision orders and custody orders; and
- *The Criminal Division* - which determines all criminal matters (except homicide which must be heard in the Supreme Court) against children who are aged between 10 and 17 years of age.

**3.7.82** While magistrates are responsible for the judicial functions of the Children's Court, a Clerk of Courts and subordinate staff attend to all administrative tasks including:

- initiation and recording of cases for hearing by the Court;
- case listing, scheduling and supervision of the progress of cases;
- recording of decisions; and
- administrative and enforcement tasks arising out of court decisions, including the issue of documentation to parties as prescribed by legislation.



*Children's Court, Melbourne.*

#### *Delays in resolution of Children's Court cases*

**3.7.83** Statistics on matters heard within the Children's Court are manually compiled on court returns which are forwarded to the Department of Justice for analysis and external publication as necessary. Due to the inefficiencies inherent in the manual recording of cases within the Court, the extraction of data is an extremely time-consuming process. As a consequence, there has been a significant time lag in the availability of statistics for case management decision-making. **At the time of the audit review, the latest available data on cases related to the 1992 calendar year.**

**3.7.84** The lack of up-to-date information concerning the operations of the Children's Court has significant implications for the management of operations. In the absence of appropriate statistical information, the identification of delays in the resolution of matters and the monitoring of benefits derived from case management initiatives become more difficult.

**3.7.85** Although somewhat dated, the 1992 data illustrates the extent of delays experienced in resolution of matters before the Children's Court. In this regard, the 1992 material highlighted a progressively worsening trend in the elapsed time between date of initial notification and final hearing for completed cases in that:

- the median time from notification to final hearing increased by 63 per cent over a 4 year period **from 7 weeks in 1989 to 11 weeks in 1992**; and
- the time taken to finalise 90 per cent of cases increased **from 21 weeks in 1989 to 26 weeks in 1992**.

**3.7.86** The statistical information compiled by the Court also indicated that a contributing factor to the above delays was the growing incidence of adjournments to cases, with 60 per cent of cases having one or more adjournments and 27 per cent of these cases adjourned on more than 2 occasions. As the reasons underlying adjournments have not been analysed by the Court, it has not been in a position to readily determine the extent to which adjournments had arisen because of shortcomings in case management procedures.

**3.7.87** A further indication of timing problems was provided by the Chief Registrar of the Children's Court in December 1992 with the identification that parties were

**waiting up to 6 months** for contested hearings within the Court's Family Division. The Chief Registrar attributed this situation to acute increases in the number of matters brought before the Court, e.g. the extension of Guardianship and Custody Applications are now required to be brought before the Children's Court (prior to 1992, these applications were considered by the Department of Health and Community Services).

**3.7.88** It can be seen that the circumstances (based on the latest available data) which prevailed in 1992 in terms of the timeliness of case management within the Children's Court warranted definite attention.

**3.7.89** Several strategies were introduced by the Court during 1994 to upgrade the quality and timeliness of its case management procedures for cases within the Family Division. These strategies have involved the incorporation of specific hearings or conferences in order to streamline the case management process.

**3.7.90** In discussions with the Chief Registrar on the above strategies, audit was advised that the Court estimates the average time from initial notification of contested hearings within its Family Division to their finalisation should swiftly fall from previously experienced periods of up to 6 months to a much more acceptable timeframe of between 9 and 11 weeks.

**3.7.91** It will be important for the Children's Court to carefully monitor the progressive implementation of its improvement initiatives dealing with case management within the Family Division. An equivalent change program should also be considered for other areas of the Court.

□ *RESPONSE by Secretary, Department of Justice*

*There is considered to be no delay within the Children's Court jurisdiction at the present time.*

*It should be recognised that since 1993, the Melbourne Children's Court has been used exclusively for family division matters that occur in both the metropolitan area and central business district, and only criminal prosecutions that occur within the central business district or inner urban location. All criminal matters that occur within the suburbs are heard at suburban courts.*

*Prior to this revision of case hearing, Children's Court Magistrates visited suburban courts to hear both criminal and family division matters. Since this change, metropolitan Magistrates hear Children's Court criminal prosecutions and Children's Court Magistrates no longer visit suburban courts. These significant changes have ensured the containment of waiting times in this jurisdiction.*

## Status of the "Courtlink" information system

**3.7.92** The Court's most significant information tool is a Statewide system known as "Courtlink". This system is primarily a computerised court register and has the capability to generate pro-forma documents such as court orders and affidavits which are essential to the operation of the Court. It also has the facility to augment case management processes through the automated scheduling of cases and the production of management reports for progressive monitoring of case performance.

**3.7.93** The development of Courtlink commenced in 1985 following approval of an information systems strategic plan developed by the Department in consultation with Court management. Since that year, various modules of the system have been progressively implemented within the Court. In 1988, an automated court registry and cash management facilities were introduced into the Court's criminal and civil jurisdictions. Also, in mid-1994, facilities were established which enable the electronic lodgement of documents by private sector legal firms and the Legal Aid Commission of Victoria. **Many of Courtlink's current features have placed the Magistrates' Court at the leading edge of court information systems when compared with the majority of other Australian States.**

**3.7.94** The audit review did identify that, although almost 10 years have elapsed since commencement of the development of Courtlink, certain key system components have not yet been implemented. Components of Courtlink still to be implemented include:

- a computerised case scheduling facility to eliminate the need for manual preparation of daily case records;
- interface facilities with other users of court information, such as the Victorian Police and VicRoads, as a means of reducing the level of duplicate processing by these agencies of information already recorded on Courtlink; and
- the extension of automated registry functions within the Children's Court to replace the present and highly inefficient manual case processing techniques.

**3.7.95** The above components have the potential to significantly increase the efficiency of resource management within the Court. It appeared to audit that the significant delay in their implementation has been influenced by an absence within the 1985 strategic plan of specific milestones and assigned priorities for the various elements of the overall development project for Courtlink.

**3.7.96** **There is a need for the Court to re-assess the status of the Courtlink system including the extent to which the aims of the original strategic plan have been achieved or remain appropriate, and the assignment of priorities and implementation targets to the future development of the system.**



□ **RESPONSE** by Secretary, Department of Justice

*While the full extent of benefits achievable by the introduction of Courtlink may not have been realised, without this major initiative Magistrates' Courts in Victoria would have required a significant increase in resources to meet increased demands.*

*Consultants have been engaged to report on the future strategic direction of technology in Victorian courts and all of audit's comments will be given consideration as part of this review. The consultants have commenced the review which is timed for completion in July 1995.*

*As previously advised, a case scheduling and resource management system was introduced in November 1994 to improve the efficiency of court operations prior to the opening of the new Melbourne Magistrates' Court. It should also be noted that the new Melbourne Magistrates' Court has 30 courtrooms and 2 hearing rooms.*

*A PC-based local area network was introduced into the Children's Court in early 1994. To a large extent this replaced the previous manual processes and has improved administrative operations. While this is not the most ideal situation it was the decision made by management having regard to all competing requirements of court computerisation in Victoria.*

*It must be remembered that considerable expenditure has occurred within all court jurisdictions, including the Coroner's Court and Tribunals. Extensive Sentencing Act legislation has meant significant change to the criminal database under which the Magistrates' Court jurisdiction operates. A specific Children's Court computer system was to be built in 1992-93 but competing demands such as this legislation revised priorities. It has been in this environment that the LAN was introduced and not a more detailed computer system as referred to by audit.*

*It is appropriate to advise that the Children's Court will be considered as part of the strategic review of technology in Victorian courts.*

## REVIEW OF CRIMES COMPENSATION TRIBUNAL

### Operations of the Tribunal

**3.7.97** The Crimes Compensation Tribunal commenced operations on 27 March 1973 and today operates under the *Criminal Injuries Compensation Act 1983*.

**3.7.98** The principal aim of the Tribunal is to provide "*an informal, compassionate and inexpensive, but efficient, forum for victims of crime*". The Act was enacted as an acknowledgment by the State of Victoria of the rights to compensation for persons who have suffered injury and trauma, and by the dependants of persons killed as a result of criminal activity. The following persons are also eligible for compensation:

- a person injured while trying to arrest an offender, or trying to prevent the commission of a crime, or rendering assistance to another victim; and
- victims of domestic violence including abused children who have suffered injuries.

**3.7.99** Compensation is payable by the Tribunal where it is satisfied that on the "*balance of probabilities*" the applicant was a victim of a crime punishable by imprisonment, irrespective of whether a criminal prosecution or conviction occurred.

**3.7.100** **The purpose of the legislation is not to award damages, as the Government is not assuming liability, but to give to the victim of a criminal act compensation from the public purse, for the injuries sustained.**

**3.7.101** A substantial growth in applications received by the Tribunal (consisting of a number of full and part-time legal practitioners) became the driving force behind the Government's announcement on 4 September 1990 that the Tribunal was to be transferred to the Magistrates' Court throughout metropolitan and country Victoria. On 1 January 1991, Magistrates were appointed as Tribunal members, pursuant to the Act, replacing the previous members.

**3.7.102** During 1992-93, Regional Registrars were appointed and made responsible for the administrative functions of the Tribunal.

**3.7.103** The main benefits expected from the re-organisation were:

- cost savings by utilising the existing infrastructure within the court system;
- reducing the time involved in processing applications; and
- greater accessibility and convenience for the applicant.

**3.7.104** At present there are 95 Magistrates who each constitute a Tribunal responsible for hearing applications and determining awards. In addition, Registrars have responsibility for the administration of the Crimes Compensation Tribunal. Oversight of the Tribunal's operations is performed by the Chief Magistrate.

**3.7.105** The Tribunal is a unique and specialised jurisdiction. The key differences between the Tribunal and other jurisdictions are:

- Judgements made by the Tribunal are based on the "*balance of probabilities*" that a crime has been committed irrespective of whether a criminal prosecution occurred. Within the judicial system, rules of evidence must be complied with, the crime has to be proven "*beyond reasonable doubt*" and there must be a criminal prosecution or conviction; and
- All appeals are made on quantum and are heard "*de novo*" (complete re-hearing) by members of the legal profession appointed as members of the Administrative Appeals Tribunal (AAT). In the judicial system, appeals are heard within the court system and only on points of law.

**3.7.106** Tribunal hearings are held in private and in an informal manner. The Act provides that the victim may represent themselves. The Tribunal considers all evidence prior to making an award including:

- police reports;
- medical reports;
- applicant statements (verbal and written);
- witness statements (verbal and written); and
- employment records, tax returns and income statements.

**3.7.107** In appropriate cases, the applicant is invited to advise the Tribunal whether they wish to have the application determined without a hearing. The applicant must still produce material in support of any application. There is no monetary cost to the victim in lodging an application for an award of compensation.

**3.7.108** A victim who has sustained injuries from a crime on or after 1 August 1988 is entitled to compensation up to a maximum of \$50 000. This amount consists of:

- An award for pain and suffering arising from the injury, to a maximum of \$20 000; and
- Reimbursement of expenses actually and reasonably incurred as a result of the injury. Compensation is also awarded for pecuniary loss as a result of total or partial incapacity for work for a period of up to 24 months following injury, to a maximum of \$30 000.

**3.7.109** Amounts awarded to infants and persons who, in the opinion of the Tribunal, are unable to administer their own finances, are held in trust until they reach the age of 18. The Tribunal is precluded from making an award of less than \$200.

**3.7.110** Applications by victims are to be made within 12 months of the date of injury or death. The Tribunal has the discretion, however, to extend the time for making applications beyond that period. In addition, the incident must be reported to the police within a reasonable time, except where special circumstances exist. Applications can also be made by victims for a variation to the original award within 6 years of the date of the award.

**3.7.111** The Act allows an applicant to appeal to the AAT, in certain circumstances, against a decision made by the Tribunal.

### Working party review of Crimes Compensation Tribunal

**3.7.112** In August 1994, the Attorney-General established a working party to review the Crimes Compensation Tribunal. The objective of the review is to ensure that the Tribunal remains a fair and adequate forum for providing compensation to victims of crime.

**3.7.113** The Department of Justice has advised audit that the working party will delay making any formal recommendations in relation to possible action including amendments to the Criminal Injuries Compensation Act, pending finalisation of the audit review.

### Growth in compensation

**3.7.114** Over the 6 year period ending 30 June 1994 there has been a substantial increase in compensation payments to victims of crime. Table 3.7B illustrates that annual payments (excluding administration expenses) increased from \$10.6 million in 1988-89 to \$43.9 million in 1993-94.

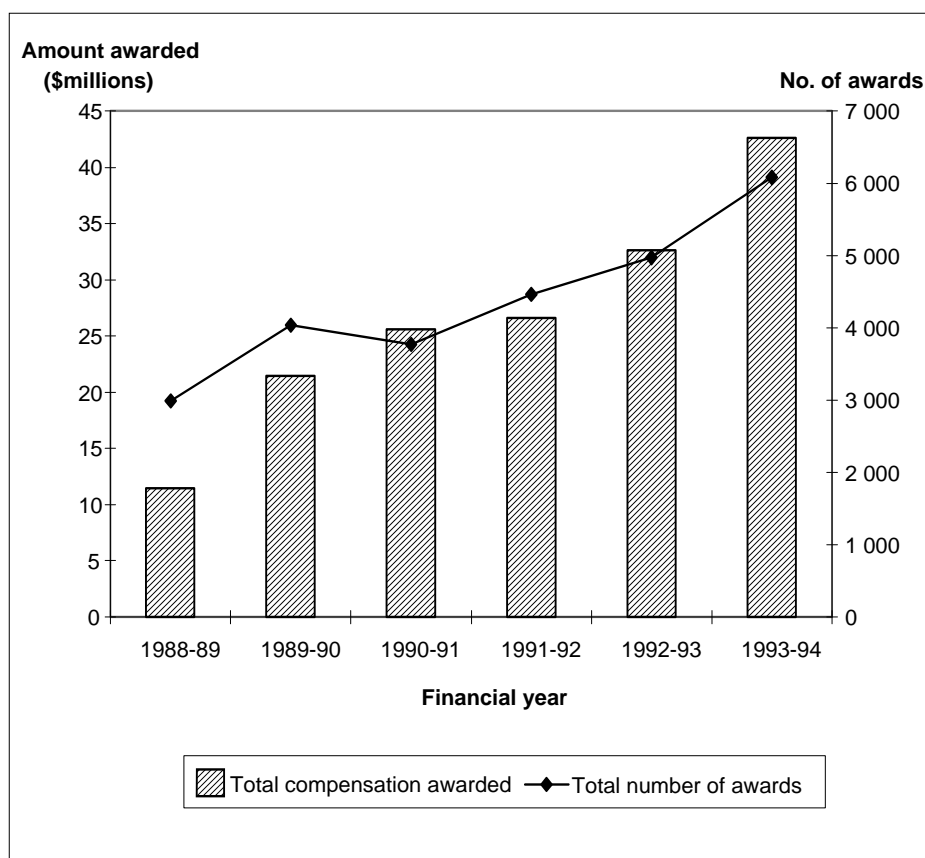
**TABLE 3.7B**  
**CRIMES COMPENSATION PAYMENTS, 1988-89 TO 1993-94**  
((\$million))

|                | 1988-89     | 1989-90     | 1990-91     | 1991-92     | 1992-93     | 1993-94     |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Administration | 0.6         | 0.9         | 1.0         | 0.6         | 0.7         | 0.8         |
| Compensation   | 10.6        | 20.5        | 25.8        | 26.6        | 30.0        | 43.9        |
| <b>Total</b>   | <b>11.2</b> | <b>21.4</b> | <b>26.8</b> | <b>27.2</b> | <b>30.7</b> | <b>44.7</b> |

**3.7.115** In the 1993-94 financial year, an unexpected growth in compensation payments resulted in a budget overrun of \$6.8 million. In addition to compensation payments actually made, the Department disclosed in its *1993-94 Annual Report* a liability representing applications pending an award determination of \$39.5 million.

**3.7.116** There has also been continuous growth in both the number of awards of compensation made and the amounts awarded. This is illustrated in Chart 3.7C.

**CHART 3.7C**  
**COMPARISON OF AMOUNTS AWARDED AND NUMBER OF AWARDS,**  
**1988-89 TO 1993-94**



**3.7.117** An analysis of the number and amount of awards made revealed that the:

- number of awards made in 1993-94 of 6 130 represented a 100 per cent growth since 1988-89;
- total amount awarded in 1993-94 of \$42.6 million was 370 per cent greater than the total amount awarded in 1988-89; and
- average amount awarded in 1993-94 of \$6 950 was 180 per cent higher than the average amount awarded in 1988-89.

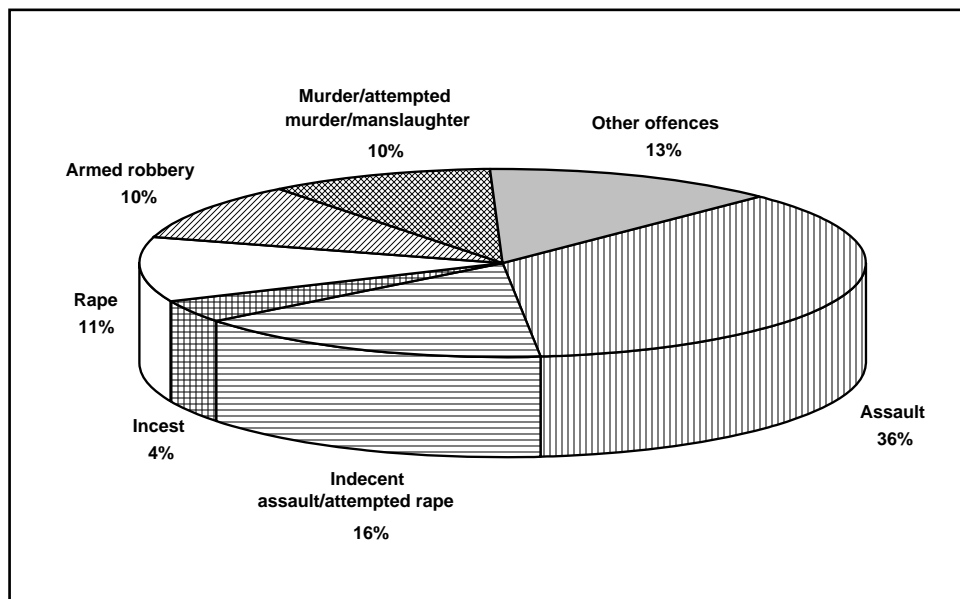
**3.7.118** The key factors which have contributed to the substantial increase in the number of awards made and amounts awarded were:

- the maximum amount of compensation that could be awarded was increased from \$27 500 to \$50 000 by legislative amendment in 1988;
- the broadened interpretation of definitions within the Act relating to victim and injury significantly widened the range of persons eligible for compensation;

- an increase in public awareness of the existence of the Tribunal due to the role of police, hospitals, court personnel, legal advisers, victim support agencies and other organisations in advising victims of their rights under the Act; and
- the regionalisation of the Tribunal to metropolitan and country Victoria since November 1990 provided greater accessibility to applicants.

**3.7.119** The percentage of amounts awarded by the Tribunal for each major offence category in the year ended 30 June 1994 is set out in Chart 3.7D.

**CHART 3.7D**  
**PERCENTAGE OF AMOUNTS AWARDED BY OFFENCE,**  
**FOR THE YEAR ENDED 30 JUNE 1994**



**3.7.120** In light of the trends outlined, it is likely that Crimes Compensation expenditure will increase significantly in the future.

## Strategic planning, policies and guidelines

### *Strategic planning*

**3.7.121** Understanding the purpose of the Crimes Compensation Tribunal and its goals and objectives is an important element in ensuring that decisions made by Tribunal members are consistent with the intended purpose of the legislation and ultimately government policy.

**3.7.122** Audit was advised by the Tribunal Registrar that it has no formal planning document or business plan. In addition, the Tribunal has not developed any performance indicators or performance targets to enable an assessment of its performance to be made.

**3.7.123** The mission, and strategic and operational goals including the objectives of the Tribunal should be developed and reflected in its policies and business plans. The annual business plan of the Tribunal should include strategies outlining how the objectives are to be achieved. Performance indicators should also be developed to monitor the performance of the Tribunal and assess whether it is performing its functions efficiently and effectively. Once developed, the business plans and indicators should be reviewed annually.

□ *RESPONSE* provided by Secretary, Department of Justice

*The Government recognises the importance of developing a detailed business plan for the Tribunal within the framework of the legislation. It is understood that the Tribunal, in conjunction with the Chief Magistrate, is developing a plan which will be incorporated into the business plan of the Magistrates' Court.*

### *Policies, procedures and guidelines*

**3.7.124** An organisation's business plan once developed should be reflected in its policies and procedural manuals and guidelines.

**3.7.125** Although there is an absence of any formal business plan, the Tribunal has developed procedural and operational guidelines. An audit review of these guidelines revealed:

- The "*Guidelines on Crimes Compensation*" issued in December 1993 are operational guidelines that facilitate the administration of applications. The guidelines outline all procedures regarding the lodgement and processing of an application including the evidence to be submitted by the applicant and the appeals process.

These procedural guidelines are up-to-date and provide adequate guidance for the processing of an application; and

- The '*Crimes Compensation Tribunal - Magistrates' Handbook*, issued in 1990 is the only formal document which provides Tribunal members with a statement of the purpose of the legislation and a summary of the Act and its Regulations. References are also included to relevant case precedents set by the Tribunal, the Administration Appeals Tribunal (AAT) and the High Court of Australia. In addition, the Handbook contains details on specific awards according to offence type.

Some of these precedents have had a substantial impact on amounts awarded by the Tribunal and the AAT. Although the Handbook has not been updated during the past 5 years, all significant decisions made by the Tribunal or the AAT have been circulated to Tribunal members. The Co-ordinating Magistrate for the Tribunal advised audit that the update of the Handbook is to commence shortly.

**3.7.126** A high priority needs to be given to the revision of the *Magistrates' Handbook* and its annual update.

□ *RESPONSE* provided by Secretary, Department of Justice

*An update of the Magistrates' Handbook is already underway.*

### *Management information systems*

**3.7.127** To enable management to make informed decisions, information provided must be accurate, relevant and timely. To achieve these objectives, management information systems must be implemented and utilised efficiently and effectively.

**3.7.128** All case information relating to the Tribunal is recorded on the "*Crimes Compensation Tribunal*" (CCT) system. This system records all details relating to the application, the Tribunal decision and award amount.

**3.7.129** The Tribunal Registrar uses the information extracted from this system to prepare:

- a monthly ministerial briefing paper which includes the total and average amount awarded, the number of cases lodged, disposed of and pending; and
- an annual report which includes statistical information but no financial statements.

**3.7.130** A review by audit of both documents revealed inaccuracies in the total amount awarded and little or no analysis of the data. A detailed analytical review of the data including forward projections has never been undertaken by the Tribunal.

**3.7.131** The Tribunal Registrar should ensure that all data extracted from the information system is complete, accurate and analysed so as to assist in:

- decision-making which will result in an efficient and effective delivery of service to victims of crime; and
- providing accurate forward projections of compensation expenditure for budgeting purposes.

□ *RESPONSE provided by Secretary, Department of Justice*

*The Government agrees that the management information system requires improvement. The Courts and Tribunals Division of the Department of Justice are, in consultation with the Chief Magistrate, considering options to provide the Tribunal with the information technology necessary.*

### **Broadened definition of victim and injury**

**3.7.132** Recent rulings made by the AAT and the High Court of Australia have broadened the interpretation of the definitions of "victim" and "injury" contained in the Act, in that:

- "Victim" has been extended beyond the person who was directly affected by a criminal act. The applicant is now only required to demonstrate a causal connection between the criminal act and the injury sustained. For example, in the case where a person has been murdered, the above interpretation entitles the person's parents, dependants, grandparents, aunts and uncles and any other person who can demonstrate they have indirectly suffered some injury or trauma, to apply for compensation; and
- Mental illness or disorder applicable to an "Injury" now includes minor psychological conditions such as post-traumatic stress disorders, short-term moderate adjustment disorders or mild anxiety with symptoms lasting a few weeks. The impact of this interpretation led to an AAT ruling made on 8 October 1993 which recognised that victims were eligible to:
  - claim compensation for disorders subsequently diagnosed as a result of the "recovered memory" of a victim. Recovered memory relates to the realisation by the victim of the connection between the disorder and the crime which may have occurred many years earlier; and
  - submit separate claims for compensation for each separate offence involving the same offender.

## Impact of recovered memory and multiple claim rulings

**3.7.133** The rulings made by the AAT relating to recovered memory and multiple claims will affect the number of awards made in all offence categories. The impact of the rulings are discussed below.

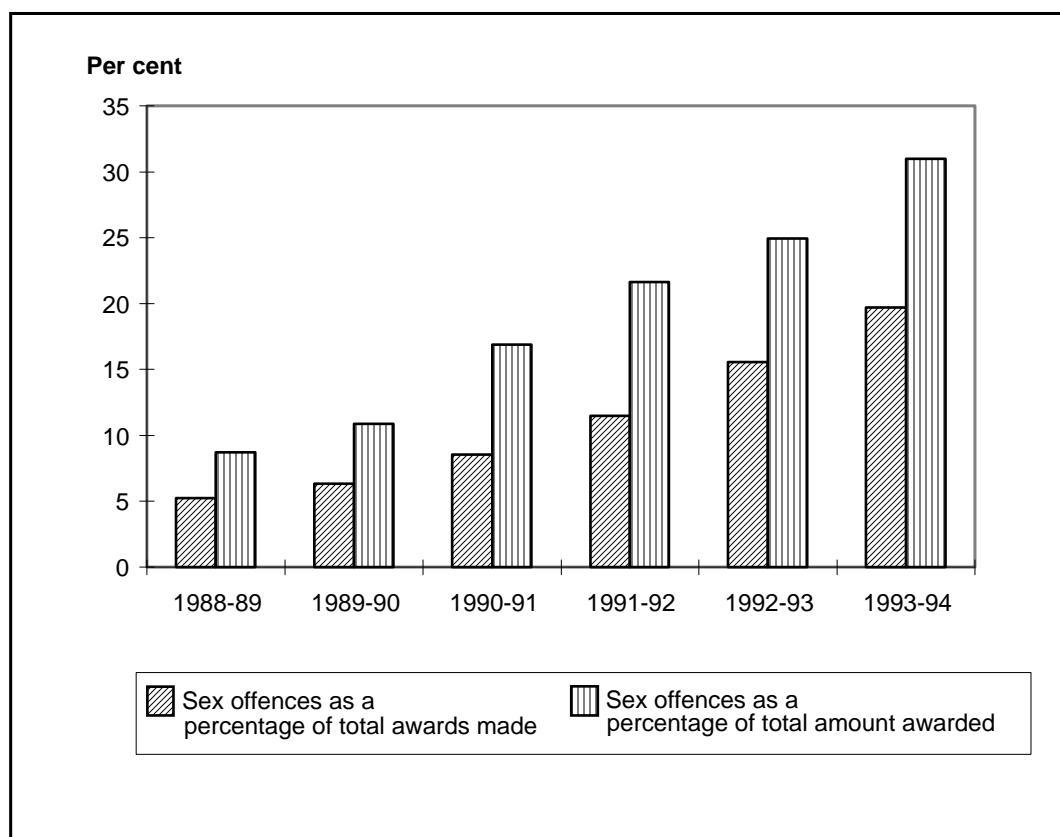
### Recovered memory

**3.7.134** The AAT's ruling has cleared the way for victims of sex-related offences to submit claims for compensation for criminal acts which may have occurred many years earlier.

**3.7.135** An analysis of the number of awards made by the Tribunal relating to major offence categories revealed that over the 6 year period ending 30 June 1994 the most substantial increase related to awards made for sex-related offences.

**3.7.136** As illustrated in Chart 3.7E, awards made for sex related offences represented 20 per cent of the total number of awards made in 1993-94 (5 per cent in 1988-89) and 31 per cent of the total amounts awarded in 1993-94 (9 per cent in 1988-89).

**CHART 3.7E**  
**GROWTH IN AWARDS RELATING TO SEX RELATED OFFENCES,**  
**1988-89 TO 1993-94**





**3.7.137** Further analysis of the above statistics relating to sex-related offences disclosed that the:

- number of awards made increased from 139 in 1988-89 to 1 207 in 1993-94;
- total amount awarded increased \$951 000 in 1988-89 to \$13.2 million in 1993-94; and
- average amount awarded increased from \$6 800 in 1988-89 to \$10 900 in 1993-94.

**3.7.138** Given the upward trend in the number and value of awards made for sex-related offences, coupled with the likelihood of increased applications resulting from the recovered memory ruling, a substantial growth in future payments made by the Tribunal for this category of offence is likely.

#### *Multiple claims*

**3.7.139** Audit extracted from the Tribunal's database details of all applicants who had submitted 4 or more claims. This revealed that since the AAT ruling, 38 applicants in 1993-94 (9 applicants in 1992-93) submitted 300 applications (71 applications in 1992-93).

**3.7.140** In addition, the following concerns relating to the matter of multiple claims were raised by Tribunal members with audit:

- The difficulty in assessing the victim's injury based on each offence committed by the same offender over a period of time;
- The inequity in victims being eligible to submit one or multiple claims depending on the injury sustained. For example, a victim who has been subjected to 5 acts of assault by the same offender is eligible to submit 5 separate claims for compensation to a maximum of \$250 000, whereas a victim who was assaulted once, and as a result may have suffered far more grievous injury, is only eligible to a maximum compensation of \$50 000; and
- The potential growth in the number and size of awards where applicants are eligible for compensation for multiple claims relating to the same injury.

**3.7.141** It is important that the review currently being undertaken by the Department takes into account the impact of recent case precedent associated with recovered memory and multiple claims and the difficulties confronting Tribunal members.

#### **□ RESPONSE** provided by Secretary, Department of Justice

*The working party has reviewed the legislation and will take the Auditor-General's comments into consideration in making its final recommendations.*

*Any review of the legislation must take into account the general commitment to fair and adequate compensation for victims and the Government's particular commitment to improve services for women and children who are the victims of violent crime.*

*The working party has already considered the need to address problems associated with multiple claims and will make recommendations for legislative change in its final report to the Attorney-General.*

## Time extensions and award threshold

**3.7.142** The Act contains certain restrictions in regards to the making of an award for compensation. These include:

- the requirement that an application for compensation be made within one year after the injury or death unless the Tribunal sees fit to grant an extension of time; and
- the injury must have given rise to a loss of greater than \$200.

**3.7.143** An analysis of awards over the 6 year period ended 30 June 1994 disclosed that the Tribunal had granted 8 190 awards for compensation totalling \$58.9 million relating to injuries sustained more than 2 years prior to the date of the award, as shown in Chart 3.7F.

**CHART 3.7F**  
**AWARDS MADE ON CLAIMS > 2 YEARS AFTER INCIDENT DATE,**  
**1988-89 TO 1993-94**

| <i>Financial year</i> | <i>Awards made on claims &gt; 2 years after incident date</i> |   | <i>Total award amount on claims &gt; 2 years after incident date</i> |   |
|-----------------------|---|---|--|---|
|                       | <i>Number of awards</i>                                       | <i>Percentage of total awards made in that year (%)</i> | <i>Amount awarded (\$m)</i>  | <i>Percentage of total amounts awarded in that year (%)</i> |
| 1988-89               | 663   | 22.2  | 3.1  | 26.8  |
| 1989-90               | 1 460   | 36.2  | 8.9  | 41.4  |
| 1990-91               | 1 417   | 37.5  | 10.3   | 40.4  |
| 1991-92               | 1 567   | 35.3  | 9.7  | 36.6  |
| 1992-93               | 1 401   | 28.2  | 11.6   | 35.6  |
| 1993-94               | 1 682   | 27.7  | 15.3   | 35.8  |
| <b>Total</b>          | <b>8 190</b>  | <b>..</b>   | <b>58.9</b>  | <b>..</b>   |

**3.7.144** Further analysis of the awards made in 1993-94 revealed that of the 1 682 awards made, 541 related to crimes which had occurred more than 5 years previously, details of which are shown in Chart 3.7G.

**CHART 3.7G**  
**AWARDS MADE ON CLAIMS > 2 YEARS AFTER OFFENCE DATE IN THE YEAR ENDED 30 JUNE 1994**

| <i>Number of years since offence date</i> | <i>Number of awards</i> |
|---|-------------------------|
| > 15                                      | 123                     |
| 11 to 15                                  | 140                     |
| 6 to 10                                   | 278                     |
| 2 to 5                                    | 1 141                   |
| <b>Total</b>                              | <b>1 682</b>            |

**3.7.145** Explanations accepted by Tribunal members as reasons for victims not complying with the one year time rule included:

- victims were not aware of their rights to apply for compensation at the time of the offence; and
- victims did not realise the connection between the resultant psychological damage and the crime until years later (i.e. recovered memory).

**3.7.146** It is apparent from the above figures that substantial amounts have been paid by the Tribunal in respect of awards which fall outside the statutory time limit as contained in Act. Although Tribunal members have a discretion to grant an extension of time, there are no guidelines indicating the circumstances in which extensions may be considered appropriate.

**3.7.147** In view of the matters referred to above, consideration should be given to reviewing the appropriateness of the one year time restriction. Further, guidelines should be developed and included in the Magistrates' Handbook outlining circumstances where it is considered reasonable for Tribunal members to grant an extension of time.

*□ RESPONSE provided by Secretary, Department of Justice*

*Victoria currently has the most restrictive time limit in Australia, with New South Wales having the time limit of 2 years, South Australia, 3 years and Tasmania has no specified time limit. To place further restrictions on time limits may unfairly exclude groups of victims without causing an appreciable decrease in applications.*

*It should also be noted that all jurisdictions where there is a time limit allow for a level of discretion to be exercised regarding time limits. Tribunal members are independent judicial officers who exercise their discretion to extend time limits in accordance with legal principles. Guidelines would not fetter this discretion.*

**3.7.148** An analysis of the Crimes Compensation database revealed that 56 per cent of successful applicants were awarded amounts below \$5 000 which represented 25 per cent of the total amount awarded over the 6 year period ending 30 June 1994.

**3.7.149** The minimum compensation amount a victim can be awarded is \$200, this limit being set more than 10 years ago. A review by audit of a number of awards indicated that although the compensation for pain and suffering awarded to the victim was minimal the associated costs were substantial. For example, where a victim was awarded \$200 for pain and suffering relating to a minor injury, and had been legally represented and had obtained a psychological report, the associated costs could amount to \$1 200. In addition, the Tribunal incurs costs relating to the administration of the application.

**3.7.150** Given the threshold has not been changed for 10 years and the substantial associated costs that can be incurred in dealing with awards involving minor injuries, it may be appropriate that the threshold be examined to determine if it is still relevant.

*□ RESPONSE provided by Secretary, Department of Justice*

*The working party has this issue under consideration.*

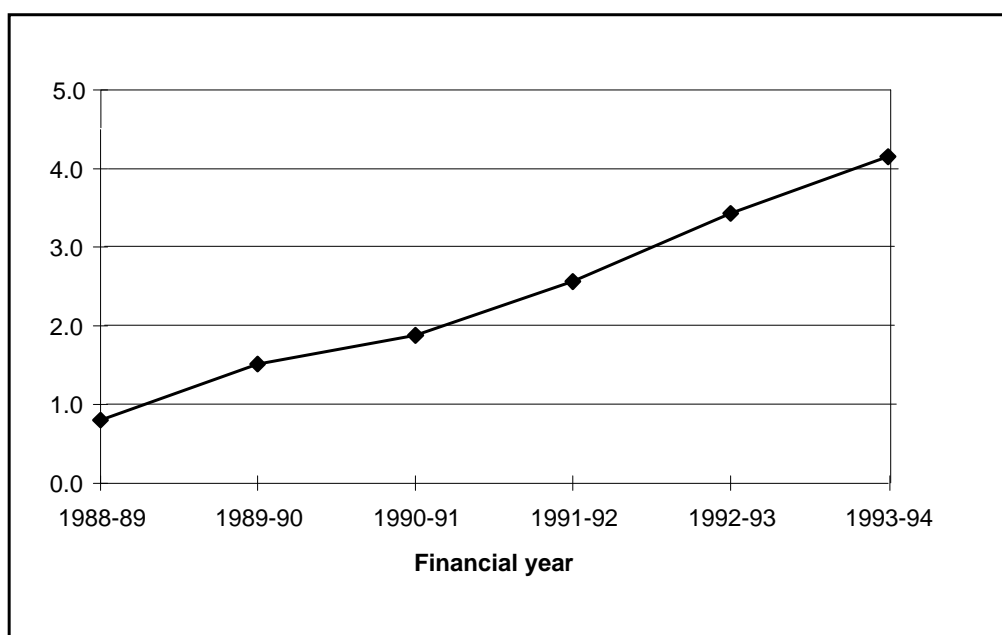
## Legal, medical and miscellaneous costs

**3.7.151** The Act provides for a victim to claim for legal, medical and miscellaneous expenses associated with an application for compensation. The Tribunal has discretion to award or refuse these costs, however, in practice they are usually awarded. In addition, the Act does not allow legal and medical practitioners to seek costs from the victim over and above the amount awarded by the Tribunal.

### Legal costs

**3.7.152** As illustrated in Chart 3.7H, awards made for legal costs have increased substantially over the 6 year period ending 30 June 1994.

**CHART 3.7H**  
**LEGAL COSTS AWARDED, 1988-89 TO 1993-94**  
 (\$million)



**3.7.153** An analysis of total legal costs over the 6 year period disclosed the following:

- The annual legal costs (including solicitors' costs and disbursements, and counselling costs) awarded by the Tribunal increased from \$800 000 in 1988-89 to \$4.1 million in 1993-94;
- The average cost for legal representation per award increased from \$497 in 1988-89 to \$806 in 1993-94; and
- Despite the fact that legal representation for victims is optional, there was a steady increase in legal representation at hearings. Of the total claims processed during 1993-94, 85 per cent of the victims were legally represented compared with 54 per cent in 1988-89. This increase can be attributed, in part, to the fact that solicitors are advertising their services in the area of crimes compensation.

**3.7.154** While other compensatory bodies have a scale of fees for legal and medical costs included in their legislation there is no such provision in the Criminal Injuries Compensation Act.

**3.7.155** Given the increase in the extent of legal representation at hearings and the increase in the average legal cost per award it would, in audit opinion, be appropriate for the Tribunal to consider the development of a formal scale of legal fees for its inclusion in the Act.

□ **RESPONSE** provided by Secretary, Department of Justice

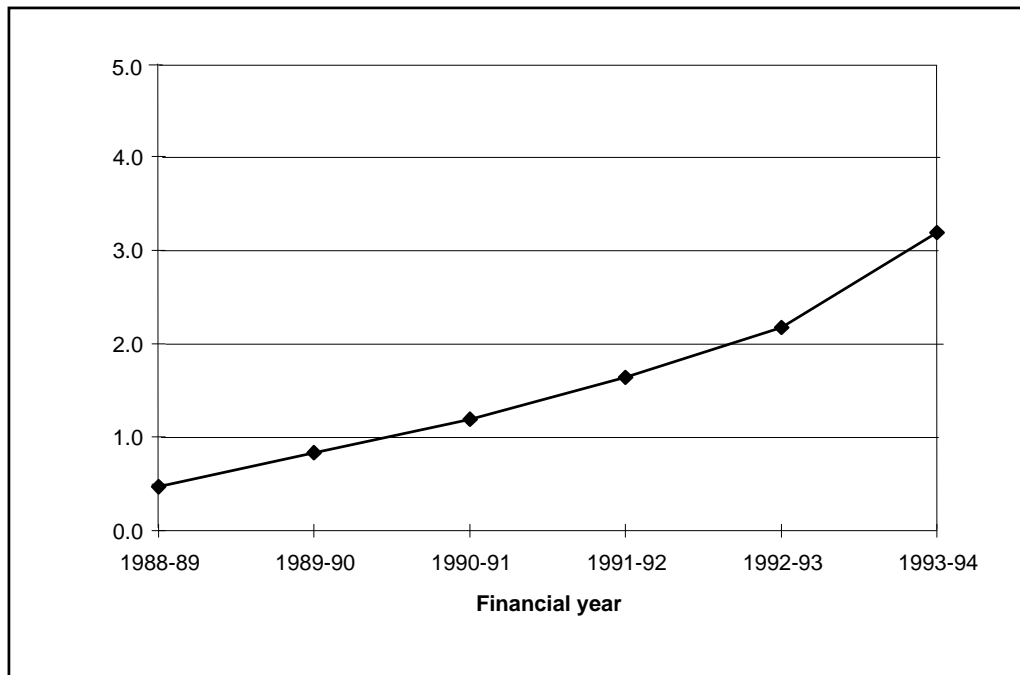
*The Tribunal has a discretion under section 32 to order the payment of costs as it thinks fit.*

*The Criminal Injuries Compensation Act does not provide the Tribunal with the power to set a scale of costs. Consideration will be given to amending the Act to allow the Governor in Council to make regulations setting a scale of fees payable to legal representatives, or alternatively to allow the Tribunal to make rules in relation to costs.*

#### Medical and miscellaneous costs

**3.7.156** Amounts awarded for medical and miscellaneous costs have also increased substantially over the 6 year period ending 30 June 1994. This is illustrated in Chart 3.7I.

**CHART 3.7I**  
**MEDICAL AND MISCELLANEOUS COST, 1988-89 TO 1993-94**  
(\$million)



**3.7.157** An analysis of total medical and miscellaneous costs over the 6 year period disclosed:

- the annual medical and miscellaneous costs awarded increased from \$500 000 in 1988-89 to \$3.2 million in 1993-94; and
- the average amount awarded for medical and miscellaneous costs doubled from \$460 in 1988-89 to \$920 in 1993-94.

**3.7.158** Medical costs form the major component of this cost category and primarily relate to the provision of medical and psychological services and reports. These reports are provided to the Tribunal by the applicant as evidence of their medical condition. To date, the Tribunal has not sought a medical or psychological assessment of any applicant by a practitioner of the Tribunal's choice.

**3.7.159** Concerns were raised by Tribunal members regarding the level of costs claimed by psychologists. A review by audit of documentation relating to psychological services disclosed that the applicant is not required to substantiate the services provided by the psychologist which may result in payments being made for services not rendered.

**3.7.160** **The Tribunal should ensure that all services provided by psychologists are adequately substantiated by the applicant prior to an award being made and consideration should also be given to the development of a formal scale of costs for all medical and psychological services.**

□ *RESPONSE provided by Secretary, Department of Justice*

*As with legal costs, the working party will consider amending the Act to allow the Governor in Council to make regulations or the Tribunal to make rules to set a scale of fees payable by the Tribunal for medical and psychological reports.*

### Legal counsel assisting the Tribunal

**3.7.161** To date, the Tribunal has not used legal counsel to assist it in determining an award for compensation. The Tribunal is of the view that the Act does not provide for the engagement of legal counsel. Due to the increasing complexity of applications, Tribunal members have raised the desirability of legal assistance during the hearing process where there is uncertainty as to the existence of a criminal act.

**3.7.162** In contrast, where an applicant appeals a decision made by the Tribunal to the AAT then the case must be heard "*de-novo*" (i.e. a complete new hearing). Under the *Administrative Appeals Act 1984*, parties to an appeal, including the Tribunal and the Attorney General, have the right to be represented by legal counsel.

**3.7.163** **Given the substantial amount of compensation that is likely to be paid from the public purse, the Government should consider whether the Tribunal should be assisted by legal counsel where it deems necessary.**

□ *RESPONSE provided by Secretary, Department of Justice*

*The working party has considered options and will make recommendations to the Attorney-General on access to legal counsel and support staff to assist in the investigation of claims by the Tribunal. It is always open to Tribunal members to seek assistance from the Victorian Government Solicitor in filing reasons for decisions with the Administrative Appeals Tribunal in respect to any appeal.*

### Work-related claims

**3.7.164** The definition of a victim under the Criminal Injuries Compensation Act includes any person injured while trying to arrest an offender, trying to prevent the commission of a crime or rendering assistance to another victim. This effectively allows persons such as police officers, bank employees, prison officers and security guards, who face a higher exposure in their normal daily activity to criminal acts, to apply for compensation if injured as a result of such acts.

**3.7.165** An analysis of the Crimes Compensation statistics revealed that over the 6 year period ending 30 June 1994, 4 814 applications have been made by police officers, prison warders, bank employees and security guards. Of these applications, 90 per cent received compensation totalling \$16 million.

**3.7.166** A review of a number of Tribunal files relating to the above category of applicants revealed that:

- the injuries were sustained during work hours;
- the applications related only to pain and suffering, with all related medical expenses had been claimed under WorkCover; and
- a significant number of claims were for minor injuries and resulted in awards of between \$200 to \$300.

**3.7.167** The *Accident Compensation (WorkCover) Act 1992* allows workers to apply for compensation for pain and suffering resulting from specific physical injuries contained in that Act. The minimum amount that will be awarded for compensation is \$10 000 and the maximum is \$50 000.

**3.7.168** Persons who have sustained work-related injuries which have arisen from a criminal act and have exhausted their rights to compensation from other compensatory bodies under Acts such as the WorkCover Act, the *Police Assistance Compensation Act 1968* and the *Transport Accident Act 1986*, can also apply for compensation under the Criminal Injuries Compensation Act.

**3.7.169** The fact that compensation may be awarded for amounts as low as \$200 under the Crimes Compensation Act has encouraged a significant number of applications relating to minor injuries. As stated previously, the threshold has not been changed for many years and may need to be re-examined.

**3.7.170** In addition, these awards have been funded from the public purse as distinct from payments made from other compensatory bodies which are funded by employers.

**3.7.171** **Consideration should be given to performing a review of all relevant legislation dealing with work-related injury claims to determine whether such claims should also be dealt with under the Criminal Injuries Compensation Act.**

□ *RESPONSE provided by Secretary, Department of Justice*

*The working party has considered whether compensation under the Criminal Injuries Compensation Act should be payable in cases where applicants are eligible for other forms of statutory compensation and will be making recommendations to the Attorney-General on this issue.*

## Compensation from other bodies

**3.7.172** The Act provides that the Tribunal shall reduce an award of compensation to a person who has received or is entitled to receive moneys from WorkCover, the Transport Accident Commission (TAC) or any other insurance organisation, or the offender(s). The Criminal Injuries Compensation (Interim) Regulations 1994 require that all applicants must complete a statutory declaration form when lodging a claim for compensation.

**3.7.173** The statutory declaration form provides that the applicant must state whether money or compensation has been applied for from the bodies or person(s) referred to above and any amounts received or receivable. While there is no provision within the form for the applicant to disclose whether they have determined their eligibility for compensation from other bodies or the offender(s), the Act requires applicants to repay to the Tribunal any amounts received from such bodies after the Tribunal has made its award.

**3.7.174** However, the Tribunal does not undertake any checks to determine whether recipients have received awards from other bodies subsequent to an award being made by the Tribunal. In addition, Tribunal officers do not conduct checks of information contained in a statutory declaration prior to a hearing.

*□ RESPONSE provided by Secretary, Department of Justice*

*The form clearly provides that any person making a false declaration is liable to the penalties of perjury. However, it is agreed that the Tribunal should institute random checks to ensure that the information supplied by the applicant is complete and accurate. Full accountability in this area can only be achieved through effective electronic interfacing between the relevant agencies.*

## Recoveries from offenders

**3.7.175** The Act provides the Director of Public Prosecutions (DPP) with a discretion to seek an order of the court directing an offender to refund the Tribunal in whole or in part compensation paid or payable to a victim as well as any costs awarded in respect of the application for compensation.

**3.7.176** In November 1987, a report was tabled in Parliament by the Legal and Constitutional Committee of Parliament titled *Report upon Support Services for Victims of Crime*. This report addressed the issue of recovery from offenders and recommended that:

- an investigator be appointed to the Tribunal to investigate the position of offenders; and
- the Tribunal and the Director of Public Prosecutions (DPP) review the role of the DPP in relation to the exercise of the discretionary power.

**3.7.177** **As a consequence, the potential for the Consolidated Fund to recover moneys from convicted offenders, as envisaged by the Act, has not been realised.**

**3.7.178** The Tribunal and the DPP have not developed any procedures to ensure that the relevant provision of the Act is utilised and no court orders have been sought by the DPP. In addition, neither of the recommendations made by the Parliamentary Committee have been acted on. As a consequence, the potential for the Consolidated Fund to recover moneys from convicted offenders, as envisaged by the Act, has not been realised.

*□ RESPONSE provided by Secretary, Department of Justice*

*The Attorney-General had brought the powers of the DPP to the attention of the former Director in 1993. The Director was reluctant, for practical reasons, to seek orders against offenders. The matter will again be taken up with the DPP. However, it must be emphasised that the Government believes the DPP should retain a discretion in seeking such an order and not be placed under an obligation to do so.*



## VICTORIAN GOVERNMENT SOLICITOR'S OFFICE - OUTSTANDING FEES

### Introduction of fee-for-service

**3.7.179** The Victorian Government Solicitor's Office (VGSO) provides legal services to the Executive Government, departments and public bodies and is committed to assisting its clients to achieve objectives in a lawful manner, providing authoritative legal advice at a reasonable cost and consulting with clients in the resolution of legal issues.

**3.7.180** Prior to 1 July 1993 the Office did not charge clients for any legal work performed, with the costs of its services, including external professional assistance provided to the Office, funded by parliamentary appropriation.

**3.7.181** Since that date, the VGSO has operated on a fee-for-service basis and competes with the private sector for government legal work. Disbursements for professional assistance engaged, i.e. cost of barristers, investigators and process servers, are initially paid by the Office from an advance account facility of \$500 000 provided by the Department of the Treasury and Finance. This account is subsequently reimbursed when clients pay their accounts. During 1993-94, the VGSO received \$2.7 million in client fees.

### Outstanding legal fees and disbursements resulting in unpaid legal accounts

**3.7.182** Despite communication with its clients regarding the implications of the introduction of fee-for-service, including their responsibility concerning payment of accounts, the VGSO has experienced difficulties in the collection of fees for legal services provided.

**3.7.183** At 31 March 1995, the VGSO had outstanding legal fees of \$1.04 million of which \$386 000 (37 per cent) had remained outstanding for greater than 3 months. Details of outstanding legal fees are provided in Table 3.7J.

**TABLE 3.7J**  
**OUTSTANDING LEGAL FEES, AT 31 MARCH 1995**  
(\$'000)

| <i>Department/authority</i>        | <i>Outstanding legal fees</i> |                   |                      |                      | <i>Total</i> |
|------------------------------------|-------------------------------|-------------------|----------------------|----------------------|--------------|
|                                    | <i>&lt; 30 days</i>           | <i>30-90 days</i> | <i>90 - 180 days</i> | <i>&gt; 180 days</i> |              |
| Health and Community Services      | 87                            | 156               | 74                   | 80                   | 397          |
| Justice                            | 67                            | 75                | 18                   | 29                   | 189          |
| Education                          | 6                             | 2                 | 6                    | 10                   | 77           |
| Treasury                           | 38                            | 23                | 35                   | 35                   | 75           |
| Planning and Development           | 9                             | 9                 | 19                   | 31                   | 68           |
| Transport                          | 1                             | 4                 | 9                    | 2                    | 57           |
| Finance                            | 9                             | -                 | 3                    | 3                    | 36           |
| Art, Sport and Tourism             | 8                             | 22                | -                    | 3                    | 32           |
| Premier and Cabinet                | 3                             | 42                | -                    | 1                    | 26           |
| Business and Employment            | 24                            | 5                 | 1                    | 1                    | 24           |
| Agriculture                        | 9                             | 13                | 1                    | -                    | 10           |
| Conservation and Natural Resources | 25                            | 1                 | -                    | 2                    | 10           |
| Rural Water Corporation            | 1                             | -                 | -                    | 5                    | 6            |
| Other                              | 1                             | 16                | 8                    | 10                   | 35           |
| <b>Total</b>                       | <b>288</b>                    | <b>368</b>        | <b>174</b>           | <b>212</b>           | <b>1 042</b> |

**3.7.184** The high level of outstanding amounts, particularly those over 3 months, has resulted in insufficient funds in the Office's advance account (at 31 March 1995, the VGSO advance account balance totalled only \$1 340), for the payment of professional assistance engaged. The low level of funds has resulted in invoices amounting to \$779 000 remaining unpaid which relate to professional assistance engaged by the VGSO since August 1994.

**3.7.185** Concerns have been expressed by VGSO that failure to pay these accounts may result in a loss in the Office's credibility, subsequently resulting in the possible withdrawal of the "discounted" legal services currently provided to the Victorian Government. The VGSO have advised that private legal services are usually provided to the Office at a discount of up to 25 per cent.

### Collection procedures

**3.7.186** The audit review identified that the VGSO did not have in place documented procedures relating to the systematic collection of amounts to be recouped. In an attempt to hasten the collection of outstanding amounts, the Office contacts only those departments and public bodies who owed substantial amounts. Given the introduction of fee-for-service, it is imperative that the Office develops, documents and implements procedures to ensure the timely collection of all outstanding amounts. This would include a program of regular monitoring and follow-up of outstanding accounts, including early action to resolve disputed accounts.

**3.7.187** The Office is presently considering various options to ensure the early payment by departments and public bodies of legal fees and disbursements.

**3.7.188** **The concept of competition with the private sector of fee-for-service has the aim of improving the efficiency and effectiveness of legal services provided to the Government generally. However, the failure by departments and public bodies to pay their accounts for services provided in a timely manner, could ultimately see the benefits of this concept eroded.**

#### **□ RESPONSE** provided by Victorian Government Solicitor

*The audit report does not identify the fundamental weakness in the "user pays" system under which the VGSO is operating, namely the inability of one department to enforce another department to pay a debt for the services provided. The VGSO is unable to sue for the non-payment of the debts. (Government departments are unable to sue each other.)*

*The monitoring of debts is an essential aid to the collection of the outstanding debts. However, the VGSO requires a more effective means of enforcing the debt when clients will not pay within a reasonable time period.*

*The Victorian Government Solicitor has approached the Secretary of the Department of Finance and the Comptroller-General to gain approval for the direct debiting of overdue government legal accounts from departmental budgets. The proposal has not been approved and therefore not able to be implemented.*

*The VGSO has regularly reviewed outstanding debts and has issued copy invoices and statements to clients. Those procedures have been improved over the past 18 months.*

*The Office has since implemented additional procedures which are designed to further improve the collection of debts. The Office is still monitoring the operation of the new procedures to measure the change in departmental payment practices.*

#### **□ RESPONSE** provided by Acting Deputy Secretary, Finance, for Department of the Treasury and Finance

*The request for direct debiting was refused as the Accountable Officer of the then Department of Finance had no authority to approve the charging of expenditure against another Accountable Officer's appropriations.*

## SOLICITORS' GUARANTEE FUND

### FINANCIAL POSITION OF THE FUND

**3.7.189** The Solicitors' Guarantee Fund was established by the *Legal Profession Practice Act* 1958 and is administered by the Council of the Law Institute of Victoria. The Fund exists primarily to compensate clients of solicitors who suffer losses as a result of defalcations by solicitors or their clerks. The Fund is also an important source of revenue for legal aid and law reform purposes.

**3.7.190** The source of the majority of the Fund's income is interest earned on the investment of moneys deposited by solicitors with the Institute. A solicitor is required by the Act to deposit with the Institute a percentage (currently 72 per cent) of the lowest balance held in the solicitor's trust account in the 12 months prior to the 31 March. A solicitor holds the remaining balance in the trust account in a bank authorised for the purposes under the Act. The banks pay interest on these funds to the Institute which it credits to the Fund. The size of the interest income stream is subject to fluctuations as:

- economic activity determines the amount of money held by solicitors; and
- interest rates determines the yield received on trust moneys.

**3.7.191** In addition to the compensation payments, expenditure from the Fund also includes outgoings authorised by the Act for regulatory and specified educational purposes. These include such items as professional development of solicitors and education program in relation to office management and accounting. These latter payments have priority over compensation payments.

**3.7.192** The Auditor-General became responsible for the audit of the Fund's financial statements for the year ended 30 June 1994. Previously, the Fund had been audited by an auditor appointed by the Institute.

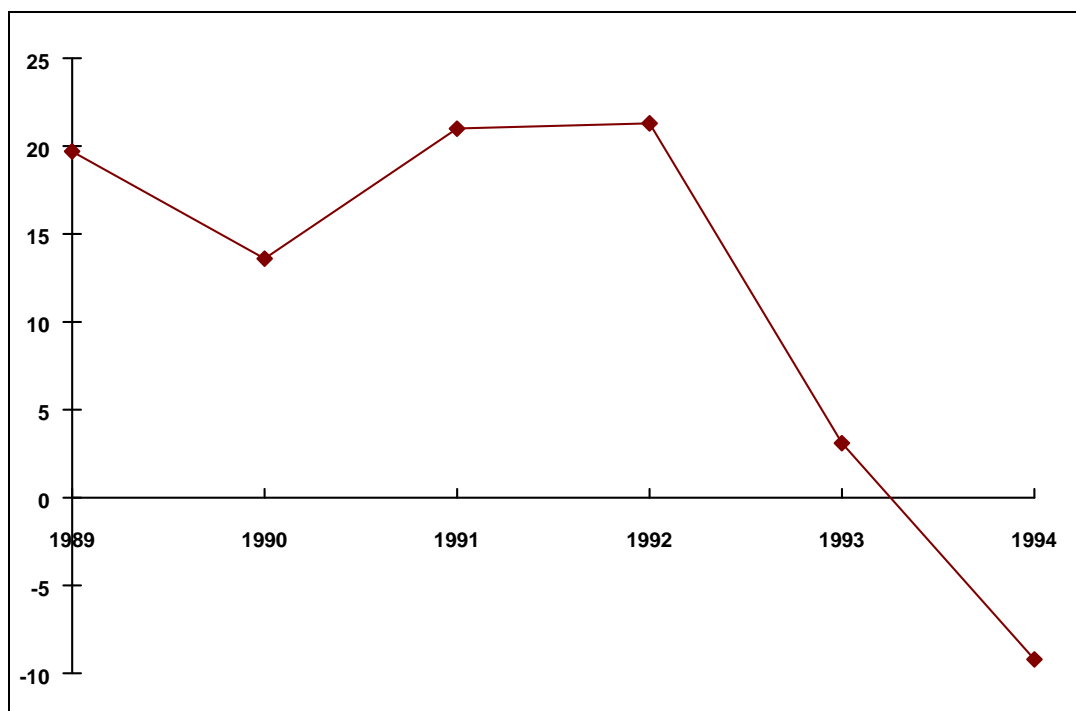
**3.7.193** The Attorney-General has recently released a discussion paper canvassing the transfer of the Solicitors' Guarantee Fund to the Legal Practices Board. A working party is currently considering this proposal.

### Financial position

#### *Solvency of Fund*

**3.7.194** An analysis by audit of the Fund's financial position revealed a significant deterioration in the period June 1989 to June 1994. Chart 3.7K illustrates that the Fund's financial position declined from net assets of \$21.2 million in 1991-92 to a net liability position of \$9.2 million in 1993-94.

**CHART 3.7K**  
**FUNDS FINANCIAL POSITION, 1988-89 TO 1993-94**  
 (\$million)



**3.7.195** An analysis of the factors which have contributed to the Fund's deteriorating financial position revealed:

- a reduction in investment income of \$20 million or 62 per cent over the 5 year period (1988-89 to 1993-94) mainly attributable to a substantial fall in interest rates; and
- a substantial increase in the number and quantum of compensation claims received particularly in the 1992-93 and 1993-94 financial years.

**3.7.196** The Act empowers the Fund, where it cannot meet its financial obligations, to collect additional levies, being \$10 per year per solicitor up to a maximum of \$100 from each solicitor over the life of their practice. The Act also provides that the Council can meet any funding deficiencies by:

- apportioning moneys between claimants as considered equitable with the unpaid amount being charged against future receipts to discharge the claim; and
- limiting the compensation of claims, in respect of any solicitor to \$2 million and making further payments at its discretion to claimants not paid in full.

**3.7.197** The Council has stated in the Fund's 1993-94 financial statements that all financial obligations relating to claims admitted or likely to be admitted can be met. The Council therefore did not consider it necessary to exercise its powers referred to above to address the deficiency in the Fund.

**3.7.198** Given the stance taken by the Council, and in view of the continuing deterioration in the Fund's financial position, audit recommends that the Fund develop appropriate strategies that will ensure all its financial obligations are met.

□ **RESPONSE** provided by Secretary, Department of Justice

*The Fund's financial performance and the Institute's ability to develop strategies to allow its financial obligations to be met are circumscribed by its statutory structure. The Fund's position should be considered in the context of the statutory requirements to apply the Fund to the Institute's regulatory expenditure, the Leo Cussen Institute, the Victoria Law Foundation, the Law Reform Account and the Legal Aid Commission as well as to the victims of defalcations.*

*The Institute Council in 1993-94 decided that on the information available to it, it could pay claims as and when they fall due and that no action in accordance with sections 61 and 70 of the Legal Profession Practice Act 1958 was necessary. The Council has the Fund's solvency under constant scrutiny and is aware of its statutory powers in event of any future problems. It will continue to adopt strategies to ensure all its financial obligations are met, within its statutory structure.*

**Measurement of outstanding claims against the Fund**

**3.7.199** A qualified audit opinion was issued on the Fund's financial statements for the year ended 30 June 1994 on the basis that the provision for outstanding claims, at that date, could not be reliably measured.

**3.7.200** The determination of this provision has been an issue of concern to the Department of Justice over a number of years. In July 1992, a working party was established by the Attorney-General to review the relevant sections of the Act. The recommendations of the working party included a suggested amendment to the Act "... to require contingent claims to be provided for only when normal accounting practices would require such a provision". Subsequently, in April 1993, external consultants engaged by the Department to provide advice regarding the provision recommended that:

- claims acknowledged by the Fund as due and payable, but not yet settled should be recorded as a liability as they can be reliably measured;
- claims rejected or disputed by the Fund, but which remain unresolved should be recorded as a contingent liability and recognised as a note to the financial statements;
- in respect of claims advised or anticipated, but which are still to be investigated, the Fund should determine whether the claim is adequately provided for in a provision for claims incurred but not reported (IBNR); and
- an estimate of claims incurred but not yet reported to the Fund should be determined and recorded as a liability in the provision for IBNR.

**3.7.201** The recommendations made by the consultants have been accepted in principle and action is currently being undertaken by the Department to develop the necessary systems and methodologies.

**3.7.202** **The Fund needs to ensure that appropriate systems and methodologies are developed and implemented in order that the Fund's financial position can be properly determined in the future.**

□ **RESPONSE** provided by Secretary, Department of Justice

*The consultant recommended that the Institute Council would have to exercise its judgement as to the risk posed by a claim. If it is probable that a claim or part of it, will result in a loss to the Fund, then it should be included in the notes to the accounts.*

*As noted by the audit, the consultant has been asked for further advice on the methodologies, particularly in relation to the Incurred But Not Reported provision.*

*The Fund is not in a position to formally adopt the recommendations of the working party, as developed by the consultant, because it is constrained by the statutory requirements of section 53(11). However, the Government will consider amending section 53(11) once the consultant's work is completed to allow the recommendations to be implemented.*

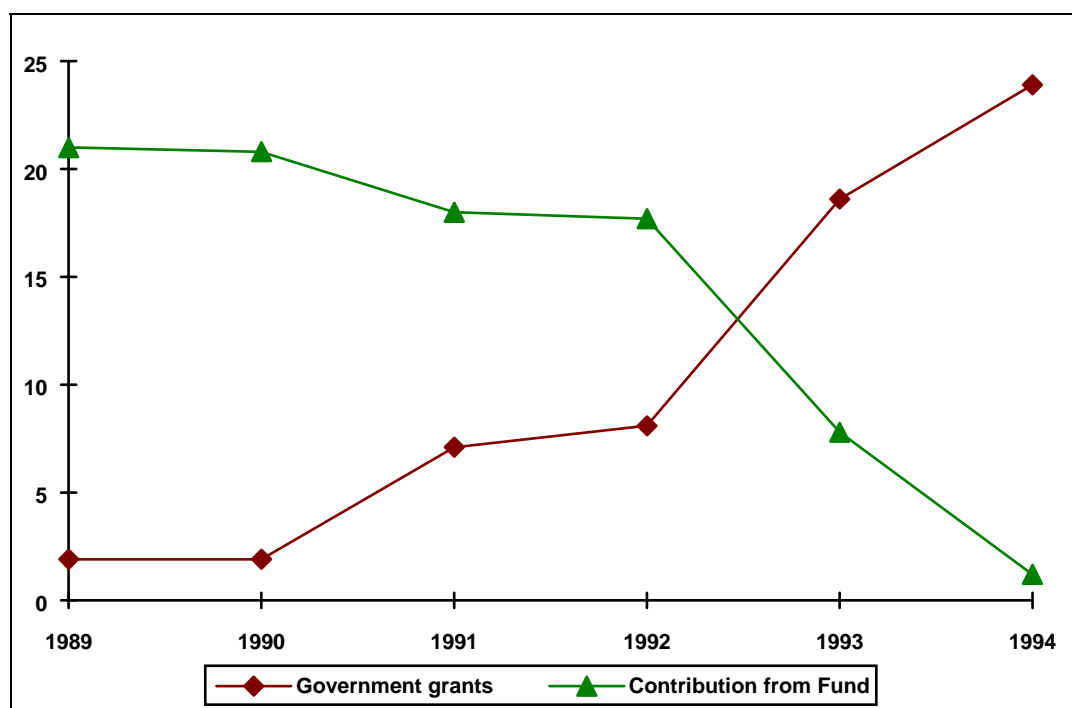
## Distributions of income for legal aid

**3.7.203** The Act provides for the payment from the Fund of moneys to be used to provide legal aid by the State to the public.

**3.7.204** Under the terms of a 1989 funding agreement between the Commonwealth and the State Governments, Victoria is required to provide 45 per cent of the net operating expenditure of the Legal Aid Commission of Victoria (LACV).

**3.7.205** Until 1992, the substantial distributions made by the Fund to the LACV have resulted in only minimal contributions being required to be made by the State. Chart 3.7L illustrates the effect the declining distributions by the Fund have had on the level of funding required by the State since 1991-92.

**CHART 3.7L**  
**LACV - FUNDING SOURCES, 1988-89 TO 1993-94**  
((\$million))



**3.7.206** The above chart indicates that there has been a significant reduction since 1992 in the level of funding to the LACV by the Fund which has been offset by increased State contributions.

## Other expenditure from the Fund

**3.7.207** As mentioned in paragraph 3.7.6, the Act provides for expenditure on regulatory and specified educational activities to be met by the Fund **prior to** allowing for claims and related contingencies. Such expenditures relates to:

- regulation of solicitors by the Law Institute;
- maintenance of the professional standards of solicitors; and
- services and activities of a lay observer.

**3.7.208** Priority expenditure on these items amounted to \$4 million of the Fund total income of \$13 million for the year ended 30 June 1994.

**3.7.209** In contrast, the Estate Agents' Guarantee Fund established under the *Estate Agents Act* 1980 is a guarantee fund which has as its primary purpose the payment of claims rather than expenditure of a regulatory or educational nature. This Fund, which compensates persons who suffer losses as a result of dealings with estate agents, meets expenditure of a regulatory or educational nature from any surplus remaining **after claims have been paid.**

**3.7.210** While audit accepts that it is the wish of Parliament for the funds to operate in the manner disclosed above, there is, in audit opinion, an anomalous situation existing between the Solicitors' Guarantee Fund and the Estate Agents' Guarantee Fund. The anomaly is evident in the manner in which the regulatory and educational needs of solicitors and estate agents are met.

□ *RESPONSE provided by Secretary, Department of Justice*

*Claims against the Estate Agents' Guarantee Fund have traditionally been small relative to the size of the Fund and there has been no real competition between different priorities for the allocation of funds. The nature of solicitors' businesses, where much larger volumes of money in a variety of transactions are handled, has led to larger claims on the Solicitors' Guarantee Fund. If these claims were to have first priority in the allocation of the Fund's resources, the amount of contingent claims would in some years be likely to deprive all other claimants on the Fund of any allocation.*

*A regulatory body requires a guaranteed source of income to ensure its proper operation and the Fund has been structured to allow this to occur. This structure allows the primary purpose of the Fund - to compensate victims of solicitors' defalcations - to be met, while ensuring that other priorities, including regulatory expenditure, are also provided for.*

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS**

| <i>Report</i> | <i>Subject</i> | <i>Status at date of preparation of this Report</i> |
|---------------|----------------|---|
|---------------|----------------|---|

**MATTERS RESOLVED OR ACTION COMMENCED**

**DEPARTMENT OF JUSTICE**

|   |   |   |
|---|---|---|
| <i>Ministerial Portfolios, May 1993, pp. 193-202.</i> | There is a need to review various aspects of operations and administration of the Residential Tenancies Fund, including obtaining agreements with banks to obtain high interest returns for the Fund. | The committee reviewing the Residential Tenancies Act is currently reviewing a consultant's report received in late April 1995. |
|---|---|---|

**Courts and tribunals**

|   |   |  |
|---|---|--|
| <i>Ministerial Portfolios, May 1994, pp. 308 and 311.</i> | Uncollected fines increased from \$41.3 million at 30 June 1987 to \$131.7 million at 30 June 1993. This represents the accumulated amount owed by 7 per cent of offenders who fail to pay their fines. | Recent legislative changes should enable a significant improvement in reducing the level of uncollected fines. |
|---|---|--|

|  |  |                          |
|--|--|--------------------------|
| <i>Ministerial Portfolios, May 1994, p. 312.</i> | In addition to the \$131.7 million due to the State, an amount of \$61.2 million is outstanding in respect of infringement notices issued by local government. | Refer to above comments. |
|--|--|--------------------------|

|  |  |                          |
|--|--|--------------------------|
| <i>Ministerial Portfolios, May 1994, pp. 313-14.</i> | Unless the Sheriff is provided with increased enforcement options for the execution of warrants, the level of uncollected fines will continue to grow. | Refer to above comments. |
|--|--|--------------------------|

|  |  |  |
|--|--|--|
| <i>Ministerial Portfolios, May 1994, p. 315.</i> | Location of offenders is an ongoing problem with 58 per cent of all warrants being returned unexecuted due to the absence of a reliable database to identify the whereabouts of offenders. | The Department will be attempting to interface with other Government databases to further improve the accuracy of addresses. |
|--|--|--|

|  |  |  |
|--|--|--|
| <i>Ministerial Portfolios, May 1994, pp. 315-16.</i> | The excessive timelag of 119 days between the date the offence is committed and the date a warrant is issued to the Sheriff by the PERIN Court, has contributed to difficulties in locating offenders. | Subsequent to the consultants review of systems it is proposed to call for tenders for a single management system which will improve warrant execution rates and reduce the time between infringement issue and execution. |
|--|--|--|



**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - continued**

| <i>Report</i> | <i>Subject</i> | <i>Status at date of preparation of this Report</i> |
|---------------|----------------|---|
|---------------|----------------|---|

**MATTERS RESOLVED OR ACTION COMMENCED - continued**

**STATE ELECTORAL OFFICE**

|   |  |   |
|---|--|---|
| <i>Ministerial Portfolios, May 1993, pp. 193-202.</i> | Negotiations to be concluded with various parties to effect cost savings through the introduction of alternative State electoral roll maintenance process.   | The Office is continuing to conduct studies of alternate electoral roll maintenance process, and is keeping the Australian Electoral Commission informed of the study.  |
| <i>Ministerial Portfolios, May 1993, pp. 193-202.</i> | 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. | In his report to Parliament on the Administration of the 1992 Victorian State Election, the Commissioner recommended legislative amendments so that electors who fail to vote, without having a valid and sufficient excuse, can be dealt with through the PERIN (Penalty Enforcement by Registration of Infringement Notice) system. |
| <i>Ministerial Portfolios, May 1993, pp. 193-202.</i> | Deficiencies in the current information systems, including associated development and maintenance procedures need to be addressed.   | The Office is currently taking action to address the deficiencies.  |

**SCHEDULE B  
COMPLETED/INCOMPLETE AUDITS**

| <i>Entity</i>                                     | <i>Financial<br/>year<br/>ended</i> | <i>Reporting to Parliament</i>                               | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|-------------------------------------|--|--|---|
| <b>COMPLETED AUDITS</b>                           |                                     |  |  |   |
| Department of Justice                             | 30 June<br>1994                     | 31 Oct. <i>Annual Reporting<br/>Act 1983, s.8.</i>           | 23 Oct.<br>1995  | 30 Oct.<br>1995                                     |
| <b>ATTORNEY-GENERAL</b>                           |                                     |  |  |   |
| Estate Agents Board                               | 31 Jan<br>1995                      | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.9.</i>          | 14 Sept.<br>1995   | 27 Sept.<br>1995                                    |
| Estate Agents Guarantee<br>Fund                   | 30 June<br>1995                     |  | 2 Oct<br>1995  | 2 Oct<br>1995                                       |
| Guardianship and<br>Administration Board          | 30 June<br>1995                     | " "  | 4 Oct<br>1995  | 9 Oct<br>1995                                       |
| Legal Aid Commission of<br>Victoria               | 30 June<br>1994                     | " "  | 27 Sept.<br>1995   | 29 Sept.<br>1995                                    |
| Legal Aid Commission Staff<br>Superannuation Fund | 30 June<br>1994                     | 30 Sept. <i>Legal Aid<br/>Commission Act 1978,<br/>s.42.</i> | 27 Sept.<br>1995   | 29 Sept.<br>1995                                    |
| Office of the Director of<br>Public Prosecutions  | 30 June<br>1995                     | 31 Oct. <i>Annual Reporting<br/>Act 1983, s.8.</i>           | 16 Oct.<br>1995  | 20 Oct.<br>1995                                     |

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>                               | <i>Financial<br/>year<br/>ended</i> | <i>Reporting to Parliament</i>                          | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|-------------------------------------|---|--|---|
| <b>COMPLETED AUDITS - continued</b>         |                                     |   |  |   |
| <b>ATTORNEY-GENERAL - continued</b>         |                                     |   |  |   |
| Office of the Public Advocate               | 30 June 1995                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>         | 6 Oct 1995   | 12 Oct 1995   |
| Senior Master of the Supreme Court (a)      | 31 Dec. 1993                        | Supreme Court Act 1986                                  | 21 Dec. 1994   | 21 Jan. 1995  |
| Solicitors' Guarantee Fund                  | 30 June 1994                        | " "   | 30 Sept. 1994  | 30 Sept. 1994                                       |
| State Electoral Office                      | 30 June 1994                        | <i>Annual Reporting Act 1983, s.8.</i>                  | 13 Oct. 1994   | 25 Oct. 1994  |
| State Trustees Ltd. of Victorian            | 30 June 1995                        | 30 Sept. <i>Financial Management Report 1994, s.46.</i> | 14 Sept. 1995  | 18 Sept. 1995                                       |
| Victorian Financial Institutions Commission | 30 June 1995                        | " "   | 5 Sept. 1995   | 7 Sept. 1995  |
| Victorian Institute of Forensic Pathology   | 30 June 1995                        | " "   | 25 Sept. 1995  | 28 Sept. 1995                                       |
| <b>CORRECTIONS</b>                          |                                     |   |  |   |
| Victorian Prison Industries Commission      | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>         | 29 Sept. 1994  | 29 Sept. 1994 (b)                                   |
| <b>POLICE AND EMERGENCY SERVICES</b>        |                                     |   |  |   |
| Country Fire Authority                      | 30 June 1995                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>         | 18 Sept. 1995  | 21 Sept. 1995                                       |
| Metropolitan Fire Brigades Board            | 30 June 1995                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>         | 27 Sept. 1995  | 27 Sept. 1995                                       |
| National Institute of Forensic Science      | 30 June 1995                        | No date specified. <i>Audit Act 1958, s.3.</i>          | 30 Oct. 1995   | 5 Dec. 1995   |
| National Police Ethnic Advisory Bureau      | 30 June 1995                        | " "   | 23 Nov. 1995   | 5 Dec. 1995   |
| Office of the Chief Commissioner of Police  | 30 June 1994                        | 31 Oct. <i>Annual Reporting Act 1983, s.8.</i>          | 21 Sept. 1994  | 30 Oct 1995   |
| Police Board of Victoria                    | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>         | 29 Sept. 1994  | 30 Sept. 1994                                       |
| <b>INCOMPLETED AUDITS</b>                   |                                     |   |  |   |
| Senior Master of the Supreme Court          | 31 Dec 1994                         | Supreme Court Act 1986.                                 | Audit substantially completed.                           |   |

(a) Senior Master of the Supreme Court produces financial statements which are not a statutory requirement but are audited by arrangement.

(b) Qualified audit report issued.

# Part 3.8

## Planning and Development

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### KEY FINDINGS

#### HOME OPPORTUNITY LOANS SCHEME

- The Scheme's operating result continued to deteriorate during the past financial year, with its deficit increasing from \$2 million in 1992-93 to \$13 million in 1993-94, which was in line with departmental estimates. *Paras 3.8.11 to 3.8.12*
- A decrease in the level of prepayments resulting in loan discharges, and in the level of loan arrears, indicate a stabilisation of the financial base of the Scheme resulting from its restructure. *Paras 3.8.13 to 3.8.15*
- The total net contributions made by the State to the Scheme since its inception totalled \$59 million. *Paras 3.8.16 to 3.8.20*
- In its endeavours to further enhance the performance and management of the Scheme, the Government has recently introduced a number of initiatives. *Paras 3.8.21 to 3.8.24*

**3.8.1** Four Ministers, namely the Minister for Housing, the Minister for Local Government, the Minister for Major Projects and the Minister for Planning, have responsibility for operations within the Planning and Development sector. These Ministers have collective responsibility for the Department of Planning and Development.

**3.8.2** Details of the specific ministerial responsibilities for public bodies within the Planning and Development sector are listed below in Table 3.8A. These public bodies, together with the Department of Planning and Development were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.8A  
MINISTERIAL RESPONSIBILITIES FOR PUBLIC BODIES  
WITHIN THE PLANNING AND DEVELOPMENT SECTOR**

| <i>Ministerial portfolio</i> | <i>Entities subject to audit</i>  |
|------------------------------|---|
| <b>Housing (a)</b>           | -   |
| <b>Local Government</b>      | City of Melbourne Superannuation Fund   |
| <b>Major Projects</b>        | Docklands Authority   |
| <b>Planning</b>              | Architects Registration Board of Victoria<br>Historic Buildings Council<br>Loddon-Campaspe Regional Planning Authority<br>Plumbers, Gasfitters and Drainers Registration Board<br>Upper Yarra Valley and Dandenong Ranges Authority<br>Urban Land Authority |

(a) Minister has responsibility for certain functions of the Department of Planning and Development.

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

## DEPARTMENT OF PLANNING AND DEVELOPMENT

### HOME OPPORTUNITY LOANS SCHEME

**3.8.4** Over a number of years, the Auditor-General's *Reports on Ministerial Portfolios* have commented on the Home Opportunity Loans Scheme which has been the major vehicle used by the Government since 1988 to provide home ownership assistance for low to middle income earners whose needs have not been met by traditional lending sources. The financial assistance provided to borrowers by the Scheme has been funded from the issue of Housing Bonds by Victorian Housing Bonds Limited (VHB) and indemnified by the Director of Housing.

**3.8.5** The Scheme is managed by the National Mortgage Market Corporation Limited (NMMC) with Home Opportunity Loans Scheme (HOLS Ltd) obtaining funds from VHB which are on lent to the Home Opportunity Loans Trust.

**3.8.6** Independent retailers comprising a bank, a number of companies associated with Secretaries of co-operative housing societies and the Department, are engaged by the Trust to provide and manage the loans. The Department of Planning and Department has overall responsibility for monitoring the Scheme's performance on behalf of the Government.

**3.8.7** HOLS Ltd and the Trust are effectively controlled by the Department as it has the capacity in accounting terms to influence the decision-making in relation to these entities' financial and operating activities.

### Restructure of the Scheme

**3.8.8** The previous Reports to the Parliament have commented on the continuing high incidence of loans in arrears and those subject to special repayment arrangements, losses from property sales and the high level of doubtful debts that have necessitated the provision of substantial financial support by the State to the Scheme. These factors also led to an announcement by the Government of a restructure of the Scheme in January 1994.

**3.8.9** The restructure program which was announced, aimed to stabilise the financial base of the Scheme by reducing the incidence of early repayment of loans by borrowers and addressing the problem of growing loan balances for a substantial number of borrowers. The restructure of the Scheme involved:

- providing existing borrowers with the option of new loan products reflecting current market interest rates, effective from 1 March 1994;
- offering further financial support to borrowers continuing to suffer from a loss or reduction in income through unemployment and illness;
- reviewing the existing arrangements for sharing of home ownership costs such as property maintenance and insurance; and
- developing strategies to better manage the assets and the cost of the Scheme's liabilities.

**3.8.10** Furthermore, the Department proposed to re-examine the funding sources relating to the Scheme's operations, incorporate commercially-based prepayment fees for early repayment of loans and examine the feasibility of the Government acquiring the companies associated with the Scheme.

### Financial position of Scheme

**3.8.11** An analysis of the Scheme's financial position as at 31 December 1994 revealed:

- total assets of \$889 million (\$900 million, December 1993), comprising loans advanced of \$732 million (\$766 million, December 1993) and investment holdings of \$157 million (\$134 million, December 1993);
- loans secured by residential mortgages totalling 11 000, representing a decrease of 1 400 loans in the 12 month period to 31 December 1994; and
- total liabilities of \$886 million (\$893 million at December 1993), mainly represented by outstanding long-term borrowings.

**3.8.12** The Scheme's operating result continued to deteriorate during the last financial year with its deficit increasing from \$2 million in 1992-93 to \$13 million in 1993-94, which includes the cost of the restructure to 30 June 1994 of approximately \$2.5 million.

### Have the objectives of the restructure been achieved?

**3.8.13** At the time of the Scheme's restructure, it was anticipated by the Department that little improvement would be evident in the cost to the State of administering the Scheme during the succeeding 5 years. Specifically, it was projected that the Scheme would incur an operating deficit of \$21 million during 1994-95.

**3.8.14** During the first 6 months of the 1994-95 financial year, the Scheme incurred an operating deficit of \$9.5 million, including bad debts written-off of \$2.5 million. This result was broadly in line with departmental projections. In addition, the review identified that the level of prepayments resulting in loan discharges reduced from 1 353 with a value of \$97 million for the year ended 31 December 1993 to 723 with a value of \$46.5 million for the year ended 31 December 1994.

**3.8.15** Furthermore, the total level of loan arrears had decreased from \$1.3 million (1 400 loans) at 31 December 1993 to \$1.2 million (1 240 loans) at 31 December 1994, even though the provision for doubtful debts had remained stable at \$11.2 million. These outcomes indicate a stabilisation of the financial base of the Scheme.

### Cost of the Scheme to the State

**3.8.16** The total net contributions made by the State to the Scheme, since its inception in July 1988 to December 1994, in the form of operating support and interest subsidies, totalled \$59.3 million. Table 3.8B provides the relevant details.

**TABLE 3.8B**  
**STATE CONTRIBUTIONS TO THE SCHEME,**  
**JULY 1988 TO DECEMBER 1994**  
((\$million))

| <i>Item</i>                   | <i>1988-89</i> | <i>1989-90</i> | <i>1990-91</i> | <i>1991-92</i> | <i>1992-93</i> | <i>1993-94</i> | <i>1/7/94 to<br/>31/12/94</i> | <i>Total</i> |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------------------|--------------|
| Contributions -               |                |                |                |                |                |                |                               |              |
| Operating support             | 0.2            | 2.3            | 1.2            | 7.3            | 1.7            | 13.2           | (a)9.5                        | <b>35.4</b>  |
| Interest subsidies            | 1.4            | 4.2            | 4.6            | 6.1            | 6.0            | 2.7            | (b)1.0                        | <b>26.0</b>  |
| Total annual contributions    | 1.6            | 6.5            | 5.8            | 13.4           | 7.7            | 15.9           | 10.5                          | <b>61.4</b>  |
| Less distributions from Trust | 0.2            | 1.6            | 0.2            | 0.1            | -              | -              | -                             | <b>2.1</b>   |
| Net contribution (c)          | 1.4            | 4.9            | 5.6            | 13.3           | 7.7            | 15.9           | 10.5                          | <b>59.3</b>  |

(a) Budget for 1994-95 is \$21 million.

(b) Budget for 1994-95 is \$1.5 million.

(c) These figures exclude the cost of the Department's Home Finance Division's activities relating to the administration of the Scheme.

**3.8.17** Operating support provided by the Department over the life of the Scheme totals \$35.4 million.

**3.8.18** This support is provided to cover any shortfalls arising where the Scheme's income, which is primarily generated from loan repayments, is insufficient to meet debt servicing obligations and operating costs. The level of this support has escalated over recent years due to higher than expected mortgagee losses, reduced interest income as a result of borrowers restructuring their loans to take advantage of the lower interest rates and the level of prepayments.

**3.8.19** In addition, the Department provides financial support in the form of interest subsidies which have totalled \$26 million over the life of the Scheme. This support covers interest costs incurred by the Scheme in respect of borrowers who have been granted loans at concessional rates of interest.

**3.8.20** The Department has set aside funds in a specific purpose capital support account to meet any future funding needs of the Scheme. The total of such funds at 31 December 1994 was \$90.3 million (31 December 1993, \$67.5 million).

### Further initiatives to enhance the Scheme's performance

**3.8.21** In its endeavours to further enhance the performance and management of the Scheme, the Department has commenced the following action:

- the development of options for consideration relating to the future structure of the Scheme, particularly the management of its debt portfolio;
- the formation of a departmental interest rate review committee with responsibility for reviewing and evaluating options on interest rates and instalments applicable to its housing finance mortgage loan portfolio; and
- the development of a risk management strategy for the Scheme's asset and liability portfolios.

**3.8.22** In April 1995, as part of the abovementioned initiatives, the Government announced a proposal to introduce legislation in the current session of the Parliament to facilitate more effective risk management of the assets and liabilities of HOLS.

**3.8.23** The proposed legislation will provide for the transfer of the liabilities of Victorian Housing Bonds Limited to the Treasury Corporation of Victoria (TCV). Also, the mortgages held by Home Opportunity Loans Ltd and its assets are to be transferred to the Director of Housing, who will be responsible for managing those assets and who will service the liabilities transferred to TCV.

**3.8.24** Given the substantial annual costs and exposure of the Scheme to Victorian taxpayers, it is important that the Department continues to closely monitor the Scheme's performance and assess options for its future operations.

□ *RESPONSE provided by Secretary, Department of Planning and Development*

*The article provides a factual presentation of the work undertaken in restructuring HOLS and the outcomes to date with regard to operating losses, arrears and prepayments.*



**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS**

| <i>Report</i>   | <i>Subject</i>  | <i>Status at date of preparation of this Report</i>  |
|---|---|--|
| <b>MATTERS RESOLVED OR ACTION COMMENCED</b>                                 |   |  |
| <b>DEPARTMENT OF PLANNING AND DEVELOPMENT</b>                               |   |  |
| <i>Ministerial Portfolios, May 1993, pp. 228-9.</i>                         | Until such time as the Department 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 maintenance funds nor for determining future funding requirements. | The Department has commissioned a project, to be completed by December 1995, to survey the condition of all its properties. The information obtained from the project will enable the Department to prioritise and program current and future maintenance expenditure. Approximately 40 per cent of the Department's properties have been inspected to date. Once the survey has been completed, each property will be inspected at least every 3 years. |
| <i>Ministerial Portfolios, May 1993, p. 233.</i>                            | The exclusion by the Department of certain vacant properties from its external reporting of rental property vacancies, results in incomplete parliamentary and public assessments of the Department's overall performance in minimising vacancies.                  | Enhancements to the property management system and to reporting mechanisms implemented in October 1994 have enabled the Department to better monitor property vacancies.   |
| <i>Ministerial Portfolios, May 1993, pp. 238-9<br/>May 1994, pp. 324-5.</i> | At December 1993, the State's net financial contribution to the Home Opportunity Loans Scheme (HOLS) totalled \$34.1 million (31 December 1992, \$28.9 million) and a further \$67.5 million has been set aside to meet any cash flow difficulties of the Scheme.   | For further comments, refer to paragraphs 3.8.16 to 3.8.20 of this Report.   |
| <i>Ministerial Portfolios, May 1993, pp. 239-40<br/>May 1994 p. 327.</i>    | There has been a significant increase in the incidence of loan arrears and repayment arrangements relating to HOLs.   | For further comments, refer to paragraph 3.8.15 of this Report.  |
| <i>Ministerial Portfolios, May 1993, p. 240<br/>May 1994 p. 326.</i>        | Substantial losses continue to be incurred by the Scheme due to property sales as a result of borrowers defaulting on loan repayments.  | For further comments, refer to paragraph 3.8.14 of this Report.  |
| <i>Ministerial Portfolios, May 1994, pp. 328-9.</i>                         | In order to redress the Scheme's declining financial position, in January 1994, the Government announced its intention to restructure the Scheme.   | Restructuring of the Scheme commenced in March 1994 and is continuing. For further comments, refer to paragraphs 3.8.13 to 3.8.15 of this Report.  |

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued***

| <i>Report</i>  | <i>Subject</i>  | <i>Status at date of preparation of this Report</i>   |
|--|---|---|
| <b>MATTERS RESOLVED OR ACTION COMMENCED - <i>continued</i></b> |   |   |
| <b>OFFICE OF LOCAL GOVERNMENT</b>                              |   |   |
| <i>Ministerial Portfolios, May 1994, p. 331.</i>               | The Office of Local Government and the Department of the Treasury need to formalise and document the nature and extent of checks undertaken when assessing and monitoring municipal enterprise projects entered into by councils.   | A standard checklist for assessing applications for municipal enterprise projects has been developed and is now in operation.   |
| <i>Ministerial Portfolios, May 1994, p. 331.</i>               | The Government needs to firmly establish whether its monitoring role relating to municipal enterprise projects extends beyond mere monitoring of projects to a more pro-active role of identifying potential risks.   | A standardised monitoring system has been established through the introduction of a more frequent reporting scheme and a standard detailed report format. Councils are now required to report on new projects at 6 monthly intervals. It is proposed to extend these arrangements to existing projects. |
| <b>URBAN LAND AUTHORITY</b>                                    |   |   |
| <i>Ministerial Portfolios, May 1994, p. 333.</i>               | To ensure that a joint venture known as <i>The Mews</i> proceeded, the Urban Land Authority substantially accepted responsibility for the financial risks of the project. The overall financial result for the Authority from participation in the project was anticipated to be a marginal net return of around \$100 000. | The project is now approaching finalisation. Based on the final sale settlement amounts of all project lots, the Authority anticipates that it will achieve a profit of approximately \$120 000 on the project.   |

**SCHEDULE B  
COMPLETED/INCOMPLETE AUDITS**

| <i>Entity</i>  | <i>Financial<br/>year<br/>ended</i> | <i>Reporting to Parliament</i>  | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|--|-------------------------------------|---|--|---|
| <b>COMPLETED AUDITS</b>                              |                                     |   |  |   |
| Department of Planning and Development               | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 14 Oct. 1994 | 7 Oct. 1994  | 13 Oct. 1994  |
| <b>LOCAL GOVERNMENT</b>                              |                                     |   |  |   |
| City of Melbourne Superannuation Fund                | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 Nov. 1994 | 17 Oct. 1994   | 4 Nov. 1994   |
| <b>MAJOR PROJECTS</b>                                |                                     |   |  |   |
| Docklands Authority                                  | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                                   | 16 Sept. 1994  | 20 Sept. 1994                                       |
| <b>PLANNING</b>                                      |                                     |   |  |   |
| Architects Registration Board of Victoria            | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                                   | 13 Sept. 1994  | 27 Sept. 1994                                       |
| Historic Buildings Council                           | 30 June 1994                        | " "   | 26 Sept. 1994  | 28 Sept. 1994                                       |
| Loddon-Campaspe Regional Planning Authority          | 30 Sept. 1994                       | 31 Dec. <i>Annual Reporting Act 1983, s.9.</i>                                    | 28 Oct. 1994   | 17 Nov. 1994  |
| Plumbers, Gasfitters and Drainers Registration Board | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                                   | 20 Sept. 1994  | 23 Sept. 1994                                       |
| Upper Yarra Valley and Dandenong Ranges Authority    | 30 Sept. 1994                       | 31 Dec. <i>Annual Reporting Act 1983, s.9.</i>                                    | 12 Dec. 1994   | 14 Dec. 1994  |
| Urban Land Authority                                 | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                                   | 22 Sept. 1994  | 26 Sept. 1994                                       |

# Part 3.9

## Premier and Cabinet

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### KEY FINDINGS

#### UTILISATION OF CONSULTANTS IN THE PUBLIC SECTOR

- The engagement of consultants has played, and continues to play, an important role in the development and implementation of the Government's reform program.  
*Paras 3.9.2 to 3.9.8*
- Based on information provided by agencies, around \$85 million and \$115 million was expended in 1992-93 and 1993-94, respectively, on the procurement of consultancy services.  
*Paras 3.9.13 to 3.9.16*
- The inconsistencies and confusion at agency level in the interpretation of what constitutes a consultancy as against a contractor service, resulted in some uncertainty on the actual level of expenditure incurred on consultancy services.  
*Paras 3.9.13 to 3.9.19*
- Consistent with a government review of departmental consultancy services, audit found that the practices instituted by agencies to select, engage and manage consultants were, at times, less than best practice.  
*Paras 3.9.26 to 3.9.47*
- The recent issue of revised government guidelines will assist agencies in improving their management practices relating to consultancies.  
*Paras 3.9.39 and 3.9.43*



**3.9.1** The Premier has responsibility for operations within the Premier and Cabinet sector. Details of the specific ministerial responsibilities for agencies within the Premier and Cabinet sector are listed in Table 3.9A. These agencies, together with the Department of the Premier and Cabinet, were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.9A  
MINISTERIAL RESPONSIBILITY  
FOR PUBLIC SECTOR AGENCIES WITHIN THE PREMIER AND CABINET SECTOR**

| <i>Ministerial portfolio</i> | <i>Agencies subject to audit</i>   |
|------------------------------|--|
| <b>Premier</b>               | Ombudsman, Office of the Public Service Commissioner, Office of the Victorian Auditor-General's Office<br>Victorian Relief Committee |

## DEPARTMENT OF THE PREMIER AND CABINET

### UTILISATION OF CONSULTANTS IN THE PUBLIC SECTOR

**3.9.2** In recent years, significant reforms have been introduced within the public sector, broadly aimed at improving the efficiency and effectiveness of service delivery and the overall financial performance of the State. These reforms have included structural change involving the implementation of privatisation and corporatisation programs and the increased utilisation of outsourcing arrangements, and legislative changes aimed at enhancing management flexibility.

**3.9.3** **The engagement of consultants has played, and continues to play, an important role in the development and implementation of the Government's reform program** through the provision of:

- specialist expertise not available within the public sector or not readily available within the time constraints established for particular tasks or projects;
- private sector experience in the formulation of policies or programs; and
- impartial advice essential to the achievement of successful/optimum outcomes.

**3.9.4** Within this environment of change, involving the increased utilisation of consultants, the establishment and implementation of sound management practices is fundamental to the efficient and effective utilisation of these resources, and the attainment of optimum value-for-money from their assistance.

**3.9.5** In recognition of these factors and the potential benefits available from the utilisation of consultants, in September 1993 the former Office of Public Sector Management (OPSM) of the Department of the Premier and Cabinet issued guidelines to all public sector agencies setting out good management practices to be established by agencies. These guidelines covered the selection, appointment, management and outputs of consultants.

**3.9.6** In early 1994, the OPSM commenced a review to assess the extent to which departments had observed the consultancy management practices set out in the Government's guidelines. The review culminated in a July 1994 report to the Premier, entitled *Report on a Review of Departmental Use and Management of Consultants* which included the following key findings:

- the level of consultancy utilisation and costs was overstated due to inconsistencies in the definition of "consultant", resulting in contractor services in some cases being reported as consultancies;
- inadequate cost-benefit analyses undertaken prior to the engagement of consultants; and
- consultancy management processes and, in particular engagement processes, fell short of best practice.

**3.9.7** The OPSM review also found that departments were generally able to demonstrate the need to engage consultants and that their utilisation added value to departmental activities and outputs and enabled the Government to make better informed decisions in key policy and reform areas.

**3.9.8** In November 1994 the Government revised the guidelines for the engagement and management of consultants to address the deficiencies identified in the OPSM review.

**3.9.9** Within the above context, audit conducted a review with the overall objectives to identify the extent to which consultants were utilised in the Victorian Public Sector in 1992-93 and 1993-94, respectively, and to assess the adequacy of the processes established by agencies to manage and attain value-for-money from these engagements.

### OVERALL CONCLUSION

**3.9.10** Audit concluded that significant value had been added by consultants in improving public sector resource management, by enabling the Government to make more informed decisions in key areas of reform.

**3.9.11** Based on information provided by agencies, around \$85 million and \$115 million was expended for 1992-93 and 1993-94, respectively, on the procurement of consultancy services, which was consistent with the information provided by the agencies to the Parliament in their Annual Reports. **However, the inconsistencies and confusion at agency level in the interpretation of what constitutes a consultancy as against a contractor service, also referred to in the OPSM report, unfortunately resulted in some uncertainty on the actual level of expenditure incurred on consultancy services.**

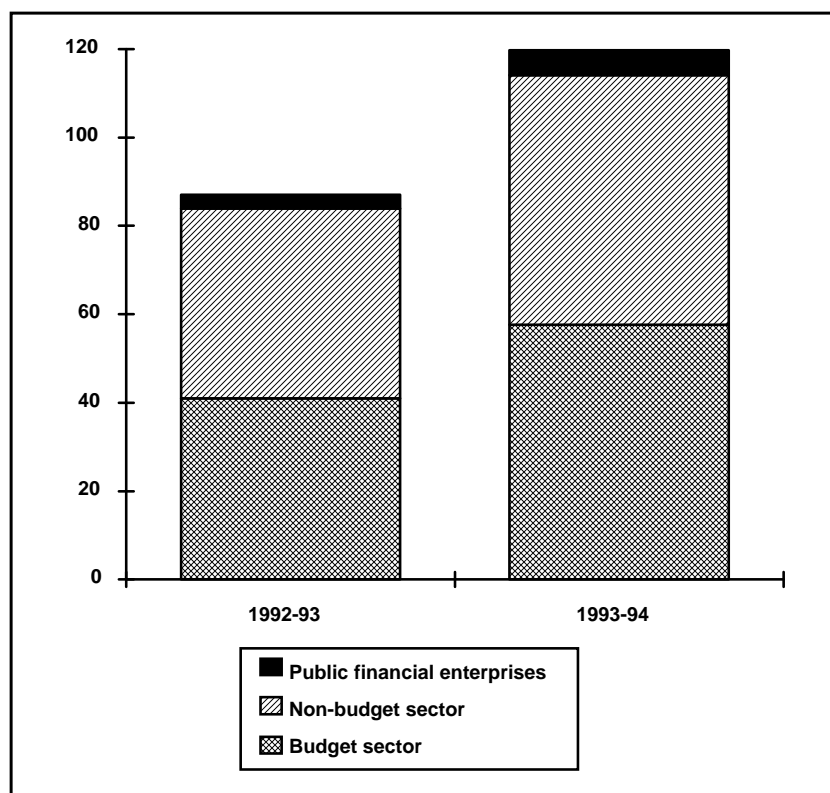
**3.9.12** Consistent with the findings of the OPSM review of departmental consultancy services, audit found that the practices instituted by agencies to select, engage and manage consultants were, at times, less than best practice. However, the recent government initiative to issue revised guidelines to agencies should assist in addressing the existing deficiencies.

## Extent of consultant utilisation

**3.9.13** An analysis conducted by audit of the utilisation of consultants by departments and major public sector agencies revealed that, on the basis of information provided by these agencies, during the 1993-94 financial year, funds were expended on the conduct of around 4 100 consultancies, and during 1992-93 on the conduct of around 2 600 consultancies.

**3.9.14** Chart 3.9B illustrates the composition of expenditure incurred on consultancies over the 2 year period, dissected between budget sector agencies, non-budget sector agencies and State financial enterprises such as the Treasury Corporation of Victoria.

**CHART 3.9B**  
**CONSULTANCY EXPENDITURE BY**  
**PUBLIC SECTOR AGENCY TYPE**  
 (\$million)



**3.9.15** Chart 3.9B shows that in both the 1992-93 and 1993-94 financial years, the vast majority of consultancy activity was undertaken within the budget and non-budget sectors, with only relatively minor activity undertaken within public financial enterprises.

**3.9.16** While the levels of consultancy activity in each year were similar within budget and non-budget sector agencies, the budget sector includes expenditure incurred by the Department of the Treasury which incorporates consultancy services relating to the reform of non-budget sector agencies which is being undertaken by the Office of State-Owned Enterprises within the Department. Specifically, during 1993-94, \$12.2 million (1992-93, \$5 million) was expended on consultancy services by the Office of State-Owned Enterprises. Table 3.9C provides details of this expenditure.



**TABLE 3.9C**  
**CONSULTANCY EXPENDITURE BY**  
**OFFICE OF STATE OWNED ENTERPRISES**  
(\$million)

| <i>Item</i>                               | <i>1993-94</i> | <i>1992-93</i> |
|---|----------------|----------------|
| Electricity industry restructure          | 5.5            | 3.6            |
| Totalizator Agency Board reform           | 2.3            | -              |
| Transport Accident Commission restructure | 1.4            | 0.8            |
| Other reforms                             | 3.0            | 0.6            |
| <b>Total</b>                              | <b>12.2</b>    | <b>5.0</b>     |

**3.9.17** The audit review of information provided by agencies on the utilisation of consultancies, revealed inconsistencies mainly relating to variances in the interpretation adopted by agencies of what constitutes a consultancy service, as opposed to a service provided by a contractor.

**3.9.18** The OPSM, in its July 1994 report on departmental consultancy services, concluded that this confusion at agency level regarding the definition of consultancy services resulted in the overstatement of expenditure incurred on such services, with activities being reported as consultancies when they were more appropriately classified as contracting or temporary employment arrangements.

**3.9.19** In an endeavour to achieve greater consistency in the reporting of consultancy services by public sector agencies, in November 1994 the Government revised the guidelines for the engagement and management of consultants. The revised guidelines include a more precise definition of a consultant and provide guidance on the distinction between consultancy and contracting arrangements. This initiative should assist in the more accurate and consistent reporting of consultancy services within the public sector in the future.

#### *Consultancy services provided*

**3.9.20** Consultants were engaged by public sector agencies to provide assistance in a wide range of activities. To gain an insight into the types of assistance provided, audit conducted an analysis of 1992-93 and 1993-94 engagements exceeding a cost of \$10 000, as advised by agencies. Consultancy services were categorised into 5 broad areas, namely, strategic organisational issues, information technology and systems matters, finance and accounting advice, human resource management issues, and legal, marketing and other professional advice.

**3.9.21** Consultancy services relating to *strategic organisational* issues included, among others, the provision of advice on organisational restructures, corporatisation and privatisation of business enterprises, outsourcing of services, the development of corporate and business plans, evaluation of organisational programs or the conduct of policy research. The provision of advice on *information technology and systems* matters related to the design of information systems, software development, computer applications, telecommunications and the analysis of information needs.

**3.9.22** In the category of *finance and accounting*, consultancies included the provision of advice on the development of accounting systems, financial analyses and assessments, economic planning or forecasting and asset management. *Human resource management* services included advice on industrial relations and occupational health and safety matters. Finally, consultancies concerning *legal, marketing and other professional services* covered a diverse range of activities, including advice in areas such as public relations, marketing, legal matters, tourism, engineering, architectural and drafting.

**3.9.23** Table 3.9D categorises expenditure on consultancy services with a value exceeding \$10 000, by type of service provided, for 1993-94 and 1992-93, respectively.

**TABLE 3.9D**  
**TYPE OF SERVICES PROVIDED BY CONSULTANTS,**  
**1993-94 AND 1992-93**

| <i>Type of service</i>                  | <i>1993-94</i> |            | <i>1992-93</i> |            |
|---|----------------|------------|----------------|------------|
|   | <i>\$m</i>     | <i>%</i>   | <i>\$m</i>     | <i>%</i>   |
| Legal, marketing and other professional | 37.9           | 40         | 37.2           | 52         |
| Strategic organisational                | 22.1           | 23         | 16.1           | 22         |
| Information technology and systems      | 13.4           | 14         | 6.7            | 9          |
| Human resource management               | 7.2            | 8          | 3.5            | 5          |
| Finance and accounting                  | 6.8            | 7          | 4.8            | 7          |
| Not classified by agencies              | 8.0            | 8          | 3.9            | 5          |
| <b>Total</b>                            | <b>95.4</b>    | <b>100</b> | <b>72.2</b>    | <b>100</b> |

**3.9.24** As illustrated in the above table, the vast majority of consultancies involved the provision of legal, marketing and other professional advice. Within this category, in 1993-94 legal services accounted for \$8.8 million (1992-93, \$7.1 million) of total consultancy expenditure, with advice on marketing and research matters accounting for \$7.1 million (1992-93, \$10.4 million). The next largest category of consultancy expenditure related to strategic organisational issues, with \$9.2 million expended in 1993-94 (\$6.6 million, 1992-93) on the provision of advice concerning corporatisation, privatisation and other restructuring issues. Within the same category, a further \$6 million (1992-93, \$5.1 million) was spent on consultancy services relating to the development of business and strategic plans.

**3.9.25** Further analysis disclosed that among the major providers of consultancy services to the public sector were Australia's "top six" accounting firms. During 1992-93 and 1993-94, these firms collectively accounted for around \$26 million, or 13 per cent, of the total consultancy expenditure.

### Planning the engagement of consultants

**3.9.26** To assist in the effective utilisation of consultancy services and the attainment of optimum outcomes, it is important that agencies define the specific requirements and anticipated outcomes of the assignment in a project specification document prior to the engagement of consultants. The preparation of a project specification document requires the agency to establish a clear picture of the purpose of the task, the boundaries and scope of the work to be completed, and the results to be achieved. The project specification forms the basis for the preparation of proposals or bids by parties interested in nominating for the consultancy assignment. The project specification also serves as a planning tool to direct the activities of the consultant and a control mechanism for monitoring the consultant's progress. In addition, the information contained in the project specification should be incorporated into a contract or letter of engagement when the time comes to formalise the consultancy arrangement.

**3.9.27** Some of the more critical elements that should be incorporated into a project specification include the objectives of the consultancy, the terms of reference or scope for the engagement, critical timeframes for the achievement of outcomes, resources to be provided by the consultant and the agency, the fee structure for the provision of the consultancy services, a requirement to disclose any potential conflicts of interest and the selection criteria to be utilised in assessing all submissions.

**3.9.28** Where project specifications are not comprehensive, agencies run the risk that tendered costs may be inflated and that consultancies may diverge from their original purpose and scope resulting in time delays, cost overruns and the achievement of less than optimal outcomes.

**3.9.29** An audit review of a sample of consultancy engagements by budget and non-budget sector agencies revealed a number of deficiencies in project specification documents, including:

- a lack of detail as to the terms of reference, which in some cases consisted of little more than a broad statement of purpose;
- timeframes for the completion of tasks had not been established;
- failure to request sufficiently detailed costing estimates, including estimated hours for specific tasks; and
- disclosure of any possible conflicts of interest not requested.

**3.9.30** Agencies need to be cognisant of the importance of establishing comprehensive project specification documents prior to the engagement of consultants to ensure an appropriate planning process, sound selection decisions and the effective management of engagements. Failure to prepare sufficiently detailed project specifications places agencies at risk of incurring unnecessary time delays, cost overruns and less than optimal outcomes.

### **Selection of consultants**

**3.9.31** A key aim of the consultancy guidelines issued by the OPSM is to ensure that the engagement of consultants across the public sector is based on consistent standards in relation to fair competition, value-for-money, effective service and the ability to satisfy public scrutiny.

**3.9.32** Under the guidelines issued in September 1993, departments and other agencies were required to adopt certain practices relating to the invitation of bids and tenders for the engagement of consultants. Specifically, agencies were required to ensure invitations to bid were appropriately circulated in a manner most suited to the nature of the consultancy, including direct approach to known experts, and advertising in newspapers and industry publications. The overriding consideration espoused in the guidelines was that *wherever possible the "market place" should be examined to ensure bids were received from those offering the highest quality and best value-for-money.*

**3.9.33** Agencies utilising consultancy services were also required to comply with various regulatory provisions which relate to the purchase of goods and services. Specifically, during the period under audit review, agency acquisitions were subject to the provisions of the Audit (Supply Management) Regulations 1993 which, in part, required agencies to:

- obtain 3 written quotations where the estimated amount of expenditure was between \$2 000 and \$50 000; and
- invite public tenders where the estimated amount of expenditure exceeded \$50 000,

unless the head or deputy of the agency certified that it was impractical or inexpedient to do so.

**3.9.34** From July 1994, these regulations were revoked and replaced by the Supply Management Regulations 1994. These latter regulations were also revoked effective from February 1995, and replaced by the Financial Management (Amendment) Regulations 1994. However, requirements relating to the purchase of goods and services have remained essentially the same over the period of the audit review regardless of the regulatory changes.

**3.9.35** The audit review of consultancy engagements revealed that agencies at times failed to employ best business practices, as reflected in the Government's consultancy guidelines, particularly in relation to the competitive tendering of consultancies. Specifically, for the vast majority of consultancies examined in detail, agencies had employed consultants using direct invitation or selective tendering procedures. The use of these selection practices, while within the exemption provisions of the governing regulations, effectively circumvented the competitive selection processes envisaged in the Government's consultancy guidelines.

**3.9.36** The OPSM review of departmental consultancies undertaken in 1994 drew a similar conclusion. Specifically, the OPSM found that *"Circumventing competitive selection, even when sanctioned by departmental management and provided for in statutory provisions, should be the exception rather than the rule"*.

**3.9.37** Following this review, in November 1994, the OPSM issued revised consultancy guidelines which strengthened the competitive tendering requirements. The revised guidelines not only emphasise the need to adopt competitive tendering practices but require all exemptions from these practices by departments and other budget sector agencies to be subject to ministerial approval.

**3.9.38** In the non-budget sector, agencies are also required under the guidelines to adopt competitive tendering processes unless the relevant Chief Executive Officer certifies that it is not practical or expedient to do so. In cases where competitive tendering arrangements are not established, Chief Executive Officers need to ensure that consultancy appointments conform with government policy requiring *fair competition, value-for-money, effective service and the ability to satisfy public scrutiny*.

**3.9.39** **The strengthened requirements for the engagement of consultants should assist in the achievement of improved results for the public sector from the utilisation of these valuable resources.**

### **Contractual arrangements**

**3.9.40** Prior to the commencement of a consultancy, it is important that a formal letter or contract of engagement is agreed with the consultant. A formal letter should only generally be used for small, straight forward, lower cost assignments. In all other cases, a formal written contract should be prepared.

**3.9.41** The purpose of an engagement letter or contract is, in part, to ensure that matters such as the objectives, methods, resources, costs, timing, conditions and expected outcomes of the consultancy are clearly established and agreed between the parties concerned. This information should have already been prepared for the project specification document, discussed earlier in this Report. In addition, it is important that adequate legal, financial and quality protection is provided in the agreement to safeguard the interests of the State. For example, the State should be indemnified against any loss, damage or injury resulting from the work of the consultant and the issue of ownership of the products derived from the consultancy, either physical or intellectual, should be covered.

**3.9.42** The audit review of selected consultancies revealed that many of the formal engagement documents were to varying degrees deficient in protecting the interests of the State. Specific deficiencies identified included:

- insufficient detail relating to terms of reference, specified completion timeframes, reporting requirements and overall costings;
- inadequate protection provisions relating to indemnification against loss, damage or injury, ownership of products derived from the consultancy and confidentiality of information; and
- failure to provide for conditions of termination of the consultancy.

**3.9.43** The importance of formalising the conditions of consultancy engagements has been recognised in the newly issued government guidelines, which oblige agencies to establish formal agreements for all consultancy engagements to ensure the achievement of optimum outcomes from such engagements and the protection of the State's interests.

### Management of engagements

**3.9.44** The successful completion of a consultancy project and the attainment of value-for-money largely depends on the soundness of the monitoring and evaluation procedures adopted by agencies. As detailed in the consultancy guidelines issued by the OPSM, a suitably skilled project manager should be appointed to monitor and evaluate the performance of the consultant. Where larger and more complex consultancies are undertaken, the monitoring and evaluation role should more appropriately be fulfilled by a steering committee. The project manager or steering committee should be established at the earliest possible stage of the consultancy, ideally prior to the determination of the project specification.

**3.9.45** In many of the consultancies examined, audit found evidence that agencies had employed good management practices, including the appointment of project managers or establishment of steering committees. However, in some cases, due to the absence of adequate documentary evidence of monitoring and evaluation procedures, definitive conclusions could not be reached on the overall effectiveness of these management processes. In such cases, reliance had to be placed on verbal assurances by management that adequate practices were applied. The ability of audit to draw conclusions on management processes was also hampered by limitations in the information contained in consultancy agreements, as discussed earlier in this Report.

**3.9.46** In relation to payments made to consultants, audit identified instances where invoices received for payment lacked sufficient detail to verify the nature and extent of the services provided. While these invoices were appropriately certified by agencies, it was not possible to verify the composition of the resources utilised on the assignments and therefore reliably determine whether the claims for payment had been fully supported.

**3.9.47** Given the substantial expenditure incurred by agencies on consultancy services, adequate provisions should be incorporated into all consultancy agreements covering the degree of detail required to be disclosed to support claims for payment relating to services provided.

### Reporting requirements

**3.9.48** The requirements covering the reporting of agency expenditures on consultancy services to the Parliament during 1992-93 and 1993-94 were set out in regulations established under the now repealed *Annual Reporting Act* 1983. Table 3.9E details the minimum reporting requirements established under these regulations.

**TABLE 3.9E  
CONSULTANCY REPORTING REQUIREMENTS  
UNDER THE ANNUAL REPORTING ACT 1983**

| <i>Type of organisation</i>  | <i>1992-93<br/>Minimum reporting<br/>requirements</i>  | <i>1993-94<br/>Minimum reporting requirements</i>   |
|------------------------------|--|---|
| Departments                  | Notes to departmental financial statements to disclose details of all consultants engaged and the cost of engaging such consultants. | Report of operations contained in department annual report required to specify details of all consultants engaged, including the name and purpose of the consultancy, method of selection, period of engagement, cost of consultancy and the funding source |
| Other public sector agencies | Agency annual reports to include a general statement of all consultants engaged and the cost of engaging such consultants.           | Identical to 1992-93.   |

**3.9.49** As shown in the above table, the reporting requirements applicable to departments differed significantly from those imposed on other public sector agencies. In 1992-93, departments were required to report details of consultancy expenditure in the notes to their financial statements, which were subject to audit verification. However, other agencies were only required to provide unaudited summary information on consultancy engagements in the report of operations contained in their annual reports. While the amendments to the reporting requirements for 1993-94 provided further clarification on the specific disclosures to be made by departments, they removed the requirement for these details to be audited and did not address the differing disclosure requirements for departments and other public sector agencies.

**3.9.50** The revised OPSM consultancy guidelines issued in November 1994 introduced common reporting requirements to apply to all departments and agencies from the 1994-95 financial year. Under the guidelines, all public sector agencies are now required to include the following details of consultants in their report of operations:

- In respect to the engagement of a consultant costing in excess of \$10 000:
  - the name of the consultant;
  - the title of the consultancy project; and
  - the amounts committed and paid during the financial year.
- In respect to the engagement of a consultant costing up to \$10 000:
  - the total number of engagements within this category; and
  - the total amounts committed and paid during the financial year.
- If no consultants were engaged by or on behalf of the department or agency during the financial year, a statement of that fact.

**3.9.51** In January 1995, subsequent to the publication of the guidelines, *Directions* were issued by the Minister for Finance under the *Financial Management Act 1994* (which replaced the *Annual Reporting Act 1983*), containing requirements for the disclosure of information on consultancy services in the report of operations of agencies. However, these Directions are inconsistent with the OPSM guidelines, in that they contain the following requirements:

- for consultancy engagements during a year costing in excess of \$50 000, a schedule listing the consultants engaged, particulars of the projects involved, the total fees incurred and future commitments in relation to each consultancy; and
- for consultancy engagements during a year costing less than \$50 000, the number and total cost of these engagements.

**3.9.52** The differences in reporting requirements under the OPSM consultancy guidelines and the Directions of the Minister for Finance would result in inconsistent disclosures between agencies, therefore reducing the usefulness of such information. However, the Department has advised that action is to be taken to remove this inconsistency in the reporting requirements.

□ **RESPONSE** provided by Acting Secretary, Department of the Premier and Cabinet

*The report does not satisfactorily distinguish between the use of consultants and the use of contractors in the public sector. The inclusion by the Auditor-General of expenditure on contractors as consultancy outlays has led to an overstatement in the report of the Government's actual expenditure on consultancies.*

*As part of its public sector reform agenda, the Government has introduced a policy of "contracting-out" to assist in reducing total costs of delivering services; increase innovation with competitive bidding from the private sector and improve service delivery. Consequently, it is not surprising that the Auditor-General has found that Victorian Government departments, statutory authorities, State-owned enterprises, companies, business enterprises and other government agencies such as hospitals, universities and TAFE colleges, and water boards have spent around \$85 million in 1992-93 and \$115 million in 1993-94 on consultants and contractors.*

*The audit report has not attempted to accurately compare estimates of consultants and contractors engaged and their costs in previous years.*

*In 1993, the Government introduced mandatory public reporting of consultancy expenditure by all Victorian public sector bodies from 1992-93 because there was no such requirement prior to 1992. However, if the report is to be useful as a benchmark the Auditor-General should have made an attempt to estimate previous years' expenditure.*

*Currently, there is no mandatory requirement for government departments and agencies to report on contractors, however, a number of agencies have included all or part of their expenditure on contractors in their reports as expenditure on consultants as a conservative approach to reporting expenditure in this area.*

*The Urban Land Authority's 1993-94 Annual Report provides a typical example of this practice. While the report showed expenditure on consultants as \$5 million, the majority of this amount was actually spent on the contracting-out of engineering, marketing and surveying work. (The narrative refers to the arrangements as outsourcing, i.e. contracting out.) Contractors provide ongoing functions of government and usually replace existing in-house service provision. Consultants, by contrast, provide specific expert advice on a specified task or tasks and are usually in addition to in-house resources.*

❑ **RESPONSE** provided by Acting Secretary, Department of the Premier and Cabinet - continued

*The audit report refers to a review of departmental consultancies commissioned by the Premier in 1994. This review, like the audit report, identified significant overstatement of the actual use of consultants as a result of a lack of clarity about the definition of "consultant" as opposed to "contractor". The definition of "consultant" in the Guidelines for the Engagement and Management of Consultants is to be revised to make clear the distinction between consultant and contractors and thus minimise the type of overstatement of consultancy outlays which the audit report has found.*

*Finally, the audit report does not include any information from the 1994 review commissioned by the Premier on the significant value added by consultancies. Departments reported actual cost savings to that time of \$12.1 million resulting from the implementation of recommendations made by consultants whose fees totalled \$6.4 million. This does not include reported benefits which are more difficult to quantify, such as improved service delivery, improved accountability arrangements, successful restructures of inefficient organisations and improved worker safety. Further, departments reported anticipated cost savings or revenue increases of \$9 337 million from decisions and actions on issues which were the subject of consultancy recommendations.*

❑ **Further audit comment**

*As commented in the Report, the extent of consultant utilisation and associated costs included in the Report are consistent with information already provided by public sector agencies to the Parliament, which has been based on the government-established definition of a consultant. Audit has statistically reduced the agency-reported consultant utilisation figures based on a detailed examination of a sample of consultancies to ensure the fair presentation of the overall costs incurred by the State on consultancy services.*

*While the quantification and presentation by audit of consultancy costs for financial years prior to 1992-93 would have added value to the Report, this information was not readily available within individual agencies nor at a central agency level, and therefore could not be included in this Report.*

*Finally, it is considered that the direct benefit of consultant utilisation within the public sector has been more informed decision-making, with consultants being but one element in that process.*



**SCHEDULE B  
COMPLETED/INCOMPLETE AUDITS**

| <i>Entity</i>                             | <i>Financial<br/>year<br/>ended</i> | <i>Reporting to Parliament</i>                             | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|---|-------------------------------------|--|--|---|
| <b>COMPLETED AUDITS</b>                   |                                     |  |  |   |
| Department of the Premier and Cabinet     | 30 June 1994                        | 31 Oct. <i>Annual Reporting Act 1983, s.8.</i>             | 18 Sept. 1994  | 21 Sept. 1994                                       |
| <b>PREMIER</b>                            |                                     |  |  |   |
| Office of the Ombudsman                   | 30 June 1994                        | " "  | 17 Oct. 1994   | 26 Oct. 1994  |
| Office of the Public Service Commissioner | 30 June 1994                        | " "  | 22 Sept. 1994  | 23 Sept. 1994                                       |
| Victorian Auditor-General's Office (a)    | 30 June 1994                        | " "  | 31 Aug. 1994   | 1 Sept. 1994  |
| Victorian Relief Committee                | 30 June 1994                        | 30 Sept. <i>Victorian Relief Committee Act 1958, s.7A.</i> | 28 Sept. 1994  | 30 Sept. 1994                                       |

(a) The Victorian Auditor-General's Office was audited by a firm of private auditors.

# Part 3.10

## Transport

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### KEY FINDINGS

#### DEPARTMENT OF TRANSPORT

##### Contracting-out of country passenger services

- Changes in the mode of service provision in 5 country transport services, while achieving cost savings, have resulted in reduced patronage levels.

*Paras 3.10.4 to 3.10.18*

- Patronage levels on services operated by 2 private rail operators have been maintained.

*Paras 3.10.4 to 3.10.18*

- Audit was not in a position to form a conclusive view on the cost-effectiveness of the decision to privately operate 2 train services as all relevant records supporting the decision could not be produced for audit examination.

*Paras 3.10.19 to 3.10.23*

#### PUBLIC TRANSPORT CORPORATION

##### Current budget position and patronage levels.

- Current indications are that the Corporation will operate within its budget parameters for 1994-95.

*Paras 3.10.24 to 3.10.31*

- The Corporation has a significant challenge ahead in ensuring that a reliable and responsive public transport service is provided to customers in order to achieve the objectives of the Government's reform program.

*Paras 3.10.24 to 3.10.31*



**3.10.1** Two Ministers, namely the Minister for Public Transport and the Minister for Roads and Ports, have responsibility for operations within the Transport sector. These Ministers have collective responsibility for the Department of Transport.

**3.10.2** Details of the specific ministerial responsibilities for public bodies within the Transport sector are listed in Table 3.10A. These public bodies, together with the Department of Transport, were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.10A  
MINISTERIAL RESPONSIBILITIES  
FOR PUBLIC BODIES WITHIN THE TRANSPORT SECTOR**

| <i>Ministerial portfolio</i> | <i>Entities subject to audit</i>   |
|------------------------------|--|
| <b>Public Transport</b>      | MTA Investments Pty Ltd<br>MTA Superannuation Fund<br>Public Transport Corporation   |
| <b>Roads and Ports</b>       | Marine Board of Victoria<br>Port of Geelong Authority<br>Port of Geelong Authority Superannuation Fund<br>Port of Melbourne Authority<br>Port of Portland Authority<br>Roads Corporation |

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

## DEPARTMENT OF TRANSPORT

### CONTRACTING-OUT OF COUNTRY PASSENGER SERVICES

**3.10.4** Among the reforms to the public transport system that were announced by the Government in January 1993 was the contracting-out of certain country passenger services which were provided by the Public Transport Corporation.

**3.10.5** Publicly-funded passenger services have been provided to a large number of towns in country Victoria in the form of trains and road coaches. The train services have been provided directly by the Corporation, while the coach services have been provided by private operators contracted by the Corporation.

**3.10.6** The Government, when announcing its reforms in January 1993, stated that "... due to the excessive losses incurred by existing country rail passenger service, the Government will no longer operate V/Line services along 9 routes", as outlined below:

- South Geelong to Warrnambool;
- Ballarat to Dimboola;
- Melbourne to Mildura;
- Bendigo to Swan Hill;
- Seymour to Cobram;
- Seymour to Albury/Wodonga;
- Traralgon to Bairnsdale;
- Dandenong to Leongatha; and
- Frankston to Stony Point.

**3.10.7** A financial analysis undertaken by the Government of the existing train and road coach services concluded that "... if the existing train services were operated by coaches the number of services would treble while costs would be cut by nearly two-thirds". The Government identified that overall savings of \$32.2 million would be achieved by reducing the Corporation's operating costs and that further savings were possible in the longer-term through a reduction in the size of the Corporation's fleet of rolling stock.

**3.10.8** At that time, the Government also considered the option of retaining the above train services but increasing the efficiency with which these services were provided. While it was identified that savings could be achieved using this approach, it was concluded that "... these savings would not match those achievable through road-coach substitution if the trains were operated as a government enterprise". As a result, the Government also considered a further option of having some services operated by private or local interests having access to the Corporation's rolling stock and facilities.

**3.10.9** Tenders for the private operation of the country passenger services were called in January 1993. The Board of the Public Transport Corporation, in March 1993, appointed consultants to evaluate these tenders and prepare recommendations on the preferred operator for each service, for both train and road-coach services.

**3.10.10** Also in March 1993, the Minister for Public Transport released details of an agreement between the Government and the transport unions relating to the reform of public transport services within the State. A component of this agreement was that at least 6 of the country rail services would be retained, with at least 4 of these services to be operated by the Public Transport Corporation on the basis of international best practice and as many as 2 of these services operated by private rail operators.

**3.10.11** Following an evaluation of the tenders, it was announced by the Minister for Public Transport in April 1993 that:

- 2 rail services, namely Frankston to Stony Point and Bendigo to Swan Hill, would continue to be provided directly by the Corporation;
- 2 other services, namely Seymour to Albury/Wodonga and Traralgon to Bairnsdale, would be partly privatised with some road-coach services;
- 2 services, namely South Geelong to Warrnambool and Seymour to Cobram would be run by private rail operators; and
- the balance of the services would be operated by private road-coach operators.

**3.10.12** In relation to the rail services to be provided by private road-coach operators, the evaluation undertaken by the Public Transport Corporation concluded that by having the 2 rail services privately operated, annual savings of around \$3.3 million would be achieved.

**3.10.13** Following changes to the *Transport Act* 1983 the responsibility for administering the contracts for the provision of country rail services by private rail operators was transferred to the Department of Transport in April 1994.

**3.10.14** The implementation of the changed service provision arrangements occurred over the period July 1993 to September 1993, therefore first impacting on the results for the 1993-94 financial year.

## Revenue and patronage levels of the affected services

**3.10.15** An audit review was undertaken to determine the impact of the changed service provision arrangements on the related revenue and patronage levels. Table 3.10B provides the relevant details for the passenger services contracted out to private operators.

**TABLE 3.10B  
PATRONAGE AND REVENUE LEVELS**

| Service                            | 1992-93          | 1993-94          | (a) 1994-95      |
|------------------------------------|------------------|------------------|------------------|
| Ballarat to Dimboola -             |                  |                  |                  |
| Patronage (nos.)                   | 192 795          | 165 969          | 124 430          |
| Revenue (\$m)                      | 1.95             | 1.73             | 1.26             |
| Melbourne to Mildura -             |                  |                  |                  |
| Patronage (nos.)                   | 56 716           | 26 086           | 22 035           |
| Revenue (\$m)                      | 1.56             | 0.54             | 0.45             |
| Seymour to Albury/Wodonga -        |                  |                  |                  |
| Patronage (nos.)                   | 343 250          | 266 883          | 242 722          |
| Revenue (\$m)                      | 3.98             | 3.83             | 3.45             |
| Traralgon to Bairnsdale -          |                  |                  |                  |
| Patronage (nos.)                   | 285 600          | 282 001          | 267 384          |
| Revenue (\$m)                      | 2.55             | 2.50             | 2.35             |
| Dandenong to Leongatha -           |                  |                  |                  |
| Patronage (nos.)                   | 92 569           | 83 597           | 80 104           |
| Revenue (\$m)                      | 0.45             | 0.56             | 0.58             |
| South Geelong to Warrnambool (b) - |                  |                  |                  |
| Patronage (nos.)                   | 278 213          | 279 418          | 286 700          |
| Revenue (\$m)                      | 3.29             | 3.18             | 2.99             |
| Seymour to Cobram (b) -            |                  |                  |                  |
| Patronage (nos.)                   | 149 412          | 165 607          | 153 363          |
| Revenue (\$m)                      | 1.27             | 1.39             | 1.28             |
| <b>Total patronage (nos.)</b>      | <b>1 398 555</b> | <b>1 269 561</b> | <b>1 176 738</b> |
| <b>Total revenue (\$m)</b>         | <b>15.05</b>     | <b>13.73</b>     | <b>12.36</b>     |

(a) Extrapolated for the 12 month period based on the patronage and revenue levels for July 1994 to February 1995.

(b) Contracted out to private rail operators.

**3.10.16** The table highlights that over the 3 year period patronage levels decreased for all services operated by private coach operators, with the decrease ranging from 6 per cent on the Traralgon to Bairnsdale service to 61 per cent on the Melbourne to Mildura service. In contrast, patronage levels on services operated by private rail operators have increased by up to 3 per cent. However, revenue has decreased by \$3 million over the 3 year period.

**3.10.17** The Department has advised that from the 1994-95 financial year, estimated annual cost savings of around \$24 million will be achieved for the 7 services outlined in Table 3.10B.

**3.10.18** Although cost savings will be realised, the reduction in patronage levels since the introduction of the above changed passenger service provision arrangements (in all service areas other than the services relating to the South Geelong to Warrnambool and Seymour to Cobram, which are both provided by private rail operators) indicates that an objective of the Department, which is to meet the needs of the community in the provision of efficient and effective transport facilities, has not been achieved.

□ **RESPONSE** provided by Secretary, Department of Transport

*The claim by the Auditor-General that the Department of Transport has not achieved its objectives in meeting the needs of the community fails to take into account the Government's policy of ensuring that a public transport system is provided in Victoria that is efficient, effective, safe and reliable, and has due recognition for the needs and interests of the users of that system and the taxpayers of Victoria.*

*As indicated by the Auditor-General, changes to the services listed in Table 3.10B will have saved the taxpayers of Victoria some \$24 million a year by 1994-95. This saving compares with a loss of less than \$3 million in annual revenue.*

*Government policy was to reduce the burden of the services concerned on the Victorian taxpayer. At the same time services in each corridor have been maintained at levels consistent with those previously applying. Everyone who had access to public transport before the changes has the same access now.*

*Patronage levels in 1994-95 are at 85 per cent of those achieved in 1992-93. The Auditor-General implies that the reduction is due entirely to the replacement of trains with road coaches. Other factors such as severe economic circumstances as a result of the drought in many areas of rural Victoria have not been taken into account.*

*The Government is unable to fund the high cost of passenger train services for a small minority who may have preference for train travel. Road coach services ensured that public transport could be maintained - the only alternative would have been to terminate services altogether.*

*Table 3.10B does not accurately reflect Mildura patronage. Patronage and revenue should include Mildura-Bendigo-Melbourne coach/train services and Mildura-Swan Hill-Melbourne coach/train services. The latter was specifically introduced as part of the train replacement services. Table 3.10B should read:*

| Melbourne to Mildura | 1992-93 | 1993-94 | 1994-95 |
|----------------------|---------|---------|---------|
| Passenger (nos.)     | 83 716  | 59 865  | 61 051  |
| Revenue (\$m)        | 2.2     | 1.31    | 1.37    |

*The reduction in Mildura patronage is 27 per cent, not 61 per cent.*

### **Was the decision to contract the provision of rail services soundly based?**

**3.10.19** As previously indicated, the provision of 2 train passenger services, namely the South Geelong to Warrnambool and Seymour to Cobram services, were contracted to private rail operators. Audit undertook a review of the evaluation undertaken by the Corporation supporting this decision to determine whether it was based on complete and reliable information.

**3.10.20** Audit requested the Department to make available the evaluation to support the decision together with supporting schedules reconciled to source records. While the evaluation undertaken by the Corporation, including the methodology applied in estimating the costs of running the rail services targeted to be contracted out, were made available and reviewed, audit was not able to examine all the source documents supporting the costs factored into the evaluation as all relevant records either had not been kept or were not able to be produced for examination.

**3.10.21** In addition, audit was advised that the evaluation took account of projected cost savings resulting from major restructuring which was to occur from 1993. These projected savings were based on a number of assumptions provided by rail union representatives, including:

- driver-only operated trains;
- 30 per cent reduction in the cost of rolling stock maintenance; and
- 25 per cent reduction in infrastructure maintenance costs.

**3.10.22** However, since the decision to outsource the provision of these services in January 1993, there has been no re-assessment of the validity of the underlying assumptions to determine whether the decision was soundly based. Consequently, the Department is not in a position to assess whether the contracting-out of country passenger services has met its objective of reducing the costs of providing these services.

**3.10.23** **The purpose of the evaluation undertaken by the Corporation was to examine the relevant costs of the alternative service provision arrangements, including the costs under the existing arrangements, in order that an informed decision could be made. However, for the evaluation to be meaningful it needed to be based on complete and reliable data. Given that audit was not provided with all relevant records supporting the evaluation, audit was not in a position to form a conclusive view on the cost-effectiveness of the decision to privately operate 2 train services.**

*□ RESPONSE provided by Secretary, Department of Transport*

*The decision to contract 2 rail services to the private sector was based on reducing costs and introducing a model that would drive efficiency and better service through competition. All indicators suggest that the outsourcing has been most successful with increased patronage of 3 per cent against 1992-93 levels.*

*The decision to outsource was based on analyses using the rail costing model applied by rail systems throughout Australia and on estimates made by the relevant business areas of the Corporation. The information provided to audit included the underlying assumptions and bases of calculation. The base data is extensive and is retained in its various aspects by separate business units within the Corporation.*

*The Department will evaluate the contracts against original cost estimates after they have been in operation for a reasonable period of time.*



## PUBLIC TRANSPORT CORPORATION

### CURRENT BUDGET POSITION AND PATRONAGE LEVELS

**3.10.24** As outlined in my May 1994 Report on Ministerial Portfolios, in January 1993 the Government introduced a reform program specifically designed to lower the long term costs of the public transport system. The second phase of the program, introduced in March 1994, focused on improving service reliability and satisfying customer needs.

**3.10.25** In line with expected savings anticipated to flow from the reform program, the recurrent contribution from the Consolidated Fund to the Corporation to cover its operating deficit for 1994-95 was set by the Government at \$356 million. This amount excluded a \$12 million contribution to be provided to cover debt servicing costs which were previously met centrally by the Government. The Consolidated Fund contribution was set at a level which was \$35.3 million lower than the actual contribution provided in 1993-94.

**3.10.26** An audit analysis revealed that at March 1995 the Corporation's cash position was \$9.4 million better than budgeted to that date. However, unfavourable final quarter factors including falling freight tonnage caused by the drought indicate that by 30 June 1995 the Corporation would only meet its 1994-95 budget target.

**3.10.27** During 1993-94, the Corporation's staff numbers fell by 3 000 (1992-93, 4 100). The reduction in the workforce has reduced the Corporation's annual total salaries and wages costs by 33 per cent, since the reforms were introduced. This result means that in terms of related outlays, the Corporation is well placed to operate within its budget parameters.

**3.10.28** As stated previously, a key element of the reform program was aimed at improving service reliability and satisfying customer needs. Audit conducted an analysis of system patronage levels and related revenues to assess the impact of the program on these key indicators.

**3.10.29** The analysis revealed that in recent years patronage levels of the Corporation have declined while related revenues have remained relatively static. However, preliminary data for 1994-95 indicates that patronage levels and revenues have marginally increased. Table 3.10C compares the Corporation's patronage levels and the related revenue for the period July 1991 to March 1995.

**TABLE 3.10C**  
**PATRONAGE AND RELATED REVENUE LEVELS,**  
**JULY 1991 TO MARCH 1995**  
(millions)

|   | 1991-92 | 1992-93 | 1993-94 | <i>July 1994<br/>to March<br/>1995</i> | <i>July 1993<br/>to March<br/>1994</i> |
|---|---------|---------|---------|--|--|
| Patronage (nos.)                            | 320.2   | 302.8   | 299.5   | <b>182.4</b>                           | 178                                    |
| Revenue (\$)                                | 310.7   | 314.6   | 314.7   | <b>217.8</b>                           | 211.8                                  |
| Average revenue per<br>million patrons (\$) | 0.97    | 1.04    | 1.05    | <b>1.19</b>                            | 1.19                                   |

**3.10.30** The increase in revenue during 1994-95 has been mainly brought about by an average increase in fares in January 1995 for Met and V/Line travel of 3 per cent and 2 per cent, respectively. The Corporation is of the view that some of the patronage growth during this period has resulted from improved economic conditions and an increased level of activity within Melbourne central business district which has stimulated the greater use of public transport.

**3.10.31** Although patronage levels have stabilised, the Corporation has a significant challenge ahead in ensuring that a reliable and responsive public transport service is provided to customers in order to achieve the objectives of the Government's reform program.

□ *RESPONSE provided by Secretary, Department of Transport*

*The reform initiatives are progressing and targeted 1994-95 expenditure reductions are expected to be achieved this year.*

*In the case of passenger revenue and patronage, this has stabilised and a number of initiatives are contained in the 1995-96 budget to improve services for commuters, e.g. refurbishment of stations, additional car parks.*

## CONTRACTING-OUT OF MET BUS SERVICES

**3.10.32** An important element of the Government's January 1993 public transport reform program involved the contracting-out on a commercial basis of the Corporation's Met bus services.

**3.10.33** As commented in my *Report on Ministerial Portfolios, May 1994*, following an extensive tender evaluation process, which considered outsourcing and in-house service delivery options, the Minister announced in August 1993 that the National Bus Company had been awarded 80 per cent of Met bus services, with the remaining 20 per cent retained by the Corporation. The contract awarded to the National Bus Company related to the provision of bus services along certain allotted routes for a period of 7 years at an estimated overall cost to the Corporation of \$130 million.

**3.10.34** To enable the Company to commence operations immediately the Corporation offered the Company the option to lease or purchase buses from the Corporation's fleet which had become excess to its requirements. An agreement was subsequently entered into in December 1993 between the Corporation and the Company which provided for the Company to lease 232 buses from the Corporation over a 2 to 5 year period, with an option to purchase the buses at the end of the lease terms. Under the agreement, the Corporation is to receive around \$1.5 million in lease payments over a 5 year period. The age of the buses subject to this lease agreement range from 3 to 16 years, with 192 buses having an age greater than 11 years.

**3.10.35** The Corporation determined that the present value of the lease payments exceeded the value of the buses acquired by National Bus Company by \$682 000.

**3.10.36** The lease agreement between the Corporation and the Company provides that:

- the Company will maintain the buses in a good working order and if damaged the Company must restore them to a condition of no lesser standard;
- the buses must be insured for their full value at all times during the term of the lease by the Company; and
- the Company agrees to operate the buses at its own risk.

**3.10.37** When considering all relevant factors, the agreement was assessed as a finance lease in that the arrangement substantially transferred all the risks of ownership to the Company. The Corporation correctly accounted for the above arrangement within its financial statements.

*□ RESPONSE provided by Secretary, Department of Transport*

*The Department agrees with the Auditor-General's report on the contracting-out of Met bus services.*

**SCHEDULE A  
STATUS OF MATTERS RAISED IN PREVIOUS REPORTS**

| <i>Report</i>  | <i>Subject</i>   | <i>Status at date of preparation of this Report</i>   |
|--|--|---|
| <b>MATTERS RESOLVED OR ACTION COMMENCED</b>  |  |   |
| <b>DEPARTMENT OF TRANSPORT</b>   |  |   |
| <i>Ministerial Portfolios, May 1994, pp. 346-8.</i>  | Tendering procedures of the Department and the Public Transport Corporation need to be improved to ensure that potential conflicts of interest are avoided.  | The Department has issued guidelines designed to address potential conflicts of interest in tender situations. The guidelines apply to all agencies in the transport portfolio.   |
| <i>Ministerial Portfolios, May 1994, pp. 349-54</i>  | There was an absence of competitive tendering procedures for school bus contracts. This deficiency was also reported by audit in 1989. The financial effect is considered to be substantial given that school bus costs have increased by \$6 million annually since 1989.   | Consultants were engaged in 1994 to undertake a review of school bus services encompassing contractual and operational issues. The Department has considered the consultants' report and recommendations have been made to the Government.  |
| <b>PUBLIC TRANSPORT CORPORATION</b>  |  |   |
| <i>Second Report, 1985-86, pp. 166, 178. Ministerial Portfolios, May 1989, p. 256. May 1990, p. 304.</i> | Excessive accumulation of employee leave credits.  | At the end of March 1995, almost 1 800 employees had annual leave entitlements of more than 60 days. The Corporation has recently formulated a policy which, subject to operational constraints, requires that employees reduce their excess leave entitlements by 30 per cent by December 1996.  |
| <i>Ministerial Portfolios, May 1993, pp. 255-64.</i>   | The Corporation owns light rail vehicles including trams significantly in excess of its immediate service needs. In 1993, the Corporation held 63 surplus light rail vehicles and 227 surplus trams.   | The Corporation advised that all light rail vehicles are currently fully deployed and the tram fleet has been reduced by 71 to 542. The Corporation maintains that a fleet of this size is required given the overhaul program currently in place for certain trams.  |
| <i>Ministerial Portfolios, May 1993, pp. 262-3.</i>  | The Corporation could not account for or locate Met Ticket equipment with a value of \$508 000 purchased for the conversion to driver-only trams. At the time of the audit review in 1993, the Corporation had announced that its newly-formed internal audit section would be undertaking a further investigation into this matter. | The internal audit investigation found that in 1991 the equipment was disposed of without appropriate authorisation and that the Corporation had not sought written quotes or valuations prior to disposal of the equipment. While no further action will be taken by the Corporation on this matter due to the lack of documentary evidence, the Corporation has strengthened its procedures for the disposal of surplus assets. |

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - *continued***

| <i>Report</i> | <i>Subject</i> | <i>Status at date of preparation of this Report</i> |
|---------------|----------------|---|
|---------------|----------------|---|

**MATTERS RESOLVED OR ACTION COMMENCED - *continued***

**PUBLIC TRANSPORT CORPORATION - *continued***

|   |   |   |
|---|---|---|
| <i>Ministerial Portfolios, May 1994, pp. 255-8.</i> | A major reform program was introduced within the Corporation focusing on enhancing the long-term viability of the Victorian public transport system. Key goals of the program are to reduce the Corporation's annual operating cash deficit by \$245 million and to reduce staff numbers by 8 500 employees by December 1995. | The Corporation advised that most reform initiatives have been implemented with savings of \$205 million achieved by December 1994. Staff numbers have also been reduced by 7 800.          |
| <i>Ministerial Portfolios, May 1994, pp. 360-3.</i> | The Corporation's emphasis on the payback evaluation technique, one of the methods used by the Corporation to assess potential capital projects, can adversely impact on the soundness of its capital investment decisions.   | The Corporation advised that appraisals are undertaken in line with Department of the Treasury and Finance guidelines and that no undue emphasis is placed on any one method of evaluation. |
| <i>Ministerial Portfolios, May 1994, pp. 363-4.</i> | Membership of the Corporation's board of management needs to be expanded, in line with the structure authorised by its legislation.   | Two external members have been appointed to the Corporation's board resulting in the Corporation having a full complement of directors.   |

**ROADS CORPORATION**

|  |  |  |
|--|--|--|
| <i>Ministerial Portfolios, May 1994, pp. 365-75.</i> | Membership numbers and subsidy costs associated with the Multi-Purpose Taxi Program have expanded substantially, due largely to the absence of clear objectives and the use of loosely-framed eligibility criteria. The Program's operational characteristics render it susceptible to fraudulent activity, with a heavy reliance placed on the honesty and integrity of taxi drivers and members. | A consultant has been engaged to provide policy reform options and recommend measures to control fraud and misuse in the Program. The Taxi Directorate within the Department has tightened procedures and focused resources on fraud detection and prosecution. Independent medical assessments on borderline eligibility cases have been implemented and members have had their membership either suspended or terminated following fraud investigations. |
|--|--|--|

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - continued**

| <i>Report</i>                                    | <i>Subject</i>  | <i>Status at date of preparation of this Report</i>  |
|--|---|--|
| <b>NO ACTION TAKEN</b>                           |   |  |
| <b>PUBLIC TRANSPORT CORPORATION</b>              |   |  |
| <i>Ministerial Portfolios, May 1989, p. 236.</i> | The adequacy and quality of disclosure within the financial reports of the transport authorities is inadequate because financing costs related to centralised debt are not included.                                    | Position unchanged. Finance costs for transport are reported centrally by the Government.  |
| <i>Ministerial Portfolios, May 1989, p. 238.</i> | Internal management reporting and oversight by central agencies of PTC and Roads Corporation financial operations are based on cash data whereas year-end external reporting is based on accrual accounting principles. | Position unchanged. Monitoring of cash appropriated by the budget process is still regarded as an essential aspect of internal management control over funds available to inner budget agencies and is treated separately to accrual accounting. |

**SCHEDULE B  
COMPLETED/INCOMPLETE AUDITS**

| <i>Entity</i>                                    | <i>Financial<br/>year<br/>ended</i> | <i>Reporting to Parliament</i>   | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|--|-------------------------------------|--|--|---|
| <b>COMPLETED AUDITS</b>                          |                                     |  |  |   |
| Department of Transport                          | 30 June<br>1994                     | 31 Oct. <i>Annual Reporting<br/>Act 1983, s.8.</i>   | 3 Nov<br>1994  | 3 Nov.<br>1994                                      |
| Marine Board of Victoria                         | 30 June<br>1994                     | 30 Sept. <i>Marine Act 1988,<br/>s.80.</i>   | 21 Sept.<br>1994   | 23 Sept.<br>1994                                    |
| MTA Superannuation Fund                          | 30 June<br>1994                     | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.9.</i>  | 4 Oct.<br>1994   | 10 Oct.<br>1994                                     |
| Port of Geelong Authority                        | 30 June<br>1994                     | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.9.</i>  | 12 Sept.<br>1994   | 21 Sept.<br>1994 (a)                                |
| Port of Geelong Authority<br>Superannuation Fund | 30 June<br>1994                     | No reporting requirements.<br>Regulation 4 of Port of<br>Geelong Authority<br>(Superannuation)<br>Regulations 1972 requires<br>the Superannuation Fund<br>to be audited by the<br>Auditor-General. | 9 Sept.<br>1994  | 21 Sept.<br>1994                                    |
| Port of Melbourne Authority                      | 30 June<br>1994                     | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.9.</i>  | 26 Sept.<br>1994   | 28 Sept.<br>1994                                    |
| Port of Portland Authority                       | 30 June<br>1994                     | " "  | 25 Aug.<br>1994  | 9 Sept.<br>1994                                     |
| Public Transport<br>Corporation                  | 30 June<br>1994                     | 30 Sept. <i>Annual Reporting<br/>Act 1983, s.9.</i>  | 14 Sept.<br>1994   | 14 Sept.<br>1994                                    |
| Roads Corporation                                | 30 June<br>1994                     | " "  | 30 Sept.<br>1994   | 30 Sept.<br>1994                                    |
| <b>INCOMPLETED AUDITS</b>                        |                                     |  |  |   |
| MTA Investments Pty Ltd                          | 30 June<br>1994                     | No reporting<br>requirements. Audit<br>conducted at request of<br>Treasurer and under<br>the Corporations Law.   | Financial statements not yet<br>received.                |   |

(a) Qualified audit report issued.

# Part 3.11

## Treasury and Finance

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### KEY FINDINGS

#### REFORM OF THE VICTORIAN ELECTRICITY SUPPLY INDUSTRY

- The Government's reform and privatisation program for the electricity supply industry involves arguably the most significant structural and resource management changes within the public sector in the history of the State. *Paras 3.11.13 to 3.11.17*
- The sensitivity of the privatisation program and an inability to clearly quantify achievement of benefits in the short-term have led to considerable public debate. *Paras 3.11.18 to 3.11.22*
- It is appropriate to recognise the improvement initiatives of the SECV from the late 1980s through to the commencement of the Government's major reform program. *Paras 3.11.28 to 3.11.34*
- Significant and complex allocations of assets and liabilities have been made across the distribution and generation companies and the SECV, and are still to be finalised by the Government and audited. *Paras 3.11.35 to 3.11.43*
- While the SECV has been effectively replaced by the new companies within the reformed industry, quite significant financial management responsibilities have been assigned to, or retained within the organisation and are likely to remain with it for the foreseeable future. *Paras 3.11.44 to 3.11.56*
- Any financial benefit to the State from the reform program, over and above that which would be derived from existing revenue streams to the Consolidated Fund, will be principally dependent upon the level of proceeds from privatisation. *Paras 3.11.60 to 3.11.65*
- The independent role of the Regulator-General will be a vital element of the new framework established for the electricity industry. *Paras 3.11.66 to 3.11.70*
- The Government's announced strategies on both competition and pricing are designed to generate benefits for all industry participants and provide an awareness of the industry's direction on these matters up to the year 2000 and the start of full competition. *Paras 3.11.71 to 3.11.80*
- Aggregate costs of the reform program incurred to date have been approximately \$76 million. *Paras 3.11.81 to 3.11.83*





**3.11.1** The Treasurer and Minister for Finance have responsibility for operations within the Treasury and Finance sectors. These Ministers have collective responsibility for the Department of the Treasury and Finance. Details of the specific ministerial responsibility for public bodies within the Treasury and Finance sectors are listed in Table 3.11A. These public bodies, together with the Department of the Treasury and Finance were subject to audit by the Auditor-General during 1993-94.

**TABLE 3.11A  
MINISTERIAL RESPONSIBILITY FOR  
PUBLIC BODIES WITHIN THE TREASURY AND FINANCE SECTOR**

| <i>Ministerial portfolio</i> | <i>Entities subject to audit</i>  |
|------------------------------|---|
| <b>Finance</b>               | Emergency Services Superannuation Board<br>Government Employee Housing Authority<br>Hospitals Superannuation Board<br>Local Authorities Superannuation Board<br>Surveyors Board of Victoria<br>Victorian Superannuation Board, administering: <ul style="list-style-type: none"> <li>▪ Coal Mine Workers' Pensions Fund</li> <li>▪ Holmesglen Constructions Superannuation Plan</li> <li>▪ Parliamentary Contributory Superannuation Fund</li> <li>▪ State Casual Employees Superannuation Fund</li> <li>▪ State Superannuation Fund</li> <li>▪ State Employees Retirement Benefits Fund</li> <li>▪ Transport Superannuation Fund</li> <li>▪ Victorian Superannuation Fund (a)</li> </ul> |
| <b>Treasurer</b>             | Capital Works Authority (b)<br>Rural Finance Corporation<br>State Insurance Office<br>Tattersall Sweep Consultation<br>Transport Accident Commission<br>Treasury Corporation of Victoria<br>Victorian Debt Retirement Fund<br>Victorian Development Fund (c)  |

(a) Commenced operation on 1 January 1994.

(b) Ceased operations on 31 January 1994.

(c) Ceased operations on 30 June 1994

**3.11.2** Comment on matters of significance arising from the audit of the Department of the Treasury and Finance is provided below.

## DEPARTMENT OF THE TREASURY AND FINANCE

### REFORM OF THE VICTORIAN ELECTRICITY SUPPLY INDUSTRY

**3.11.3** The Auditor-General's *Report on Ministerial Portfolios, May 1994* outlined the Government's proposals for major reform of the Victorian electricity supply industry. At the time of the Report, the reform process was in its initial stages with action by the Government having comprised:

- the establishment of the **Electricity Supply Industry Reform Unit**, within the Office of State-Owned Enterprises of the Department of the Treasury and Finance, to manage the reform process;

- the creation of the following 3 separate entities, each of which was to manage a core sector of the operations of the State Electricity Commission of Victoria (SECV):
  - **Generation Victoria** - to operate the brown coal mines, thermal, gas and hydro power stations and associated facilities;
  - **National Electricity** - responsible for the high voltage transmission of electricity from the power stations to the distribution networks and for the wholesale electricity market (electricity trading pool); and
  - **Electricity Services Victoria** - to operate the low voltage distribution network in the State and supply electricity at the retail level; and
- the retention of the **SECV** under the control of an administrator to manage functions generally not directly related to the core operations allocated to the new entities.

**3.11.4** The May 1994 Report also outlined the main features of Stage 2 of the reform process which would entail substantial disaggregation of the electricity industry.

### **Features of the reform program over the last 12 months**

**3.11.5** This section of the Report provides a summary of actions taken by the Government over the last 12 months under its major reform program for the industry.

**3.11.6** Appreciation is expressed for the co-operation and timely assistance provided to audit by representatives of the Office of State-Owned Enterprises, including the Electricity Supply Industry Reform Unit, and of the industry companies, during the discussions relating to the audit activity and in the compilation of material for this Report.

**3.11.7** Since my May 1994 Report, the Government has made significant progress in implementing its Stage 2 reforms to the structure and operation of the industry. The major element of the more recent reform action has been extensive disaggregation of the entities comprising the industry. Key features of the current industry framework are:

- **5 regionally-based energy distribution and retail companies** to take over the operations of Electricity Services Victoria and the 11 Municipal Electricity Undertakings within the State previously managed by local municipalities;
- **PowerNet Victoria**, to manage the high voltage transmission network for the transfer of electricity from power stations to distribution companies;
- **Victorian Power Exchange**, to monitor and control the wholesale electricity market and to ensure the security of the electricity supply system;
- **5 generation companies** to assume the role of Generation Victoria and to operate the various coal mines and power stations ;
- **the Office of the Regulator-General**, established under legislation to independently regulate the industry; and
- **continued retention of the SECV**, to manage assets and obligations not allocated to the above entities.

**3.11.8** The geographical responsibilities of the 5 new distribution and retail companies are set out in Chart 3.11B below.

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**CHART 3.11B**  
**GEOGRAPHICAL RESPONSIBILITIES OF DISTRIBUTION BUSINESSES**

**3.11.9** The reform process to date has involved the transformation of the industry from one vertically-integrated organisation (the SECV) and 11 Municipal Electricity Undertakings to 13 separate entities responsible for the generation, transmission and distribution of electricity, and from one Board of Commissioners within the SECV comprising 5 members to 13 Boards of Management consisting in aggregate of 64 members.

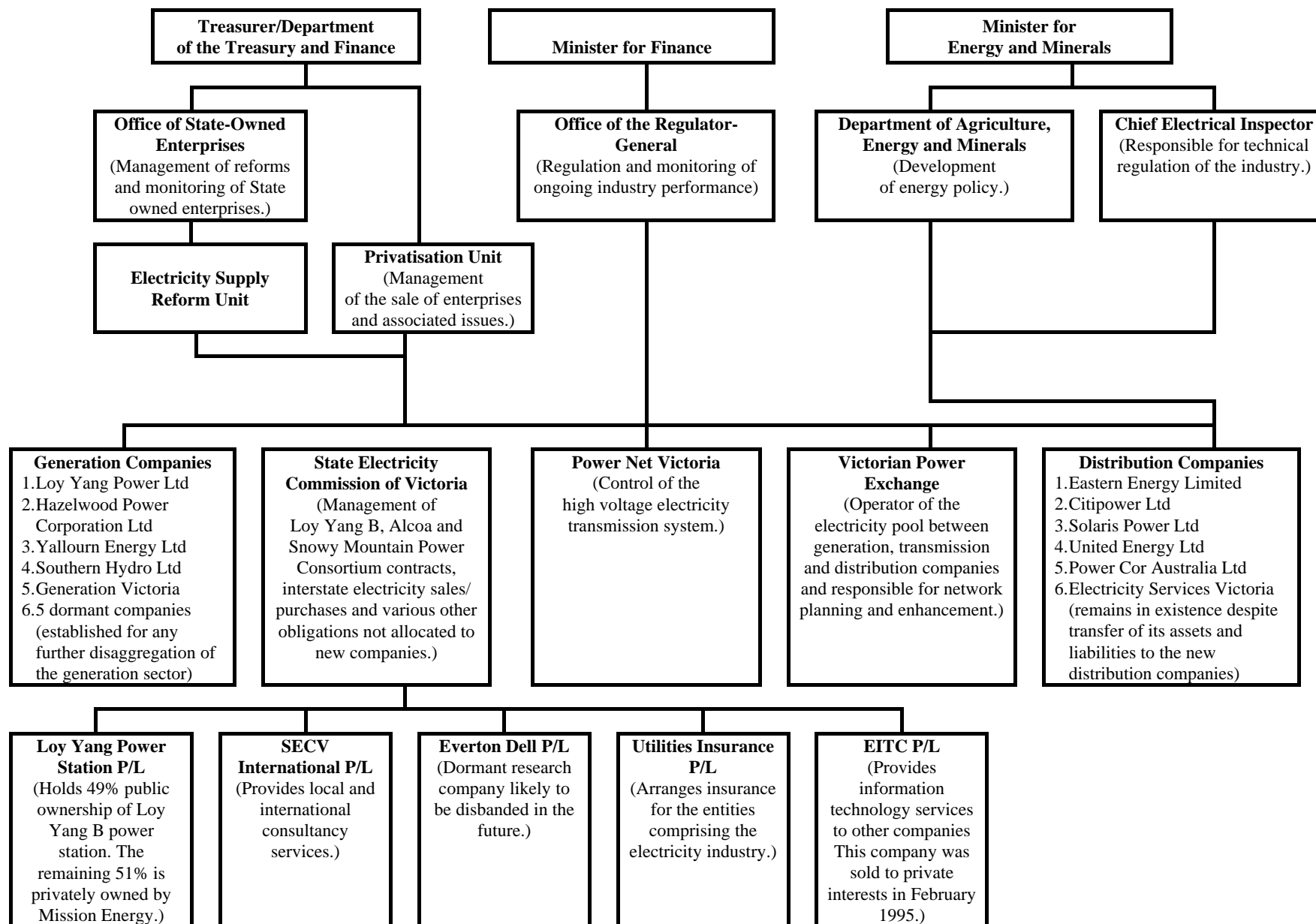
**3.11.10** Audit has compiled Table 3.11C which brings together the various elements of the restructured industry as it currently stands.

**3.11.11** In January 1995, the Government announced some specific details of its wide-ranging privatisation program for the industry, with the 5 distribution companies and one generation company initially earmarked for potential sale during 1995. United Energy Ltd, the company responsible for the distribution and retail sale of electricity in the southern metropolitan region of Melbourne, has been selected as the first business for privatisation with an information memorandum issued to prospective purchasers in March 1995.

**3.11.12** The Privatisation Unit was established as a new division of the Department of the Treasury and Finance in January 1995 with overall responsibility for managing the privatisation of all government business enterprises identified by the Government as appropriate for such action.



**TABLE 3.11C  
STRUCTURE AND RESPONSIBILITIES OF THE REFORMED VICTORIAN ELECTRICITY SUPPLY INDUSTRY, MAY 1995**





## Magnitude and significance of the reform program

**3.11.13** The Government's reform and privatisation program for the electricity supply industry involves arguably the most significant structural and resource management changes within the public sector in the history of the State. The envisaged transition from public to private ownership and the application of commercial and competitive principles to the delivery of essential day-to-day electricity services to the community will clearly introduce a new era to the industry.

**3.11.14** In recognition of the magnitude and far-reaching aims of its electricity reform agenda, the Government has directed high priority to ensuring that a structured framework was in place for the planning and implementation of the program. The core element of this approach has been its Electricity Supply Industry Reform Unit, staffed by specially selected professionals skilled in the various specialist areas associated with disaggregation and privatisation of an electricity industry. Areas in which the specialist expertise of the Unit has been utilised by the Government to date have included:

- objective assessment of the experiences of, and lessons to be learnt from, the reform and privatisation processes which have occurred overseas;
- mechanisms for determining asset values and developing a framework to facilitate efficiency gains in the new distribution and generation companies in preparation for privatisation;
- evaluation of economic conditions and other factors to assist decisions on sale options for entities, e.g. trade sale versus public float;
- assistance in the selection of well-credentialed and experienced business representatives to assume lead roles at board of management or executive levels in the new companies; and
- provision of high-level legal, economic and financial advice and the management of associated consultancies.

**3.11.15** The Government has regularly emphasised, in its public announcements on the reform program, the major reasons underpinning its policy direction in the area and the significance of the long-term benefits which it expects will accrue to the State. The major impetus for the reform program, as indicated by the Government, has been its assessment of the adverse consequences of the SECV's traditional monopoly position within the industry and, in particular:

- the absence of competitive pressures as a means of removing inefficiencies, e.g. in relation to work practices, and of reducing the costs of electricity supply;
- poorly-based capital investment decisions leading to periods of both excess production capacity and unreliable plant availability;
- inequitable pricing structures arising from cross-subsidisation between different classes of consumer groups; and
- a need for an independent regulatory framework to protect consumer interests.



**3.11.16** Through disaggregation of the industry, creation of competition in a commercial environment and privatisation, the Government envisages that the principal benefits to the State and electricity consumers from the reform process will be:

- reductions in operating costs;
- improved management and capital investment decisions;
- transfer of risks associated with poor investment decisions from the public to the private sector;
- opportunities for lower prices to all consumers;
- reductions in industry and public sector debt; and
- greater protection of consumer interests through an independent regulatory framework.

**3.11.17** The financial and other resources currently managed by the various business enterprises comprising the electricity industry represent a significant proportion of total State resources. By way of illustration, for the year ended 30 June 1994, Victorian electricity enterprises earned gross revenue of around \$3.8 billion, incurred gross expenditure of \$3.4 billion and controlled fixed assets with a book value of \$10.3 billion. **Given the magnitude of these transactions, ultimate achievement of the benefits envisaged by the Government under its reform program would have a lasting impact on:**

- **Victoria's economy as a whole from the reduction in public debt following the application of the proceeds of privatisation;**
- **Victorian industry and commerce in terms of the availability and cost of competitively-priced energy and, as a consequence, the attractiveness of the State as an appropriate location for future business investment; and**
- **individual electricity consumers in terms of real reductions in charges and tariffs and improved quality of services.**

### Public debate on the reform agenda

**3.11.18** Evaluation of the extent to which the expected benefits of the reform program are achieved will, in many instances, not be possible in the short-term. In fact, the full impact of reforms, particularly on the level of prices and the quality of services, is unlikely to occur until the next century following the introduction of full competition to the industry (currently scheduled for implementation by the end of the year 2000).

**3.11.19** In most countries, proposals put forward by a government to privatise publicly-owned assets have generated a variety of community viewpoints concerning their overall justification in terms of public benefit. This automatic sensitivity of subject matter, coupled with the inability to clearly quantify the extent of achievement of benefits in the short-term, has led to widespread debate, in political, media, academic and other quarters of the community regarding the appropriateness of the Government's reform agenda. **It is fair to say that, as a consequence, this issue has generated considerable debate within the community.**

**3.11.20** It is appropriate to acknowledge that the reform process of government business enterprises is complex, that complexity is usually related to size and structure of the industry, that precise measurement of the overall impact of reform is complicated by the timing of the costs and benefits of reforms and that many changes which will have a bearing on the final outcome are simultaneously occurring in the economy.

**3.11.21** Key areas of debate (involving arguments for and against the reform program) have centred on:

- the ongoing viability of individual generation and distribution companies;
- assurances that competition will bring about reduced electricity tariffs;
- safeguards against the channelling of excessive profits to private investors following privatisation;
- probability of loss of profits to overseas entities as a result of foreign ownership;
- the extent to which privatisation proceeds and tax compensation provided by the Australian Government will, in total, exceed existing dividends and tax equivalent revenue streams to the Consolidated Fund;
- the adverse impact on economies of scale arising from disaggregation of the industry;
- the adequacy of public consultation in the initial stages of the reform process; and
- the adequacy of consideration received by the State from the sale of companies.

**3.11.22** The Government has stressed that the establishment of an independent Office of the Regulator-General to monitor and regulate the performance of the industry is specifically designed to safeguard consumer interests which, in its opinion, should alleviate a number of the above concerns. In addition, in response to the emerging issues under debate, the Government has recently implemented a major media advertising campaign.

*□ RESPONSE provided by Secretary, Department of the Treasury and Finance*

*A point I would emphasise is, in evaluating the merits of privatisation, the Government places substantial importance on improving the efficiency of each industry sector and of the government businesses operating in that sector and also on reducing the public exposure to commercial risk. A common failure of GBEs, historically, has been low levels of economic performance, due in large part to poor investment and capital allocation decisions. Privatisation reduces the risk of such poor investment decisions by improving the degree of accountability to the capital markets, and by shifting risk to private investors rather than customers or taxpayers.*

### **Audit assessment of risk management**

**3.11.23** The Government has indicated that privatisation will be pursued for any government business enterprise or activity where it has determined that the public benefit justifies such action (e.g. privatisation of certain of the State's ports and prisons as well as the electricity industry is currently under consideration).

**3.11.24** In June 1994, in response to suggestions by the Public Accounts and Estimates Committee, audit decided to undertake a risk management audit of the key functions of the Department of the Treasury and Finance. Due to the sensitivity and significance of privatisation strategies, audit determined that one of the components of the risk management project would be to assess the extent to which major risks associated with privatisation have been effectively addressed and to inform the Parliament and the community of the results of this assessment. In this regard, audit commenced, in January 1995, an evaluation of the effectiveness of risk management within the Office of State-Owned Enterprises, which, at that time, had overall responsibility for both the reform of government business enterprises and implementation of the Government's privatisation strategies.

**3.11.25** As part of the risk management audit, proposed *lines of inquiry* were relayed to the Director of the Office of State-Owned Enterprises in a letter dated 30 January 1995. This letter represented the preliminary step by audit in terms of framing a more targeted approach to isolating those issues which may need to be followed-up in greater detail as part of the risk management audit and to clearly identify Government policy applying to the privatisation process. The Public Accounts and Estimates Committee incorporated audit's *lines of inquiry* in a report presented to the Parliament in May 1995 entitled *Investigation into a Possible Breach of the Standing Orders*. It should be recognised that the *lines of inquiry* prepared by audit relate to the overall management of the reform and potential privatisation of government business enterprises generally, and were not specifically directed towards privatisation of the electricity industry.

**3.11.26** A follow-up letter requesting a response to the lines of inquiry by 10 March 1995 was forwarded to the Secretary of the Department of the Treasury and Finance on 2 March 1995. A response was subsequently received from the Department on 15 May 1995 and is currently under consideration by audit.

### Audit comments on the reform process

**3.11.27** The following paragraphs are designed to provide the Parliament and the community with some detailed information on the current status of the reform program within the electricity industry. The section initially focuses on a summary of the reforms achieved by the SECV under its structural efficiency program and *no new debt* policy during the period from 1988 to commencement of the Government's reform activities in 1993.

### Reforms initiated by the SECV

**3.11.28** While, for many years, the SECV occupied a position of relative competitiveness to interstate electricity authorities, a need for major reform became evident during the 1980s following:

- a deterioration of the organisation's position in terms of cost and price competitiveness when compared with the New South Wales and Queensland electricity industries;
- delays in implementing micro-economic reform in comparison with other States, particularly in relation to reform of inefficient industrial conditions and work practices; and
- the initial proposals by the Australian and State Governments for the introduction of a National Electricity Industry incorporating a structure to allow for competition between the electricity enterprises of each State.

**3.11.29** The above factors prompted the launch by the SECV in 1986-87 of a corporate strategy which was aimed at streamlining management structures, enhancing work practices and improving productivity. While these initiatives led to ongoing productivity improvements, they did not adequately address the SECV's major problems of a lack of competitiveness and pressures on costs and profitability caused by inefficient work practices and increasing debt.

**3.11.30** Against this background, the SECV initiated its structural efficiency program and *no new debt* policy in 1988 to address productivity problems and escalating finance costs. The program included provision for the outsourcing of non-core activities.

**3.11.31** Under the structural efficiency program, **employee numbers were reduced by 9 600 (including 8 400 voluntary retrenchments) from 21 600 to 12 000 during the period from 1 July 1989 to 30 June 1993, representing an overall reduction of 44 per cent.** The costs of this downsizing program over the 4 year period amounted to approximately \$270 million. It was anticipated that these costs would be offset by future savings in controllable expenditure items such as labour, material and contracts. By 30 June 1993, annual controllable expenditure had fallen in real terms by around \$62 million.

**3.11.32** While controllable costs were reduced within the SECV, the level of benefits achieved through its structural efficiency program was to some extent limited by:

- the relatively slow pace of reform in certain areas of operation, as highlighted in the Auditor-General's *Special Report No. 24: Open Cut Production in the Latrobe Valley* presented to the Parliament in May 1993; and
- the failure to achieve maximum benefits from outsourcing arrangements as outlined in the Auditor-General's *Report on Ministerial Portfolios, May 1994*.

**3.11.33** In terms of its *no new debt* policy, the SECV **reduced the level of debt by \$1.1 billion between 1 July 1990 and 30 June 1993**, a reduction of 12 per cent. As a result of this fall in debt and improved debt management processes, annual finance charges were reduced in constant dollar terms by 17 per cent from \$1.2 billion to \$1 billion over the same period.

**3.11.34** It is appropriate to recognise the improvement initiatives of the SECV from the late 1980s through to the commencement of the Government's major reform program.

#### *Allocation of assets and liabilities to the electricity companies*

**3.11.35** The previously-described disaggregation of the electricity industry, under the Government's program, from the SECV to the 3 new entities created in October 1993, and through to the 16 separate entities, as the industry currently stands, has automatically necessitated extensive allocations of the industry's assets and liabilities across entities.

**3.11.36** The allocation of assets and liabilities of the SECV to the 3 entities created in October 1993, namely Generation Victoria, National Electricity and Electricity Services Victoria occurred retrospectively as at 1 July 1993. Details of these transfers are outlined in Table 3.11D.

**TABLE 3.11D**  
**FINANCIAL ALLOCATIONS FROM THE SECV, AT 1 JULY 1993**  
(\$billion)

| Item                     | SECV<br>audited<br>balances<br>at 30 June<br>1993 | Revalu-<br>ations<br>and<br>adjust-<br>ments (b) | SECV<br>Revised<br>balances<br>at<br>30 June<br>1993 | Allocated to -         |                         |                                     |                     |
|--------------------------|---|--|--|------------------------|-------------------------|-------------------------------------|---------------------|
|                          |   |  |  | Generation<br>Victoria | National<br>Electricity | Electricity<br>Services<br>Victoria | Retained<br>in SECV |
| Current assets           | 0.7   | 0.4  | 1.1  | 0.1                    | 0.2                     | 0.4                                 | 0.4                 |
| Non-current assets       | 10.5  | 0.0  | 10.5   | 5.2                    | 2.2                     | 3.1                                 | 0.0                 |
| <b>Total assets</b>      | <b>11.2</b>                                       | <b>0.4</b>                                       | <b>11.6</b>  | <b>5.3</b>             | <b>2.4</b>              | <b>3.5</b>                          | <b>0.4</b>          |
| Debt (a)                 | 8.0   | 1.8  | 9.8  | 4.7                    | 2.1                     | 3.0                                 | 0.0                 |
| Other liabilities        | 0.9   | 0.0  | 0.9  | 0.4                    | 0.1                     | 0.3                                 | 0.1                 |
| <b>Total liabilities</b> | <b>8.9</b>  | <b>1.8</b>                                       | <b>10.7</b>  | <b>5.1</b>             | <b>2.2</b>              | <b>3.3</b>                          | <b>0.1</b>          |
| <b>Equity</b>            | <b>2.3</b>  | <b>(1.4)</b>                                     | <b>0.9</b>   | <b>0.2</b>             | <b>0.2</b>              | <b>0.2</b>                          | <b>0.3</b>          |

(a) Debt includes loans, lease liabilities, deferred interest payable and inter-company loans.

(b) Adjustments include an increase in the market value of debt of \$1.4 billion and the raising of inter-company loans of \$400 million.

**3.11.37** The above table identifies those adjustments which were made to the balances of liabilities reported in the SECV's audited 1992-93 financial statements, including an increase in the value of debt of \$1.4 billion to reflect the market value of loans outstanding at 30 June 1993. Such action was in line with the requirements of the *Electricity Industry Act 1993*.

**3.11.38** At 30 June 1994, following the initial period of operations under the restructured industry, **the audited financial position** of the various entities was as set out in Table 3.11E.

**TABLE 3.11E**  
**ELECTRICITY INDUSTRY ASSETS AND LIABILITIES, AT 30 JUNE 1994**  
(\$billion)

| Item                     | Generation<br>Victoria | National<br>Electricity | Electricity<br>Services<br>Victoria | SECV       | Total       |
|--------------------------|------------------------|-------------------------|-------------------------------------|------------|-------------|
| Current assets           | 0.2                    | 0.2                     | 0.4                                 | 0.3        | 1.1         |
| Non-current assets       | 5.0                    | 2.2                     | 3.2                                 | 0.0        | 10.4        |
| <b>Total assets</b>      | <b>5.2</b>             | <b>2.4</b>              | <b>3.6</b>                          | <b>0.3</b> | <b>11.5</b> |
| Debt                     | 4.5                    | 2.0                     | 2.8                                 | 0.0        | 9.3         |
| Other liabilities        | 0.5                    | 0.2                     | 0.4                                 | 0.3        | 1.4         |
| <b>Total liabilities</b> | <b>5.0</b>             | <b>2.2</b>              | <b>3.2</b>                          | <b>0.3</b> | <b>10.7</b> |
| <b>Equity</b>            | <b>0.2</b>             | <b>0.2</b>              | <b>0.4</b>                          | <b>0.0</b> | <b>0.8</b>  |

**3.11.39** During the current financial year, a further round of significant and quite complex allocations of assets and liabilities has been necessary to accommodate the following elements of the reform process:

- replacement of Electricity Services Victoria and the State's 11 Municipal Electricity Undertakings by the 5 new distribution companies (the companies were established on 3 October 1994 but the allocations were implemented retrospectively from 1 July 1994);
- absorption of functions of National Electricity into Power Net Victoria and the Victorian Power Exchange from 1 July 1994 following separation of responsibilities for operation of the transmission system and the electricity trading pool; and
- replacement of Generation Victoria by 5 generation companies established in February 1995.

**3.11.40** Audit was advised by the Electricity Supply Industry Reform Unit that an integral component of the allocation of assets and liabilities during 1994-95 to the new companies has been to ensure that the company financial structures are conducive to a competitive framework for the future operation of the industry and to adequately provide for the ongoing financial viability of each entity. To meet this aim, the allocation process, **which is still to be finalised and audited**, has involved substantial revaluations and adjustments to the values of fixed assets and debt allocated to each company.

**3.11.41** Some indication of the extent of the revaluations and adjustments can be gleaned from the Government's allocation of assets and liabilities from Electricity Services Victoria to the 5 distribution companies. In order to address the competitive disadvantages and higher costs associated with the supply of electricity and the maintenance of distribution lines in more remote areas, as faced by the 2 rural distribution businesses, and to establish a sound basis for the financial viability of all distribution companies, the following revaluation adjustments were made:

- the total value of distribution fixed assets was increased by a net amount of \$376 million comprising a reduction of \$208 million in the value of fixed assets allocated to the 2 rural businesses and an upward valuation of \$544 million for the metropolitan businesses; and
- debt was reduced by \$186 million on revaluation of loan liabilities and *surplus debt* of \$512 million was transferred to the SECV.

**3.11.42** In relation to the recent establishment of the new generation companies, the Electricity Supply Industry Reform Unit has indicated to audit that draft allocation statements for the transfer of assets and liabilities from Generation Victoria to the companies have been prepared. However, it stated that the final value of assets and liabilities to be allocated to each company will be dependent upon the results of reviews of generation sector finances, currently in course by consultants on behalf of the Government, as an important element of the disaggregation of generation assets and liabilities.

**3.11.43** **The final allocations of assets and liabilities across the distribution and generation companies, and the SECV, will be examined as part of the audit process leading to the expression of an audit opinion by the Auditor-General on the 1994-95 financial statements of all these entities.**

*Extent of responsibilities remaining with the SECV*

**3.11.44** As mentioned in an earlier paragraph, the Government's reform arrangements for the industry included the appointment of an administrator to the SECV to manage functions determined as not directly related to the core operations of the newly-established companies.

**3.11.45** While the SECV has been effectively replaced by the new companies within the industry, quite significant financial management responsibilities have been assigned to or retained within the organisation and are likely to remain with it for the foreseeable future.

**3.11.46** At the time of the audit review, responsibility for the management of the following areas had been allocated by the Electricity Supply Industry Reform Unit to the SECV:

- surplus debt of approximately \$3 billion;
- the rights and obligations under electricity supply contracts relating to Loy Yang B power station, the Snowy Mountains power consortium and the Portland aluminium smelter;
- completion of the construction of Loy Yang B power station;
- accommodation lease agreements;
- Loy Yang B Power Station Pty Ltd, which controls the Government's 49 per cent share of the Loy Yang B power station, and other subsidiary companies;
- demolition of the decommissioned power station situated at Yallourn;
- equipment lease arrangements initially allocated to Generation Victoria; and
- existing and potential insurance claims relating to Dartmouth power station and exposure of former employees to asbestos and other toxic substances.

**3.11.47** The Administrator of the SECV advised audit that the allocation of responsibilities to the SECV is continuing as further decisions on the allocation of assets and liabilities to the various companies within the industry are made and other relevant activities are identified. Comment on a number of the SECV's current responsibilities is presented below.

*Surplus debt*

**3.11.48** Following disaggregation of the industry, surplus debt amounting to approximately \$3 billion is currently the responsibility of the SECV. The Electricity Supply Industry Reform Unit advised audit that the rationale for the allocation of surplus debt (debt remaining after allocations to companies) to the SECV was to eliminate debt relating to non-commercial activities from the new industry companies. The surplus debt comprises \$2.2 billion allocated from Generation Victoria, \$277 million from National Electricity and \$512 million from Electricity Services Victoria during 1994-95.

*Electricity supply contracts*

**3.11.49** The Auditor-General's *Report on Ministerial Portfolios, May 1994* referred to the sale of 51 per cent equity in the **Loy Yang B Power Station** to an international company, Mission Energy. The Report included comment on the risks associated with the Power Supply Agreement entered into with Mission Energy. Under the Agreement, the SECV is committed for a period of 33 years to purchase power from Loy Yang B at a pre-determined contract price on a "take and pay when available" basis.

**3.11.50** Economic and financial models developed by the Electricity Supply Industry Reform Unit under the revised competitive industry structure and electricity pool arrangements, have identified that the **prices payable during 1994-95 for power from Loy Yang B under contractual arrangements are higher than commercial rates obtained by the SECV for the sale of the power to the market and that, based on tariff forecasts, a substantial loss situation is likely to continue for many years.**

**3.11.51** To address the financial ramifications of the long-term contractual agreement for the supply of electricity by Loy Yang B, the Government introduced, in October 1994, an energy levy payable by distribution companies to offset the price differential losses. Discussions with representatives of the companies indicated that total levy proceeds for 1994-95 are expected to be around \$57 million.

**3.11.52** The SECV will also manage the State's involvement in the **Snowy Mountains power consortium** with the New South Wales and Australian Governments. Energy entitlements received by Victoria under this consortium will be traded by the SECV in the electricity trading pool in competition with the other Victorian electricity generators.

**3.11.53** The SECV's management of the contract with **Alcoa of Australia Ltd** concerns the long-term supply of electricity to the Portland aluminium smelter. This contract, originally established in 1978, provides for the supply of electricity to the smelter at a price linked to the sale price of aluminium. Since its establishment, the smelter has enjoyed very favourable terms under this arrangement with the price charged to Alcoa generally falling below the costs of generation incurred by the SECV and, in effect, has resulted in an annual subsidy of up to \$200 million to the smelter. Audit understands that the Government is currently attempting to renegotiate the supply contract with the aim of reducing the level of subsidy provided to the smelter in the future. **The Government has estimated that the present value of the future subsidy is approximately \$1.5 billion.**

#### *Financing of SECV responsibilities*

**3.11.54** Most of the responsibilities currently with the SECV impose ongoing financial obligations on the organisation which, under the former industry structure, would have been met from revenue earned from electricity sales. These obligations are likely to substantially exceed future revenue streams of the SECV.

**3.11.55** As indicated in an earlier paragraph, the excess of outlays over sales proceeds for power purchased from Loy Yang B power station will be partly financed by the new energy levy. The Administrator of the SECV informed audit that further funding sources to the SECV are expected to take the form of:

- dividends from all State-owned electricity entities; and
- any surplus proceeds from industry privatisations.

**3.11.56** Clearly, the nature of mechanisms to apply to the funding of the SECV's ongoing financial responsibilities is a matter still to be determined by the Government.



*Basis for absorption of Municipal Electricity Undertakings into new companies*

**3.11.57** The State's 11 Municipal Electricity Undertakings were each formerly operated by separate municipalities to distribute and sell electricity to consumers within their locality. For the year ended 30 June 1993, these undertakings purchased around 5 000 gigawatt hours of electricity from the SECV which was subsequently distributed to their 290 000 consumers.

**3.11.58** Under the revised industry structure, the operations of the undertakings were absorbed into the relevant metropolitan distribution company with effect from 1 July 1994. To compensate affected municipalities for the loss of income streams from their electricity undertaking, the Government has agreed that:

- until privatisation occurs, dividends will be provided by relevant distribution companies to the municipalities; and
- municipalities will be entitled to receive approximately 30 per cent of the proceeds arising from privatisation of the relevant distribution business.

**3.11.59** The Electricity Supply Industry Reform Unit estimates that dividends to municipalities will amount to \$25 million in 1994-95.

*Industry contributions to the Consolidated Fund*

**3.11.60** For many years, the SECV was required under legislation to make annual contributions to the Consolidated Fund. The level of these contributions was significantly increased from 1983-84 with the introduction of public authority dividends. In 1993-94, an additional category of annual contribution, namely tax equivalent payments, was introduced. For 1993-94, the industry paid an aggregate contribution to the Consolidated Fund of \$225 million.

**3.11.61** Under the revised industry structure, as from 1994-95, distribution companies will be required to pay a **franchise fee**, payable under the *Electricity Industry Act*, to "capture excess profits" generated from having a monopoly over their franchise customers until the year 2000. The franchise fee will be progressively lowered and eventually eliminated to reflect the ultimate introduction within the industry of full competition.

**3.11.62** In its 1994-95 Budget Paper No. 3, the Government estimated that a total of \$260 million would be received in 1994-95 from the electricity industry covering dividends, tax equivalent payments and franchise fees.

**3.11.63** As mentioned previously, a matter under public debate in respect of the reform program has been whether the extent of privatisation proceeds and compensation provided by the Australian Government will, in total, exceed existing revenue streams to the Consolidated Fund.

**3.11.64** While the potential proceeds from the wide-ranging privatisation of the industry envisaged by the Government cannot be accurately assessed at this stage, the Government has indicated that it would expect aggregate proceeds to be between \$13 billion and \$14 billion. It has stated that such proceeds would be applied initially to eliminate the industry's debt of around \$9.5 billion with the balance used to reduce other public sector debt, which in turn would generate savings in interest costs. **It is clear, therefore, that any financial benefit to the State from the reform program, over and above that which would be derived from existing revenue streams, will be principally dependent upon the level of proceeds from privatisation.**

**3.11.65** At a recent meeting of the Council of Australian Governments, the Australian Government agreed to guarantee the maintenance of the pool of financial assistance grants to the States in real per capita terms and to increase its payments to the States through the introduction of an ongoing competition dividend. The purpose of this agreement is to provide the States with a share of the expected increase in Australian Government revenue resulting from the introduction of competition to Government business enterprises in accordance with the national competition policy. Although the level of future payments is contingent upon the implementation of competition policy in accordance with an agreed timetable, the Victorian Government estimates that it will receive around \$50 million in 1997-98 and 1998-99 as its share of the first stage of competition dividend payments and will benefit by up to \$300 million per annum by 2001-2002 from the guarantee on the per capita financial assistance grants.

### *Regulation of the industry*

**3.11.66** A key feature of the Government's reform agenda concerns regulation of the industry with the aim of promoting competition, ensuring maintenance of an efficient and economic electricity system, protecting the interests of consumers and facilitating the industry's financial viability.

**3.11.67** The principal responsibility for the regulation of the electricity industry, and other industries under reform within Victoria, has been assigned to the Regulator-General, an independent statutory office established in October 1994 (initial appointment occurred in February 1995) under the provisions of the *Office of the Regulator-General Act* 1994. Under this legislation and the provisions of the *Electricity Industry Act* 1993, the Regulator-General has the power to regulate tariffs and charges, issue industry guidelines, regulate market conduct and require information from industry participants.

**3.11.68** Utilising these powers, the Regulator-General has issued operating licences to all companies involved in the generation, transmission, distribution and sale of electricity. The licences require participating companies to:

- comply with codes and rules regulating the operation of the electricity industry and the electricity trading pool;
- participate in development of industry standards and report as required on performance against these standards; and
- comply with restrictions prohibiting an owner of 20 per cent or more of a distribution, generation or retail company from owning more than 20 per cent of another licensed company, as the means of ensuring ongoing competition within the industry.

**3.11.69** Although only limited time has elapsed since the establishment of the Office of the Regulator-General, sound progress has already been made towards implementing the regulatory framework which is to apply to the future operation of the industry. In this regard, the Office has issued a range of service and supply codes and performance standards for progressive monitoring of industry performance.

**3.11.70** **From the viewpoint of both the Government and consumers, there is little doubt that the independent role of the Regulator-General will be a vital element of the new framework established for the electricity industry.**

*Strategies for competition and pricing within the industry*

**3.11.71** A major aim of the Government's reform process is the introduction of **competition** to the industry in order to facilitate efficiency gains, reduce prices to consumers and improve the quality of service.

**3.11.72** In the early 1990s, the SECV dissected its business into separate profit centres representing each major segment of operations. In addition, its decisions on the mix of plant to be used in electricity generation increasingly took into account the comparable efficiency of individual power stations. These strategies were designed to introduce competitive principles within the organisation.

**3.11.73** Under the Government's reform program, competition has been initially introduced through implementation of the wholesale electricity market, also described as the electricity trading pool. In this market, the supply and demand for electricity by individual generators and distributors, respectively, determines the wholesale price of electricity. The operation of this market places pressures on each generation company to supply electricity at a rate that is competitive with the overall market price.

**3.11.74** The Government has established a timetable for the progressive introduction of competition to the distribution and retail areas which essentially provides for the application of full competition in the industry by the end of the year 2000, subject to any significant technical or economic constraints. Table 3.11F shows details of this timetable.

**TABLE 3.11F  
PLANNED INTRODUCTION OF COMPETITION,  
DISTRIBUTION AND RETAIL ARMS OF INDUSTRY**

| <i>Customer category</i>                    | <i>Examples of customer type</i>  | <i>Number of customers</i> | <i>Planned commencement of competition</i> |
|---|---|----------------------------|--|
| Point Henry and Portland aluminium smelters |   | 2                          | September 1994                             |
| Demand loads exceeding 5 megawatts          | ▪ Large industrial consumers, e.g. BHP Westernport                      | 46                         | December 1994                              |
| Demand loads exceeding 1 megawatt           | ▪ Large multi-storey office building<br>▪ ICI chlorine production plant | 330                        | July 1995                                  |
| Demand loads exceeding 250 kilowatts        | ▪ Small concrete plant<br>▪ Paper box plant                             | 1 500                      | July 1996                                  |
| Demand loads exceeding 50 kilowatts         | ▪ Single storey office<br>▪ Fast food restaurant                        | 5 000                      | July 1998                                  |
| All other customers                         | ▪ Residential users   | 1.6 million                | December 2000                              |

**3.11.75** It can be seen from the above table that the opportunity to choose preferred suppliers has already commenced with the State's 2 aluminium smelters and other major industrial consumers. The table also shows the expected timing for other customer categories culminating with domestic consumers at the end of the year 2000.

**3.11.76** Large industrial users of electricity have, in the past, purchased power on the basis of the SECV's Tariff H. This tariff enabled major users to negotiate a price with the SECV, usually below the cost of supply and therefore subsidised by all other customers, as part of a strategy to entice large corporations to invest in the State. Because this electricity tariff is currently cheaper than the wholesale market price available in the electricity trading pool, none of the 48 large customers has opted to transfer from Tariff H and negotiate supply terms with the electricity distributor of their choice. It is expected that these companies will continue on Tariff H until the wholesale price of electricity within the trading pool falls to comparable levels.

**3.11.77** In terms of **pricing** strategies, the creation of opportunities for lower prices to all electricity consumers is a major objective of the Government under its industry reform program. As outlined above, retail prices will not be subject to full competitive pressures until at least the year 2000, when all consumers will be able to exercise their choice of supplier.

**3.11.78** To provide benefits to consumers in the interim period, the Government announced in September 1994 tariff structures designed to achieve real reductions in power prices up to the year 2000. The major features of the Government's pricing announcement were:

- Continuation of maximum uniform tariffs for domestic, small and medium business and farm classes of consumers up to the year 2000 *"... to address potential inequities in electricity pricing and particularly to ensure that country consumers paid no more for their electricity than those in the metropolitan area"*. Changes to the tariffs were also introduced under which a typical annual power bill for these consumers is estimated to fall by 9 per cent in real terms by the year 2000; and
- New tariff structures for small businesses which are expected to result in real reductions in power costs of around 21 per cent up to the year 2000. This decision was taken to *"... address the fact that these customers have in the past been subsidising large industrial and domestic customers and are estimated to have been overcharged by a total up to \$100 million for the use of incorrect tariffs"*.

**3.11.79** It is relevant to mention that the price reductions which will apply to domestic consumers follow 2 recent price increases for these consumers, namely a tariff increase of 10 per cent in October 1992 and the doubling of the annual supply charge from \$64 to \$128 in July 1993.

**3.11.80** The Government's announced strategies on both competition and pricing are designed to generate benefits for all industry participants and provide an awareness of the industry's direction on these matters up to the year 2000 and the start of full competition.

### Costs associated with the reform process

**3.11.81** An earlier paragraph indicated that the Government's reform and privatisation program for the industry involved arguably the most significant structural and resource management changes within the public sector in the history of the State. The magnitude and significance of this change process automatically means that substantial costs will be incurred in its planning and progressive implementation.

**3.11.82** Based on information provided to audit by the Electricity Supply Industry Reform Unit and management representatives of the various industry companies, **aggregate costs incurred by the State under the reform process up to 30 June 1995 are expected to be around \$76 million.** Particulars of the estimated outlays are presented in Table 3.11G.

**TABLE 3.11G**  
**ELECTRICITY INDUSTRY REFORM PROGRAM,**  
**ESTIMATED COSTS TO 30 JUNE 1995**

|                                   | <i>\$million</i> |
|-----------------------------------|------------------|
| ESIRU costs -                     |                  |
| Private sector specialists -      |                  |
| Legal services                    | 3.8              |
| Financial and accounting services | 8.1              |
| Other consultancy services        | 0.9              |
| Advertising costs                 | 1.7              |
| Other expenditure                 | 10.8             |
|                                   | 25.3             |
| Industry companies -              |                  |
| Information technology services   | 13.2             |
| Strategic and business planning   | 10.7             |
| Financial and accounting services | 4.0              |
| Legal services                    | 2.0              |
| Board payments                    | 2.2              |
| Advertising                       | 3.6              |
| Other expenditure                 | 15.3             |
|                                   | 51.0             |
| <b>Total</b>                      | <b>76.3</b>      |

**3.11.83** The information provided to audit also indicated that costs associated with the Electricity Supply Industry Reform Unit are expected to increase to a figure of around \$35 million in 1995-96 due principally to an anticipated acceleration of the Government's privatisation plans.

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS**

| <i>Report</i>  | <i>Subject</i>   | <i>Status at date of preparation of this Report</i>  |
|--|--|--|
| <b>MATTERS RESOLVED OR ACTION COMMENCED</b>          |  |  |
| <b>DEPARTMENT OF THE TREASURY AND FINANCE</b>        |  |  |
| <i>Ministerial Portfolios, May 1993, pp. 125-6.</i>  | Need to establish effective strategic management of the budget sector motor vehicle fleet.   | The Vehicle Management Division has established a strategic asset management arrangements for the budget sector fleet with responsibility for fleet management being devolved to agencies. A new global fleet management policy is expected to be finalised by May 1995.   |
| <i>Ministerial Portfolios, May 1993, pp. 127-9.</i>  | Need to finalise and implement enhanced vehicle management arrangements to optimise benefits and minimise costs accruing to the State.   | Enhanced asset management arrangements have been implemented by the Vehicle Management Division in conjunction with the devolution of operational fleet management to agencies. Agencies are separately evaluating their own vehicle management needs and a number of agencies are outsourcing fleet management. |
| <i>Ministerial Portfolios, May 1993, pp. 129-30.</i> | Adequate management information systems were not maintained by VicFleet to facilitate the effective monitoring of vehicle fleet operations.  | The Vehicle Management Division has introduced a vehicle management system to identify optimal fleet management practices, establish commercial fleet performance benchmarks and measure agency performance against benchmarks.  |
| <i>Ministerial Portfolios, May 1993, pp. 131-2.</i>  | Scope existed for the rationalisation of the fleet as around 30 per cent of vehicles examined by audit were utilised less than the minimum benchmark established by VicFleet.                                      | The Division has agreed fleet ceilings with agencies for the rationalisation of the fleet. The reduction of the fleet by 15 per cent between May 1993 and May 1994 has been maintained.  |
| <i>Ministerial Portfolios, May 1993, pp. 135-7.</i>  | A large proportion of budget sector vehicles were retained past their optimum economic life, adversely impacting on the level of maintenance costs incurred and future changeover costs.                           | The Vehicle Management Division has developed a benchmark/reporting strategy to ensure agencies are made aware of their fleet asset performance. The Division provides a quarterly report to agencies to assist in enhancing performance.  |
| <i>Ministerial Portfolios, May 1993, pp. 139-41.</i> | The lack of adequate business planning and sales and marketing strategies contributed to the State Supply Service only capturing a small component of the total public sector market for the services it provides. | The State Supply Service was sold in August 1994. Other purchasing reforms including the creation of the Victorian Government Purchasing Board have recently occurred.   |
| <i>Ministerial Portfolios, May 1994, pp. 240-1.</i>  | The Department needs to assess whether cost-effective banking services would eventuate from publicly tendering for such services.  | The Department is continually assessing the cost-effectiveness of the current utilisation of the 4 major banks.  |

**SCHEDULE A**  
**STATUS OF MATTERS RAISED IN PREVIOUS REPORTS - continued**

| <i>Report</i>   | <i>Subject</i>   | <i>Status at date of preparation of this Report</i>  |
|---|--|--|
| <b>MATTERS RESOLVED OR ACTION COMMENCED - continued</b>   |  |  |
| <b>DEPARTMENT OF THE TREASURY AND FINANCE - continued</b> |  |  |
| <i>Ministerial Portfolios, May 1994, pp. 244-5.</i>       | The Department has been unsuccessful in persuading individual departments to remit excessive balances to the Public Account. | Individual departments have been requested to reduce the balance of funds held. In addition, the Department provides regular reports to individual departments to assist in improving cash management. |
| <i>Ministerial Portfolios, May 1994, pp. 245-6.</i>       | Individual departments need to consider the extended use of electronic funds transfer facilities.                            | Department has encouraged the greater use of these facilities where justified.   |

**SCHEDULE B**  
**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> |
|--|-----------------------------|---|--|--|
| <b>COMPLETED AUDITS</b>                        |                             |   |  |  |
| <b>FINANCE</b>                                 |                             |   |  |  |
| Department of Finance                          | 30 June 1994                | 31 Oct. <i>Annual Reporting Act 1983, s.8.</i>                                      | 8 Sept. 1994                                 | 8 Sept. 1994                           |
| Coal Mine Workers' Pensions Fund               | 30 June 1994                | No date specified. <i>Coal Mines (Pensions) Act 1958, s.128.</i>                    | 15 Nov. 1994                                 | 18 Nov. 1994                           |
| Emergency Services Superannuation Board        | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 Nov. 1994.  | 28 Sept. 1994                                | 3 Oct. 1994                            |
| Government Employee Housing Authority          | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>                                     | 28 Sept. 1994                                | 28 Sept. 1994                          |
| Holmesglen Constructions Superannuation Plan   | 30 June 1994                | No reporting requirements. Audit conducted at request of Treasurer.                 | 28 Nov. 1994                                 | 30 Nov. 1994                           |
| Hospitals Superannuation Board                 | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s. 9.</i> Extension granted to 30 Nov. 1994. | 21 Sept. 1994                                | 29 Sept. 1994                          |
| Local Authorities Superannuation Board         | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 Nov. 1994.  | 23 Sept. 1994                                | 11 Oct. 1994                           |
| Parliamentary Contributory Superannuation Fund | 30 June 1994                | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 Nov. 1994.  | 21 Nov. 1994                                 | 22 Nov. 1994                           |

**SCHEDULE B**  
**COMPLETED/INCOMPLETE AUDITS - continued**

| <i>Entity</i>                              | <i>Financial<br/>year<br/>ended</i> | <i>Reporting to Parliament</i>  | <i>Financial<br/>statements<br/>signed by<br/>entity</i> | <i>Auditor-<br/>General's<br/>report<br/>signed</i> |
|--|-------------------------------------|---|--|---|
| <b>COMPLETED AUDITS - continued</b>        |                                     |   |  |   |
| <b>FINANCE - continued</b>                 |                                     |   |  |   |
| State Casual Employees Superannuation Fund | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 Nov. 1994.                        | 4 Oct. 1994  | 10 Oct. 1994  |
| State Employees Retirement Benefits Board  | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 Nov. 1994.                        | 4 Oct. 1994  | 10 Oct. 1994  |
| State Superannuation Fund                  | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>   | 4 Oct. 1994  | 10 Oct. 1994  |
| Surveyors Board of Victoria                | 30 June 1994                        | No date specified. <i>Surveyors Act 1978, s.28.</i>   | 8 Sept. 1994   | 9 Sept. 1994  |
| Transport Superannuation Board             | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i> Extension granted to 30 Nov. 1994.                        | 4 Oct. 1994  | 10 Oct. 1994  |
| Victorian Superannuation Fund              | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>   | 4 Oct. 1994  | 10 Oct. 1994  |
| Victorian Superannuation Board             | 30 June 1994                        | No date specified. Audit conducted under the <i>Public Sector Superannuation Administration Act 1993.</i> | 10 Oct. 1994   | 10 Oct. 1994  |
| <b>TREASURER</b>                           |                                     |   |  |   |
| Department of the Treasury                 | 30 June 1994                        | 31 Oct. <i>Annual Reporting Act 1983, s. 8.</i>   | 28 Oct. 1994   | 28 Oct. 1994  |
| Capital Works Authority (a)                | Period 1 July 1993 to 31 Jan. 1994  | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>   | 31 Jan. 1994   | 27 May 1994   |
| Rural Finance Corporation                  | 30 June 1994                        | 30 Sept. <i>Rural Finance Act 1988, s.28.</i>   | 7 Sept. 1994   | 7 Sept. 1994  |
| State Insurance Office                     | 30 June 1994                        | 30 Sept. <i>State Insurance Office Act 1984, s.24.</i>  | 22 Sept. 1994  | 24 Oct. 1994  |
| Tattersall Sweep Consultation              | 30 June 1994                        | 31 Oct. <i>Tattersall Consultations Act 1958, s.8C.</i>   | 25 Oct. 1994   | 28 Oct. 1994  |
| Transport Accident Commission              | 30 June 1994                        | 30 Sept. <i>Transport Accident Act 1986, s.31.</i>  | 6 Sept. 1994   | 6 Sept. 1994  |
| Treasury Corporation of Victoria           | 30 June 1994                        | 30 Sept. <i>Treasury Corporation of Victoria Act 1992, s.38.</i>  | 14 Sept. 1994  | 16 Sept. 1994                                       |
| Victorian Debt Retirement Fund             | 30 June 1994                        | 30 Sept. <i>Annual Reporting Act 1983, s.9.</i>   | 14 Sept. 1994  | 16 Sept. 1994                                       |
| Victorian Development Fund                 | 30 June 1994                        | 30 Sept. <i>Public Account Act 1958, s.7G.</i>  | 14 Sept. 1994  | 16 Sept. 1994                                       |

(a) Abolished on 31 January 1994.





## Part 4

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# Broad scope issues



# Part 4.1

## Measuring Performance in the Victorian Public Sector

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### KEY FINDINGS

- Audit considers that it is desirable that individual government agencies publish both quantitative and qualitative performance indicators against appropriate benchmarks, and that these indicators be subject to review by the Victorian Auditor-General's Office when undertaking performance audits so that reliance may be placed upon them by the Parliament and taxpayers.  
*Para. 4.1.21*
- The development by the Government of a performance management and reporting framework, as part of its Management Improvement Initiative, will go a long way towards rectifying shortcomings in this area.  
*Para. 4.1.22*



## MEASURING PERFORMANCE IN THE VICTORIAN PUBLIC SECTOR

### Identifying the need for reporting on government agency performance

**4.1.1** The progress achieved in the implementation of program budgeting within the Victorian public sector was examined as part of the *Report of the Auditor-General on the Treasurer's Statement, 1988-89*. At that time, audit concluded that the overall effectiveness of program budgeting had been hindered by, among other factors, inadequate monitoring and evaluation of the operating and financial management performance of government agencies. It was also audit's view that the criteria then used by government agencies for the purpose of assessing their performance were inadequate and required improvement.

**4.1.2** Furthermore, in the Auditor-General's *Special Report No. 10: Youth Guarantee* (November 1988) and *Special Report No. 11: Financial Assistance to Industry* (March 1989), audit found that the lack of reliable performance indicators had prevented a proper assessment of the effectiveness of those programs. These comments were echoed by the former Economic and Budget Review Committee (EBRC) in its April 1990 report titled *Program Budgeting*.

**4.1.3** More recently, the report by the Victorian Commission of Audit (VCA) in May 1993 and a report by the Public Accounts and Estimates Committee (PAEC) in November 1994, examined the issue of the assessment of the performance of government agencies. The VCA recommended the development and implementation of a comprehensive financial management reform package as a matter of priority with particular attention to be given to greater management accountability and flexibility. Within this context, the Commission indicated the need for government agency performance to be assessed against a defined set of outputs.

**4.1.4** In commenting upon the VCA report, the PAEC, in November 1994, acknowledged the positive steps currently being undertaken by the present Government in the area of performance measurement. The Committee concluded that further work was required to develop meaningful and relevant performance indicators (including benchmarks) which would be critical to the assessment by the Parliament and the public of the efficiency and effectiveness of government agency activities.

**4.1.5** In reaching this conclusion, the PAEC expressed concern at the present lack of qualitative measures, even though there had been a broad range of quantitative and statistical output measures incorporated in the 1993-94 and 1994-95 State Budget Papers. Furthermore, the Committee was of the view that the availability of benchmarks would greatly assist in assessing agency performance by the comparison of data compiled for the government agencies with similar service providers interstate or overseas and in the private sector. A comparison of estimates of expenditure with actual amounts incurred was not considered by the Committee to be a suitable alternative to the use of established and acceptable benchmarks.

**4.1.6** As a consequence, the PAEC recommended that legislation be introduced to require government agencies to report meaningful and relevant performance indicators, set against benchmarks, to the Parliament and the public, and that these indicators be audited by the Auditor-General.

**4.1.7** An examination by audit of current State Budget Papers and annual reports of a number of leading government agencies confirms the PAEC's findings. While, in some instances, references are made to financial targets, audit found that there was ostensibly no published direct linking of output measures to agency operating or policy objectives, and no evaluation of agency performance against benchmarks, as recommended by the PAEC.

## Why is there a need to develop meaningful performance indicators?

**4.1.8** Performance indicators which measure a government agency's efficiency and effectiveness may be utilised to enhance management performance, in the following manner:

- firstly, in the area of management planning and control, these indicators may form an integral part of the corporate and business planning processes;
- secondly, they may, for management accountability purposes, be used for monitoring actual performance against an acceptable set of standards (benchmarks); and
- finally, the inclusion of appropriate and relevant performance indicators in the annual reports of government agencies would greatly enhance the usefulness of financial and other information provided to the Parliament and taxpayers.

**4.1.9** There are a number of attributes which add to the overall usefulness of performance indicators. These include considerations of adequacy (particularly in relation to qualitative indicators), measurability, freedom from bias, relevance and verifiability. Nevertheless, performance indicators should not be used in isolation as absolute measures of performance, as they can only help to highlight areas of operating performance which may require closer examination and analysis.

**4.1.10** Performance indicators of a quantitative nature, e.g. unit costs, may be relatively easier to prepare than qualitative indicators which seek to measure effectiveness. Accordingly, by focusing merely on quantitative indicators, there may be a risk that a government agency may not be monitoring whether or not it is meeting less tangible, but nevertheless important, service delivery objectives which may be only measurable using qualitative benchmarks. However, it needs to be recognised that the development of qualitative performance indicators may prove to be a somewhat difficult process because of the inherent subjectivity associated with their formulation. Such indicators, when developed, should be heavily influenced by the presence or otherwise of achievable, measurable and outcome-focused objectives.

## Enhanced performance reporting in other jurisdictions

**4.1.11** Some of the developments which have occurred in overseas countries, such as Canada and New Zealand and, in a local context, in Western Australia, are relevant to a consideration of future reforms in the area of performance measurement and reporting.

**4.1.12** As early as 1984, legislation was introduced in Canada providing for the independent audit of quantitative performance indicators which were deemed to be essential elements in the assessment as to whether Crown corporations were achieving their objectives. New Zealand, in the mid-1980s, embarked on a major reform package of initiatives within its public sector and which centred upon the transparency of operating performance and accountability for decision-making at all agency levels.

**4.1.13** A significant component of the reforms in New Zealand was the recognition of the need for improved reporting of the financial and operating performance of government agencies. In the reporting model adopted, the Government was made accountable for the achievement of desirable outcomes through its ministers and the determination of the set of outputs to be produced by government agencies. On the other hand, agency heads were required to ensure that the agreed outputs were achieved.

**4.1.14** Western Australia has mirrored these overseas developments in performance assessment. Following an efficiency and effectiveness review of all government agencies in that State, legislation was introduced in 1985 requiring these agencies to publish details of indicators of their performance. Under that legislation, the Western Australian Auditor-General is required to issue an opinion on the adequacy and reasonableness of these published performance indicators.

**4.1.15** It is suggested that the Victorian Government may wish to give consideration towards adopting a performance measurement and reporting framework which reflects the above initiatives.

## Outline of recent significant public sector reform initiatives within Victoria

### *Management Improvement Initiative package of reforms*

**4.1.16** In response to calls for improvements in government agency performance, the Management Improvement Initiative (MII) was introduced by the Victorian Government in 1993.

**4.1.17** As part of the MII, formal recognition was given to "an integrated management cycle" which streamlines the budgetary planning and implementation processes necessary for more effective management within government agencies. In addition, various projects have been initiated to further enhance this framework by ensuring that continuing improvements are effected in financial management, planning and performance management, and reporting within government agencies.

**4.1.18** The issue of performance measurement is also being addressed by the MII with a view to enhancing the use and reporting of performance measures against standards. The Government has recognised that this is an area which requires attention under the MII as, to date, only limited information of this nature has been included in the corporate and business plans of government agencies. The ongoing development of performance measures is currently being monitored within the MII *Financial Management Improvement* project, which is seeking to improve the quality of information on government agency activities.

### *What else needs to be done?*

**4.1.19** As indicated earlier in this Report, there have been significant worldwide developments in public sector reforms, much of which has drawn upon by the Government in Victoria. However, while the need for improved reporting of performance indicators has been recognised, the Parliament and taxpayers continue to remain relatively uninformed as to the adequacy of the performance of government agencies. At present, there is no mandatory and uniform benchmark information included in annual reports or other published documents to facilitate the comparison of the results of an agency's operating activities with other similar agencies.

**4.1.20** It is acknowledged that the development of acceptable performance indicators to measure the efficiency of outputs and the effectiveness of outcomes is an evolutionary process based on the establishment of suitable uniform criteria for performance measurement and the setting of appropriate standards for performance reporting. Furthermore, if the reporting of performance indicators were to be required by legislation, this action should also be supported by a commitment at all levels of government for greater transparency of the results of the management decision-making process.

**4.1.21** Audit considers that it is desirable that individual government agencies publish both quantitative and qualitative performance indicators against appropriate benchmarks and that these indicators be subject to review by the Victorian Auditor-General's Office when undertaking performance audits so that reliance may be placed upon them by the Parliament and taxpayers. Such information would then provide a sound basis for identifying areas for enhancement in agency performance.

**4.1.22** To this end, the development by the Government of a performance management and reporting framework, as part of its Management Improvement Initiative, will go a long way towards rectifying shortcomings in this area.

*□ RESPONSE provided by Director, Management Improvement, Department of the Treasury*

*I endorse the audit comments in general and the effort to improve the usefulness of information being developed for annual reporting by departments in the area of results achieved.*



# Part 4.2

## Independence of contracted agents

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### KEY FINDINGS

- It is of concern that, on occasions, it has been necessary for the Victorian Auditor-General's Office to review the contractual arrangements of certain agents where associates of the contracted agents' firms have seen fit to provide other services which are considered by the Office to conflict directly with the financial audit obligations of those contracted agents.

*Para. 4.2.12*

- It is important that the Victorian Auditor-General's Office be, and be seen to be, completely devoid of any actual or potential conflict of interest.

*Para. 4.2.17*



## INDEPENDENCE OF CONTRACTED AGENTS ENGAGED BY AUDITOR-GENERAL

### Overview of arrangements in place

**4.2.1** Since the late 1980s, in addition to utilising qualified audit staff from within the Victorian Auditor-General's Office to undertake auditing activities, suitably qualified professionals from the private sector have been engaged to act as contracted agents in conducting financial audits or providing specialist assistance on performance audits.

**4.2.2** The use of contracted agents to undertake audit tasks (particularly in non-metropolitan and rural areas within Victoria) enables the Office to balance an increasing workload against limited internal resources.

**4.2.3** These contract arrangements generally cover the financial audits of water authorities, ambulance services, post-secondary educational institutions, public hospitals, public sector superannuation funds and a number of other public bodies. In addition, the arrangements have covered information technology reviews and rate of return reporting requirements.

**4.2.4** In the past five years, over \$20 million has been paid to private sector accounting firms under these contracts arrangements. Tables outline information on the extent of private sector involvement in services provided to the Office as contractors of the Auditor-General in the 1993-94 financial year.

#### CONTRACT PAYMENTS, 1993-94

| <i>Firm</i>              | <i>Amount</i>    |
|--------------------------|------------------|
|                          | (\$)             |
| Coopers and Lybrand      | 713 000          |
| Arthur Andersen and Co.  | 324 000          |
| KPMG Peat Marwick        | 272 000          |
| Armitage Downie and Co.  | 189 000          |
| Andrew Frewin & Richmond | 147 000          |
| Ernst and Young          | 136 000          |
| Day Neilson              | 135 000          |
| Price Waterhouse         | 132 000          |
| Deloitte Touche Tohmatsu | 144 000          |
| Thompson Douglass & Co.  | 106 000          |
| Other (a)                | 768 000          |
| <b>Total</b>             | <b>3 066 000</b> |

(a) Comprises 25 contractors whose individual payment was less than \$100 000.

## Key aspects of contractual arrangements

**4.2.5** A number of strategies have been put in place to provide assurance that the resources allocated for the engagement of contracted agents are managed in the most efficient and effective manner and to ensure a consistent approach is taken with each audit engagement. These include :

- the development of an "Engagement of Agents Manual" which sets out the policies and procedures relating to the appointment of private practitioners as agents of the Auditor-General;
- the provision of high quality guidance and direction to the contracted agents;
- the conduct of regular meetings with the contracted agents to discuss the most appropriate audit methodology and deal with emerging accounting and auditing issues;
- quality assurance program undertaken prior to the signing of the audit opinion and the issue of the auditors report; and
- an annual evaluation of the performance of the contracted agent.

**4.2.6** The policies and procedures, which provide guidance for the conduct and reporting of audits and the administrative arrangements for the payment of audit fees etc., have been documented.

**4.2.7** The terms and conditions included in contracts with agents are similar to those applying under a commercial environment and cover such areas as the requirement to comply with professional accounting and auditing standards, the need to maintain ongoing communications with clients and the Office, the nature and timing of reports to be issued, and the confidentiality of the work being undertaken.

**4.2.8** The Victorian Auditor-General's Office does not allow a contracted agent to perform any tasks which may give rise to a conflict of interest, such as internal audit work, tax advice or the provision of accounting advice. The views of the client must also be considered as there have been occasions, in the past, where clients have raised commercial confidentiality concerns in respect of proposed contracted agents.

**4.2.9** It is essential that procedures be adopted to ensure that the integrity, objectivity and independence of the Auditor-General are maintained by the contracted agent. Independence requirements apply not only to the contracted agent but also to his/her associate. "Associate" in this context refers to any employees and fellow partner of the contracted agent throughout his/her firm and its affiliates and is not limited to any one office of that firm.

**4.2.10** A key condition of the contract entered into with agents of the Victorian Auditor-General deals directly with potential conflicts of interest, requiring that:

*"... Unless agreement is reached with the Auditor-General, the contractor or members of staff of the contractor's firm must not engage in the provision of other services to any organisation included in this Agreement which may give rise to a conflict of interest during the period of appointment. If there arises any event which results in the contractor having a personal interest in any organisation included in this Agreement then the contractor shall immediately notify the Auditor-General ...".*

**4.2.11** Formal notification by the contracted agent of potential conflicts of interest is required before there is any consideration by the Auditor-General as to whether the additional work requested by the client may be performed alongside the contracted agency arrangement.

**4.2.12** It is of concern that, on occasions, it has been necessary for the Victorian Auditor-General's Office to review the contractual arrangements of certain agents where associates of the contracted agents' firms have seen fit to provide other services which are considered by the Office to conflict directly with the financial audit obligations of those contracted agents.

### Understanding the need for integrity, objectivity and independence

**4.2.13** The authority for the Auditor-General to conduct the audits of government departments and public bodies emanates from the *Audit Act* 1994. The Act allows the Auditor-General to provide audit services, but does not permit the provision of other services such as accounting, taxation advice and consultancies.

**4.2.14** The role and obligations of auditors are dealt with extensively in the professional pronouncements of the major accounting bodies in Australia, which detail the fundamental ethical standards and principles applicable to members of the accounting and auditing profession. These principles include the need for members to be, and be seen to be, objective, impartial and free of actual as well as potential conflicts of interest in the performance of their duties.

**4.2.15** In recent years, accounting firms in private practice are being called upon to perform an increasing range of non-audit related professional services for their clients and now derive a significant amount of their revenue base from consulting and accounting work, such as tax, insolvency, and other services. Demands are now also being placed upon these firms by the public sector, given the pace and extent of developments which are occurring, particularly in respect of the commercialisation of existing service delivery programs.

**4.2.16** Within the public sector environment, the independent audit activities of the Auditor-General fulfil the essential role of keeping the Parliament and the public fully informed through various Reports of the Auditor-General and by adding credibility to the published financial statements of government departments and public bodies. Accordingly, it is important that the independence of the external audit conducted by or on behalf of the Auditor-General not be called to question, as a result of potential or actual conflicts of interest which would be brought about by contracted agents performing non-audit services.

**4.2.17** For an Auditor-General to allow firms which are contracted by his Office to conduct audits on his behalf to also provide non-audit services would, in effect, contravene the spirit of the *Audit Act* 1994. It is therefore important that the Victorian Auditor-General's Office be, and be seen to be, completely devoid of any actual or potential conflict of interest on each audit engagement.



# Part 4.3

## Illegal software update

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### KEY FINDINGS

- Improvement is still needed within the Victorian public sector in the development of policies covering the control and use of computer software and the protection against computer viruses.  
*Paras 4.3.20 to 4.3.21*
- Computer software and hardware registers were either non-existent or inadequate in most agencies reviewed by audit.  
*Paras 4.3.23 to 4.3.24*
- Licences or proof of ownership could not be provided for 15 per cent of software installed on microcomputers and the potential public sector exposure to penalties arising from breaches of copyright is significant.  
*Paras 4.3.26 to 4.3.27*
- The agencies concerned took immediate action to remove all illegal copies of software as soon as they were made aware of audit findings. All public sector agencies need to ensure that illegal copies of software are not being utilised.  
*Para. 4.3.30*
- A significant proportion of the unauthorised software identified by the audit review was not related to the business activities of the agencies.  
*Paras 4.3.31 to 4.3.32*
- Shortcomings exist in procedures used to prevent, detect and eliminate viruses.  
*Paras 4.3.36 to 4.3.37*





## ILLEGAL SOFTWARE UPDATE

**4.3.1** In 1992-93, my Office conducted a review of the policies and practices governing the acquisition, management and use of microcomputers in the public sector in order to quantify the State's exposure to risk in terms of breaches to the *Copyright Act 1968*. A representative cross-section of State Government departments and agencies was included in the review with the results, reported to Parliament during May 1993 within *Special Report No. 23: Information Technology in the Public Sector*. Significant concerns raised in that Report included:

- the use of illegal software;
- the use of unauthorised software;
- a lack of computer virus protection policies; and
- ineffective microcomputer policies and procedures.

**4.3.2** The review identified that the potential exposure to each government agency and their employees was substantial in terms of breaches of the Act. The Act provides for a maximum fine of \$50 000 and a jail sentence of up to 6 months for breaches by an individual user. Organisations, including public sector departments and agencies, face fines of up to \$250 000 if found to be using illegal software, or illegally copying software purchased legitimately. In addition to these penalties, the organisation may face claims for civil damages brought by the copyright owner.

**4.3.3** In recent media articles, the Business Software Association of Australia (BSAA) and the Australian Information Industry Association (AIIA) have sought increased penalties against copyright infringements. These requests have been in response to software industry estimates that in excess of one in every 2 copies of software in use in both the public and private sectors is illegal.

**4.3.4** "Illegal software" is defined as the copying and/or use of software without the permission of the copyright owner. The price paid for a legal copy of a software product carries with it the implicit permission for the use of one copy only. In most cases, permission and conditions of use are expressly set out in the form of a licence agreement.

**4.3.5** The use of unauthorised software creates problems ranging from information incompatibility and destruction of corporate data, through to breaches of security and, potentially, fraudulent misuse of both information and equipment. Unauthorised software includes any program or application installed without the express approval of the management of that agency.

**4.3.6** Computer viruses are a major problem facing both the public and private sectors. Computer viruses are programs that replicate themselves on computer systems to either deliberately cause nuisance to the owners by displaying messages on the screen, or malicious damage through the destruction of computer files.

### Audit objectives and scope

**4.3.7** Due to the potential exposure to the State my Office considered it was timely to undertake a follow-up review of the key issues raised in the 1993 Special Report to Parliament.

**4.3.8** The objectives of the follow-up review were to:

- identify whether measures have been taken by the Information Technology Policy Division (ITPD) within the Department of the Treasury and Finance and public sector bodies to address the key issues raised in the 1993 Special Report; and
- determine whether the position has improved or deteriorated since the previous review.

**4.3.9** The review focused on the following areas of significance:

- the existence of policies and procedures to control and monitor the use of software on microcomputers;
- the provision of licences or other proof of ownership for specific software installed on microcomputers; and
- the adequacy of virus protection policies and procedures to prevent the introduction of computer viruses.

**4.3.10** In order to ascertain the response to the recommendations contained within the 1993 Special Report, audit examined software resident on microcomputers and attempted to match the software with licences or other proof of ownership in 6 agencies, 2 of which were subject to review in 1993. Audit considered the selected agencies to be representative of all public sector agencies.

### OVERALL CONCLUSION

**4.3.11** It was pleasing to note that the 2 agencies subject to the 1993 review have, subsequent to that review, significantly improved their control over the installation, use and management of microcomputer software.

**4.3.12** While the Department of the Treasury and Finance issued a policy in November 1993 on Software Copyright, and in June 1994 released a draft Information Technology and Telecommunications policy and guidelines statement covering the purchasing and use of microcomputer software and controls to protect against viruses, the audit review disclosed that some agencies had not developed appropriate policies and procedures on these issues.

**4.3.13** Licences or proof of ownership could not be produced for 15 per cent of the software subject to audit review indicating that the Government has a large financial exposure from potential prosecutions under the *Copyright Act 1968*. The audit also found that 11 per cent of software in use were not authorised by management and a significant proportion was unrelated to the business activities of the agencies concerned, being primarily in the form of entertainment software.

**4.3.14** The absence of adequate protection against computer viruses left most of the agencies reviewed at risk of data corruption and disruption to their business operations. The detection of viruses in 3 agencies during the audit review clearly demonstrates such risks.

**4.3.15** While the agencies reviewed were unaware of the existence of illegal and unauthorised software, it was pleasing to find that once the matter was drawn to the attention of management they subsequently acted swiftly to remove the software from use.

**4.3.16** It is disappointing that this review identified the recurring existence of illegal and unauthorised software within the public sector raising doubts as to the commitment by agencies to comply with government policy and to eliminate the exposure for breaches of copyright. The failure of agencies to implement and adhere to the policies as prescribed by the Department of the Treasury and Finance is of serious concern.

**4.3.17** It is hoped that this follow-up review will prompt all agencies, not only those agencies covered by this latest review, to recognise the substantial risks that exist through the use of illegal and unauthorised software and where necessary implement the controls required to eliminate those risks.

## Controls over the use of microcomputer software

**4.3.18** In November 1993, the ITPD issued a Software Copyright Policy which included the requirement for all agencies to comply with the Australian Copyright Act. In addition, during June 1994, ITPD issued a draft Information Technology and Telecommunications policy and guidelines statement to all public sector agencies which included direction on:

- compliance with software copyright regulations;
- procedures to protect against viruses; and
- software purchasing guidelines.

**4.3.19** The policy and guidelines statement provides guidance on the management, planning, acquisition, operations and administration of Information Technology. Embodied within the Statement is specific reference to controls over the acquisition, use and disposal of microcomputer software. Government agencies have the ultimate responsibility for the development of policies and procedures in line with the guidance provided by ITPD.

### *Policies and procedures*

**4.3.20** Comprehensive policies covering the control and use of computer software and the protection against computer viruses were found to exist in 4 of the agencies reviewed (including the 2 which were subject to the 1993 review), while the remaining 2 agencies had only issued ad hoc directives.

**4.3.21** **While there has been significant improvement by agencies in the development of appropriate policies, scope exists for further improvement within the public sector.** The failure to establish comprehensive computer software policies exposes agencies to a number of significant risks, including;

- use of illegal and unauthorised software;
- introduction of unstable or unpredictable software; and
- increased incidence of computer virus infection.

### *Asset registers*

**4.3.22** Computer software registers, when considered in conjunction with hardware registers, are an effective means of controlling the use of software as they enable an agency to identify:

- the software it is licensed to use;
- the location of both original and back-up copies of software and associated manuals; and
- the computers on which legal software is installed.

**4.3.23** Audit found that the 2 agencies subject to audit review in 1993 had, subsequent to the issue of the 1993 Special Report, established both software and hardware registers. The remaining 4 agencies did not have software registers and had either not established hardware registers or the registers established were incomplete.

**4.3.24** The risks to government agencies of failing to maintain effective hardware and software registers include:

- an inability to control microcomputing assets;
- difficulty in detecting the existence of illegal and unauthorised software, thereby exposing government agencies to both litigation under the Copyright Act and civil damages; and
- an inability to verify the legality of software installed on specific computers.

### **Incidence of illegal and unauthorised software**

**4.3.25** Policies and procedures addressing the control and use of computer software in conjunction with software and hardware registers had been established by a number of the agencies reviewed. However, the failure to enforce these policies and procedures exposes the agencies to the substantial financial and security risks associated with the use of illegal and unauthorised software on microcomputers, local area networks and floppy disks.

#### *Illegal software*

**4.3.26** The exposure to the above risks was evidenced by the fact that licences or proof of ownership could not be produced for the following:

- 10 per cent of the software loaded onto the microcomputers examined at the 2 agencies subject to the 1993 review; and
- 17 per cent of the software loaded onto the microcomputers examined at the remaining 4 agencies.

**4.3.27** Given the audit survey established that on average 15 per cent of the software installed on microcomputers was unlicensed, with one or more unlicensed items for each computer, **the potential public sector exposure to penalties arising from breaches of copyright is significant.** For example, all of the 6 agencies reviewed were each exposed to potential penalties of \$250 000 had each instance of illegal software been prosecuted to the maximum penalty. Any civil damage claims initiated by the software proprietors would add to the above exposure.

**4.3.28** While audit is unable to ascertain the likelihood or extent of penalties being imposed on government, the level of exposure serves to reinforce the material risk to the State from the illegal use of software.

**4.3.29** Audit recognises that there are costs associated with the removal of illegal copies of software, as well as the cost of purchasing replacement software where it may be necessary for the efficient operation of the agency. However, these costs are considered insignificant when compared with the potential penalties arising from prosecution under the Act.

**4.3.30** **It is pleasing to report that when the agencies concerned were made aware of the audit findings, they took immediate action to remove all illegal copies of software. The swift response by these agencies once again serves as an example of the action that needs to be taken immediately throughout the public sector.**

### *Unauthorised software*

**4.3.31** Audit found that certain of the microcomputer software used by agencies, had not been authorised by the agencies with a significant proportion of this software (e.g. games/entertainment software) not related to their business activities. Details of the unauthorised software disclosed by audit were as follows:

- 6 per cent of the software loaded onto the microcomputers examined at the 2 agencies subject to the 1993 review; and
- 14 per cent of the software loaded onto the microcomputers examined at the remaining 4 agencies.

**4.3.32** Of the unauthorised software detected by audit, approximately 92 per cent related to entertainment software.

**4.3.33** The consequences of utilising unauthorised software may include:

- Introduction of unstable or unpredictable software resulting in system breakdowns. As government becomes increasingly dependent on microcomputers, the cost of both down-time and loss of data becomes progressively higher;
- Consumption of valuable IT resources;
- Productivity losses;
- Use of specialised software which can by-pass security controls and could potentially be used to change or destroy corporate data; and
- Increased susceptibility to viruses and the resultant impact on ongoing activities.

**4.3.34** Given the risks to the public sector arising from the use of illegal and unauthorised software, agencies need to develop and enforce policies addressing the purchase and use of all software utilised on microcomputers.

### **Risk of computer virus infection in government agencies**

**4.3.35** As stated in the 1993 Special Report, the lack of control over the existence of unauthorised and illegal copies of software creates an avenue for the introduction of computer viruses. The consequences of problems caused by computer viruses range from producing unexpected messages on the screen to destroying critical data.

### *Incidence of computer virus infections*

**4.3.36** A number of shortcomings existed, in all agencies reviewed, in the procedures used to prevent, detect and eliminate viruses, including:

- limited use of virus detection software;
- failure to establish "*quarantine stations*" whereby staff are obliged to test floppy disks before use on microcomputers or local area networks; and
- a lack of formal policies concerning the scanning of floppy disks.

**4.3.37** It was pleasing to note that viruses were not found in the 2 agencies subject to the Auditor-General's 1993 review, however, viruses were detected in 3 of the remaining 4 agencies in the current review. This illustrates that viruses can enter a system where controls are inadequate. All 3 agencies involved were notified by audit and the viruses were removed from the systems.

**4.3.38** In view of the inadequacies in protecting computer systems against viruses, there is a need for all government agencies to address this exposure by:

- utilisation of up-to-date virus detection software in scanning floppy disks before they are used on microcomputers;
- introduction and continual update of active virus detection and removal software on microcomputers and local area networks; and
- development of procedures to be followed in the event of a virus infection.

□ *RESPONSE provided by Secretary, Department of the Treasury and Finance*

*The Department of the Treasury and Finance acknowledges that although significant progress has been made since the Auditor-General's 1993 Special Report, there is still further improvement that is required across the Victorian public sector. It is the responsibility of agencies to comply with policies and guidelines issued by the Information Technology Policy Division, Department of Finance, in November 1993. As a result of the findings of the recent audit, all Ministers and Departmental Secretaries have been further advised in writing of the need for their organisations to comply completely with IT&T Policies, Guidelines and the Copyright Act.*

# Part 4.4

## Right of access to Executive Officer Contracts

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### KEY FINDING

- The issue of confidentiality of Executive Officer contracts should not override the fundamental obligations of agencies to be fully accountable at all times for all financial arrangements involving public moneys.

*Para. 4.4.8*





## RIGHT OF ACCESS TO EXECUTIVE OFFICER CONTRACTS

**4.4.1** The *Audit Act* 1994 provides that the Auditor-General is entitled to obtain information required for the purpose of an audit, irrespective that there may be a restriction placed on holders of the information, either by an enactment or rule of law, not to disclose such information. The *Audit Act* further provides that the Auditor-General may make conclusions, observations and recommendation based on such information, but shall not disclose the information.

**4.4.2** The passing of the *Public Sector Management Act* 1992 saw the introduction of individual employment contracts for employees in the budget sector who held the position of an Executive Officer. It has also become common practice for employees in executive positions within non-budget sector agencies to also enter into individual employment contracts with their employees.

**4.4.3** During a number of audits of agencies for the 1993-94 financial year, audit sought access to the employment contracts of certain Executive Officers. The purpose of such requests were to ensure:

- that payments or other benefits provided to the Executive Officers were in accordance with the contract conditions; and
- that having regard to the number of mergers and abolitions of agencies that were occurring within the public sector, with the possibility of some Executive Officers being made redundant, the contract conditions did not contain any benefits that could be regarded as abnormal to the public sector.

**4.4.4** In a number of instances, audit was initially refused access to the required documentation on the grounds that the contracts were confidential between the employee and the employer. In one case, the contract specifically stated that the contract conditions were not to be disclosed to a third party without the express permission of the employee. The employer initially refused access to audit and resolution of the matter only came about after I sought the intervention of the responsible Minister.

**4.4.5** Audit recognises the need for confidentiality of individual employment contract conditions from other employees in an agency and, in fact, confidentiality is maintained within the Victorian Auditor-General's Office. However, agencies and the respective employees have to remember that they are being paid from the public purse and that they have to be accountable to the public, which is achieved through the annual reporting and audit process.

**4.4.6** In a number of past Auditor-General's Reports to Parliament, the matter of refusal of access to information required for the audit process has been raised. While in most instances the requested information has eventually been forthcoming, it has taken up, unnecessarily, a significant amount of resources from both the agency concerned and my Office in reaching resolution.

**4.4.7** The corporatisation of public sector agencies will, no doubt, see the appointment to boards and executive positions of persons whose experiences have been in the private sector, where commercial confidentiality is of paramount importance. Unless they are adequately instructed by government as to the public accountability requirements in the public sector, audit is likely to face future problems in the accessing of information required for accountability purposes.

**4.4.8** Once again, I reiterate the view I have expressed in the past that **the issue of confidentiality should not override the fundamental obligation of agencies to be fully accountable at all times for all financial arrangements involving public moneys**, and that the matter of the maintenance of the confidentiality of information held by public sector agencies is adequately covered by legislation.

□ *RESPONSE provided by Public Service Commissioner*

*A circular was issued to all Department Heads on 9 May 1995 requesting that they ensure that relevant officers in departments and public sector agencies comply with requests of the Auditor-General for access to Executive Officer employment contracts.*

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