

Part 1

Executive summary

MAJOR FINDINGS

EDUCATION AND TRAINING

Pages 13 - 72

Operations of university subsidiary entities and joint ventures

- At 31 December 2001, Victoria's 8 public universities operated a total of 91 subsidiary entities, participated in 16 associated entities and 11 joint ventures, and 33 other commercial arrangements of significance.

Paras 2.1 to 2.11

- It is important that appropriate corporate governance principles are in place at all universities to guide them in performing their role in the oversight of subsidiary and associated entity operations.

Paras 2.12 to 2.18

- Of the subsidiary and associated entities that were operational during 2001, 25 (37 per cent) reported an operating loss for the year, 23 (33 per cent) reported net cash outflows from operating activities for the year, and 14 (19 per cent) had a negative working capital position at year-end.

Paras 2.19 to 2.32

Case studies of selected associated entities and joint ventures of Victorian universities

- The outcomes for universities of offshore ventures have been mixed, ranging from a failed business venture, as experienced by RMIT's involvement with Adorna Institute of Technology, Malaysia, to the achievement of positive financial outcomes, which Monash University has achieved to date, through its arrangement with Sunway in Malaysia, and similarly, RMIT with its numerous successful twinning programs with partners throughout South-East Asia.

Paras 2.33 to 2.166

- Experience suggests that universities need to take a more conservative approach in estimating student intake when assessing the financial viability of potential overseas ventures, particularly in the early years of such ventures.

Paras 2.152 to 2.158

Notebook computers for teachers

- In the period 1998 to 2001, schools were required to implement learning technology plans, and notebook computers were distributed to teachers as an important initiative to assist schools in achieving the outcomes of those plans. With schools required to develop *eLearning* plans for the period 2002 to 2005, the focus now needs to move to improving student outcomes from the use of learning technologies. *Paras 2.234 to 2.237*

HUMAN SERVICES

Pages 73 - 100

Latrobe Regional Hospital

- In the case of the privatisation of the Latrobe Regional Hospital, the State stepped-in when it appeared that a risk to the provision of ongoing hospital services was developing. The contractor was able to avoid the full financial risk obligations embodied under the contractual arrangements.

Paras 3.22 to 3.23

- The fact that the tender process for the privatisation of the hospital allowed an unsustainable bid price to succeed is of concern. As identified in our 1996-97 report to Parliament, at the time these arrangements were established, comprehensive studies had not been undertaken by the Department of Human Services relating to costs and efficiencies associated with the privatisation of public hospitals or the private provision of public hospital services.

Paras 3.18 to 3.23

Visiting Medical Officer (VMO) arrangements at rural public hospitals

- Notwithstanding our 2 earlier reports to Parliament highlighting the need for improved controls over the processing of VMO claims, there still exist significant deficiencies in rural hospital payment processes.

Paras 3.24 to 3.50

- Rural hospitals subject to audit review had either taken no action or only limited action to address the issue of potential over-servicing of patients by VMOs remunerated by fee-for-service arrangements.

Paras 3.51 to 3.56

Review of Acute and Psychiatric Information Directions (RAPID) project

- Issues occurring during the development of IT systems as part of the RAPID project have led to delays in the successful implementation of this project, and have subsequently increased the costs incurred by the Department.

Paras 3.78 to 3.105

- The problems experienced in this project reinforce the need to establish robust systems acceptance procedures to ensure that the contracted deliverables are achieved and the State's interests are protected.

Paras 3.95 to 3.100

INFRASTRUCTURE, INCLUDING LOCAL GOVERNMENT

Pages 101 - 152

Federation Square development

- The estimated completion cost of the Federation Square has increased significantly from \$110 million estimated at the inception of the project in 1996, to the most recent estimate of \$451.5 million (as at February 2002), an increase of \$56.7 million from the March 2001 estimate. *Paras 4.5 to 4.13*
- It is currently expected that a partial opening of public areas in the Square will occur in late August 2002 preceding a major launch in September 2002. Completion of the Square, including each tenants' fit-out works, is estimated to be achieved by December 2002 at the earliest. *Paras 4.15 to 4.19*
- The current level of confirmed project funding of \$445.1 million does not completely cover the most recent completion cost estimate of \$451.5 million. A funding shortfall of \$6.4 million existed at the date of preparation of this report. *Paras 4.36 to 4.40*

City Link: Surplus land

- The City Link project was completed in December 2000. However, leases between the State and Transurban over the various sections of the Link road are yet to be finalised and, therefore, the process of disposing of surplus land acquired to facilitate construction of the Link has not progressed significantly. *Paras 4.70 to 4.93*
- Of the project land which is now surplus to requirements, 21 sites have been identified as commercially attractive, with only 2 of these sites sold as at 1 March 2002, a further 4 sites targeted for priority sale and the remaining 15 sites still being assessed. *Para. 4.93*

Council monitoring of business ventures and community support arrangements

- Councils should establish and formally endorse policies which address the provision of loans and/or loan guarantees to associated and other external entities, including community and sporting organisations, with such policies focusing on risk management and governance issues. *Paras 4.102 to 4.106*
- While councils may seek to ensure they are represented on the governing bodies of associated entities as a means of providing assistance and expertise to the entities, due to potential conflicts of interest they should not use this as the mechanism to ensure that they are kept informed of the entity's financial and operational performance. *Paras 4.113 to 4.120*

INFRASTRUCTURE, INCLUDING LOCAL GOVERNMENT - *continued* Pages 101 - 152

Review of municipal business units

- A large number of councils had not established formal risk management strategies in relation to their business activities. *Paras 4.138 to 4.142*
- There is scope for councils to improve corporate governance arrangements over the operations of their business units through the implementation of effective risk management strategies, annual and strategic planning, and effective monitoring and review processes. *Para. 4.156 and Para. 4.195*

Property management practices at Latrobe City Council

- The former Moe City Office site was sold in 1988 for a total consideration of \$575 000, comprising of \$300 000 in cash and \$275 000 in “in-kind” commitments over 10 years. *Paras 4.196 to 4.204*
- In relation to the sale of the site, the Transfer of Land document executed by the Council and the purchaser and forwarded to the State Revenue Office stated that the consideration for the sale of the property was \$300 000. Given that the consideration for the sale was \$575 000 and its market value was \$600 000, the company’s liability for stamp duty was understated.

Paras 4.205 to 4.206

INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT Pages 153 - 168

National synchrotron facility

- As government will be the main provider of funds for the construction and operation of the national synchrotron facility adjacent to Monash University, it is essential that there is adequate consideration of the lessons learned from overseas experience and, in particular, comprehensive financial risk management at all stages of the project. *Paras 5.14 to 5.30*
- If the \$100 million committed by the Victorian Government is fully applied to the initial construction of the national synchrotron facility, there remains a \$57 million funding shortfall for the capital construction costs.

Paras 5.31 to 5.38

Victims Referral and Assistance Service

- The financial difficulties encountered by VRAS primarily resulted from the increase in demand for counselling services not being adequately managed by the Department of Justice, rather than from the cost associated with the use of private providers.

Paras 6.29 to 6.67

- Changes to the eligibility criteria for counselling during 2001 effectively reduced the number of counselling sessions that victims are provided and excluded access to counselling for victims of unreported crimes, victims who delay reporting the crime, and witnesses of violent crime (including children who witness domestic violence).

Paras 6.43 to 6.63

**Victoria Police: “New Century, New Force”
recruitment initiative**

- Victoria Police has achieved the target of 800 additional operational police 14 months ahead of schedule.

Paras 6.102 to 6.111

- Victoria Police has advised that the increase in police numbers will require funding of \$158.76 million over a 5 year period from 1999-00 to 2003-04, with ongoing funding of \$47.25 million per annum after that period.

Paras 6.217 to 6.218

- In 2001, the State Government negotiated a new industrial agreement with police staff. Victoria Police has advised that supplementary funding of around \$610 million will be required over the 5 year period of the agreement (from 2001-02 to 2005-06) to meet the increase in salaries and associated costs, with ongoing funding of \$212 million per annum required after that period.

Paras 6.219 to 6.222

- It would have been reasonable to expect that the number of additional police engaged by Victoria Police under this initiative would have been determined through its human resource planning process. However, the primary purpose for engaging the additional police was to bring the police numbers back up to their 1996-97 levels, which the Government believed reflected community expectations, rather than based on the number of police required to provide the outcomes required by the Government.

Paras 6.223 to 6.240

JUSTICE

Pages 169 – 230

Registry of Births, Deaths and Marriages

- The Registry has not formally tracked, investigated and reported on all instances of actual or suspected fraud as a means of combating identity fraud.

Paras 6.249 to 6.252

- The adoption of a proof of identity requirement as part of the Victorian Registry's access policy would increase controls over the release of information and certificates.

Paras 6.265 to 6.272

NATURAL RESOURCES AND ENVIRONMENT Pages 231 - 300

Victorian Forest Industry Structural Adjustment Package (VIC FISAP)

- While industry development assistance applications under the package closed on 31 October 2000, late applications were accepted. We believe that in the interest of natural justice, any extension of the deadlines should have been made public.

Paras 7.13 to 7.17

- Five of the applicants that were offered development funding owed significant amounts in overdue royalties at the time such assistance was offered.

Paras 7.35 to 7.44

- Based on recent government assessments, it now appears that many of the sustainable yield calculations upon which VIC FISAP funding decisions have been based were overstated, which may have resulted in businesses receiving industry development assistance and now having to downsize or exit the industry. As a result, public funds could have been wasted on development grants.

Paras 7.64 to 7.67

- An evaluation of the implementation and effectiveness of VIC FISAP has not been conducted by the Department of Natural Resources and Environment. Given that the Department is about to embark on a Voluntary Licence Reduction Program, which will provide significant assistance to businesses and employees, an evaluation of VIC FISAP would provide useful information for this new initiative.

Paras 7.62 to 7.63

**NATURAL RESOURCES
AND ENVIRONMENT – continued****Pages 231 - 300****Survey information at Land Victoria**

- Connecting property surveys to the State's survey control network is an integral part of cadastral surveyors' work. We identified problems with the accuracy of survey mark co-ordinates, the density of the network in some areas and the effectiveness of the Department's maintenance program.

Paras 7.135 to 7.160

- To maximise the benefit from the use of VicMap which holds a wide range of property and property-related information, Land Victoria needs to establish clear targets for accuracy, precision and completeness in relation to information to be maintained on this system, and develop plans and implement strategies to ensure these targets are met.

Paras 7.190 to 7.215

- While the Surveyor-General has statutory responsibilities for the provision of certain functions, operational control for these functions has remained with the Land Information Group of the Department since 1998. If the Government considers that responsibility for these functions should not be assigned to the Surveyor-General, then this should be considered by Parliament and, if deemed appropriate, reflected in legislation.

*Paras 7.250 to 7.260***Land titles automation project**

- While the revised final estimated cost of the Victorian On-Line Titles System project remains at \$91.7 million, with \$20.7 million unspent, it is important that Land Registry continue to closely monitor project costs to ensure that the project in its totality is delivered within budget and meets expectations.

Paras 7.298 to 7.307

PREMIER AND CABINET

Pages 301 - 324

Advertising and marketing by government departments

- Our assessments of publicly-funded advertising and marketing material identified many cases where the messages conveyed in the distributed material were clearly focused on informing the community of programs, and educating the public about government initiatives, programs and activities.

Para. 8.14

- There were also examples, both within the one-off material and the periodicals examined, where the material could lead to interpretations that it was party-political in nature. This was the case over the entire 6 year period examined, under governments of different political persuasions.

Paras 8.15 to 8.20

- Conventions or guidelines for government advertising supported by all political parties in the Parliament should be finalised and adopted as soon as possible by the Government to provide the public with greater assurance that public moneys used for promotional activities are not used for party-political purposes.

Paras 8.21 to 8.24

National Gallery of Victoria redevelopment

- As at April 2002, Stage 1 of the redevelopment of the National Gallery of Victoria was expected to be completed by July 2003, around 18 months later than initially expected, at a final cost of \$148.7 million - some \$12.7 million greater than initially expected.

Paras 8.74 to 8.77

- Our review concluded that the tender assessment process for both the early-works and main-works contracts did not comply with important aspects of the Victorian Government Purchasing Board guidelines.

Paras 8.57 to 8.73

TREASURY AND FINANCE**Pages 325 - - 340****State Revenue Office: Management of stamp duty collections by agents**

- Stamp duty collection by appointed document return system (DRS) agents had not been effectively managed prior to the 2002 calendar year, as a result of key exposures not being identified and effectively managed, inadequate monitoring tools employed, over-reliance on the integrity of agents, and a reactive investigations and compliance function.

Paras 9.11 to 9.15

- The State Revenue Office (SRO) has detected a number of instances where certain DRS agents had failed to remit collections to the SRO, an instance where an unauthorised person illegally used a forged stamp and an alleged defrauding of a DRS agent by one of their own officers. The SRO is currently pursuing these issues.

*Paras 9.14 and 9.51 to 9.54***SUMMARY OF AUDIT RESULTS****Pages 341 - 360**

- There is scope for improvement in the timeliness of completion of audited financial statements to enhance the accountability process, with 43 per cent (30 per cent in 1999-2000) of agencies meeting the 12 week legislative time frame.

Paras 10.3 to 10.10

- Clear audit opinions totalling 118 were issued on the financial statements of public sector agencies with balance dates other than 30 June, with 13 qualified audit opinions issued. As at the date of preparation of this report, 23 agency audited financial statements had not been finalised.

Paras 10.11 to 10.12

Part 2

Education and Training

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OPERATIONS OF UNIVERSITY SUBSIDIARY ENTITIES AND JOINT VENTURES

2.1 Our June 2000 *Report on Ministerial Portfolios*, when reporting on the privatisation of Melbourne IT Ltd, commented on the establishment of companies by universities. As at 31 December 1999, the 8 Victorian universities had established between them a total of 55 companies.

2.2 The establishment of companies is permitted by each university's enabling legislation. However, the legislation does not require universities to advise the Minister for Education of key matters relating to the sale or substantial divestment of an interest in a subsidiary or the formation of further companies by university subsidiaries. At the time of preparation of our June 2000 report, we noted that the number of companies had grown over recent years and that the company structures within some universities had become very complex.

2.3 We subsequently identified a number of issues involving university companies for possible review, including corporate governance, risk management, financial reporting and the appropriateness of company structures rather than utilising the existing organisational arrangements.

2.4 We also identified that there was no centrally-maintained, up-to-date register of university subsidiary entities, which outlined their particulars, including their purpose and details of their financial position. In addition, we noted that internal university accountability processes that monitor the activities of subsidiary entities¹ and joint ventures² including internal audit processes, audit committees, presentation of financial and non-financial information to the controlling entity and the use of business plans and performance indicators, were not uniform across the sector.

2.5 In order to obtain up-to-date information of university subsidiary entities, we sought details of these entities, as well as details of any trusts and joint ventures, for each of Victoria's 8 publicly-funded and operated universities using a survey form. The survey sought details of corporate structure, date of establishment, nature and purpose of entities, accountability mechanisms and key financial information.

Directions of universities

2.6 In the period since 1988, fundamental changes in the delivery of education caused by globalisation, the increasing drive for universities to contribute to national innovation from publicly-funded research, particularly in the areas of information technology and biotechnology/medical technologies, and reliance by universities on sources of funding other than traditional government grants, have resulted in an increasing level of commercial activity by Victorian universities.

¹ "Subsidiary entity" means an entity which is controlled by a parent entity. An "economic entity" means a group of entities comprising the parent entity (in this case the university) and each of its subsidiaries.

² "Joint venture" means a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control. This can be achieved using a joint venture entity or a joint venture operation.

2.7 Table 2A outlines the extent of revenue earned by universities from sources other than traditional government grants for the year ended 31 December 2000.

**TABLE 2A
HIGHER EDUCATION REVENUE OF VICTORIAN UNIVERSITIES AND
PERCENTAGE OF EARNED INCOME, 2000**

<i>Institution</i>	<i>Total revenue</i>	<i>Earned income (a)</i>
	<i>(\$m)</i>	<i>(%)</i>
Deakin University	275	41
La Trobe University	266	31
Monash University	610	46
RMIT University	327	46
Swinburne University of Technology	123	39
The University of Melbourne	651	36
University of Ballarat	56	30
Victoria University of Technology	157	31

(a) Earned income is defined as total revenue less Commonwealth operating grants, HECS and State grants. The indicator excludes Commonwealth operating grants for superannuation, deferred income – government contributions for superannuation and deferred employee benefits for superannuation.

Sources: Commonwealth Department of Education, Science & Training: Finance, 2000 Selected Higher Education Statistics, Table 1, <http://www.detya.gov.au/highered/statpubs.htm#financepubs>; Report for the 2002 to 2004 Triennium, Table D1: Indicators of the diversity of the Australian higher education system.

2.8 We were advised that, as at 31 December 2001, Victoria's 8 public universities operated a total of 91 subsidiary entities, participated in 16 associated entities³ and 11 joint ventures, and 33 other commercial arrangements of significance. Table 2B outlines the number of subsidiary entities of each university.

³ "Associated entity" means an investment, not being a subsidiary or partnership of the investor over which it has significant influence.

TABLE 2B
SUBSIDIARY ENTITIES OF UNIVERSITIES
(number)

<i>Institution</i>	<i>Dec. 2001</i>	<i>Dec. 1999</i>
Deakin University	5	2
La Trobe University	6	6
Monash University	33	13
RMIT University	12	9
Swinburne University of Technology	9	7
The University of Melbourne	19	14
University of Ballarat	2	2
Victoria University of Technology	5	2
Total Victoria	91	55

2.9 The table shows that 36 additional subsidiary entities had been established since 31 December 1999, representing a 65 per cent increase over the period. Appendix 2A to this article provides an outline of the subsidiary and associated entities, and the joint ventures and other commercial arrangements in existence as at 31 December 2001.

2.10 In a number of cases where new subsidiary entities were established during 2001, our Office was not advised of the existence of these new entities until part way through the annual audit process.

2.11 We recommend that universities be required to notify the Auditor-General in a timely manner of the establishment of new subsidiary entities, to facilitate an efficient and effective audit and accountability process.

Structure and purpose of university subsidiary entities

2.12 University subsidiary entities have been established using a number of corporate structures, including:

- companies limited by guarantee;
- companies limited by shares;
- trusts; and
- unincorporated bodies.

2.13 These entities have been established for a broad range of purposes, such as:

- provision of services to the university (7);
- overseas operations (14);
- commercial activities (35);
- commercialisation of intellectual property (11); and
- operations resulting from amalgamations or consolidations (3).

2.14 There are also around 20 subsidiary entities, which are currently inactive.

2.15 Given the ongoing administrative costs associated with the retention of inactive entities (including the cost of maintaining the books and records, and the requirement to have these audited and prepare an annual report), we recommend that the need for such companies be kept under constant review by university councils.

Governance arrangements

2.16 As universities are now operating in a competitive global environment where they are engaging in increased commercial activity, it is important that the processes associated with the oversight of subsidiary entity operations are effectively integrated with the universities governance arrangements which incorporates oversight of risk management.

2.17 We noted from the results of our survey that some members of the boards of subsidiary entities and trusts are university council members. Our recent submission to the *Review of University Governance* initiated by the Minister for Education, emphasised the possibility that a conflict of interest could arise for council members through such membership.

2.18 We recommend that all university councils have in place appropriate corporate governance principles to guide them in performing their role associated with the oversight of subsidiary entity operations and the interface with such entities. A summary of these principles should be outlined in university annual reports as part of their disclosures associated with corporate governance arrangements.

Profitability of subsidiary entities

2.19 As part of this audit, we reviewed the operating results and net cash flows from operating activities for 2001, as well as the working capital position at year-end of university subsidiary entities, details of which are outlined in Appendix 2B to this article. **Of the entities that were operational during the year, 25 (36 per cent) reported an operating loss for the year, 23 (33 per cent) reported net cash outflows from operating activities for the year and 14 (20 per cent) had a negative working capital position at year-end.**

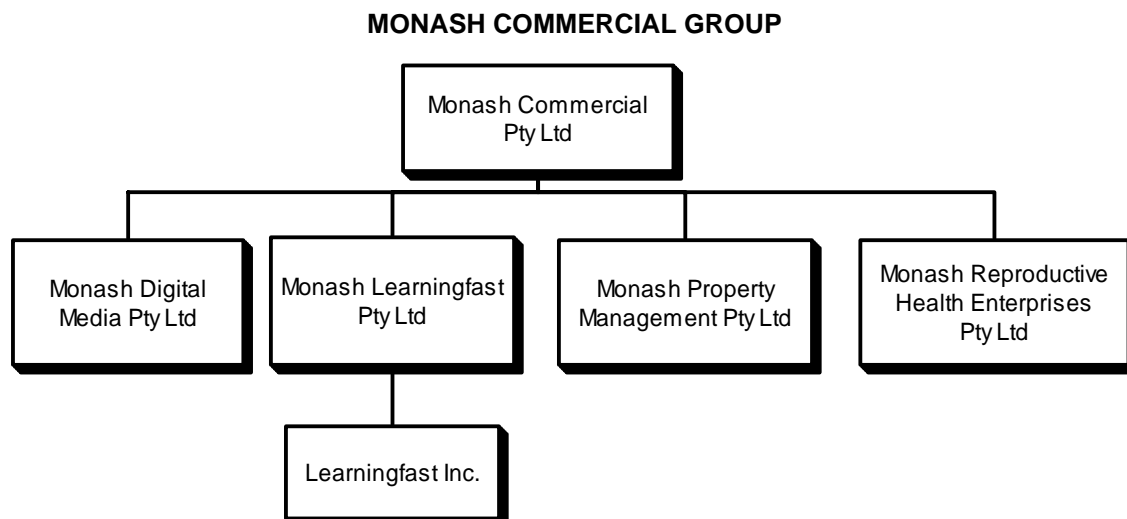
2.20 Furthermore, 15 (21 per cent) of these entities reported a negative position for 2 of these indicators of financial condition, while 7 (10 per cent) of these entities reported a negative position for all 3 indicators.

2.21 In many cases, universities have given an undertaking to underwrite the losses incurred by their subsidiary entities. Therefore, it is incumbent on university councils to have an adequate regime to oversee the performance and strategic business planning of their subsidiary entities.

Corporate structures

2.22 While most universities have chosen to retain a flat structure of subsidiary entities, Monash University and The University of Melbourne have chosen more hierarchical models for their commercial operations.

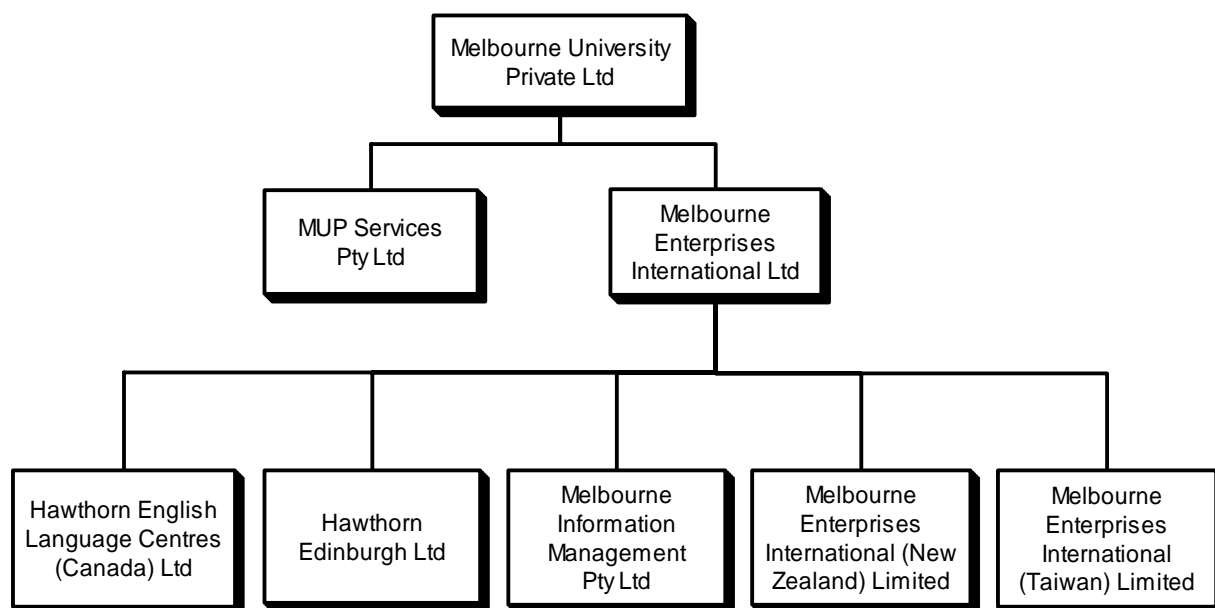
2.23 During 2001, Monash University grouped a major part of its commercial operations and internal property operations (5 companies) under the newly formed Monash Commercial Pty Ltd. The organisational structure of the Monash Commercial Group can be illustrated as follows:



2.24 Monash University also has 2 other major groups of subsidiary entities, namely, Montech Pty Ltd (14 companies) and the Monash IVF group (5 companies and trusts). The University has advised that it is in the process of transferring the majority of the companies associated with Montech Pty Ltd to the Monash Commercial Group.

2.25 During 2001, The University of Melbourne re-arranged its major commercial operations (7 companies) under the previously established Melbourne University Private Ltd. This group now includes Melbourne Enterprises International Ltd and its subsidiary entities. The organisational structure of the commercial operations of The University of Melbourne can be illustrated as follows:

THE UNIVERSITY OF MELBOURNE COMMERCIAL OPERATIONS



Reporting arrangements

2.26 The annual financial reporting guidelines issued to universities by the Higher Education Group of the Department of Education, Science and Training Canberra, contain recommended disclosures for reporting joint venture operations and entities, controlled and associated entities, acquisition and disposal of businesses and controlled entities, and assets and liabilities of trusts.

2.27 Our review identified that universities did not always provide the recommended disclosures contained in these guidelines and there were inconsistencies in the level of disclosures between universities in their annual reports including information relating to:

- the identity and country of incorporation of each subsidiary within the economic entity;
- details of any entity which has become part of or ceased to be part of the group during the year;
- the percentage ownership interest; and
- other details regarding why control exists or does not exist, and gains and losses made by the parent entity and outside equity interests on new issues of capital.

2.28 We recommend that universities provide improved disclosures in their annual reports of their involvement in joint venture entities and operations, subsidiary and associated entities, the acquisition and disposal of businesses and subsidiary entities, and the assets and liabilities of trusts.

Frequency of reporting to university councils

2.29 It is important that clear lines of reporting are established and maintained between the boards of subsidiary entities and the university council, and that regular and comprehensive reports are provided. **Our review found a wide range of practices in respect to the provision of financial and operational information by subsidiary entities to university councils.**

2.30 We note that in November 2000, The University of Melbourne undertook to establish a specific committee to oversee the operations of its subsidiaries. We support this initiative, which should ensure that a continuous and robust monitoring role is undertaken to enable the university council to exercise full and effective control of its resources.

2.31 It is important that university councils establish clear lines of communication between the council and the boards of subsidiary entities, making clear their expectations of those boards to keep university councils informed. The information we would expect to see transmitted between the board and councils should include as a minimum, a draft annual business plan for consideration and approval before the commencement of each financial year, and regular (at least quarterly) operational and financial reports of activities against the approved plan, and the annual report.

2.32 The issue of whether this data is reported to, and discussed by, the whole council or a committee of the council, should be a matter of choice for each council providing council members are satisfied with the quality and timeliness of information received and responses to any questions raised.

RESPONSE provided by Secretary, Department of Education and Training

The report highlights a broad range of issues in relation to the performance and reporting arrangements of universities' subsidiary entities and joint ventures. As you are aware, the Minister for Education and Training, Hon. Lynne Kosky MP, recently initiated a Review of University Governance of Victorian universities in response to concerns you had raised regarding the role and accountabilities of university councils and the capabilities of university councils to effectively manage their subsidiaries. The Review specially addresses universities commercial activities and this includes a section outlining the issues raised by your Office in previous reports. The Review has been received by the Minister and is currently under consideration.

The recommendations of the Review of University Governance address university Councils' oversight of subsidiary entities and the need for clarification of the Auditor-General's mandate to audit overseas companies controlled by Victorian universities. These recommendations, along with the additional issues you have raised in your Report on the operations of University subsidiary entities and joint ventures, will inform the Minister's consideration of policies to ensure appropriate corporate governance and accountability arrangements that adequately reflect and protect the public interest.

It is anticipated that following this Review universities will be required to provide additional information in relation to their subsidiary entities in their annual reports.

RESPONSE provided by Vice-Chancellor and President, Monash University

We concur with the general thrust of the report which acknowledges that the increasing drive for universities to contribute to national innovation from publicly funded research, and the necessary increasing reliance by universities on sources of funding other than traditional government grants have resulted in an increasing level of commercial activity by Victorian universities.

Governance arrangements; corporate structures; frequency of reporting

As the Victorian University with the highest amount (\$331 million) and percentage (46 per cent) of earned income, we are pleased to be able to say that steps have already been taken to address the issues raised by the report relating to the need for effective governance, control and reporting.

The University Council addressed the need for greater transparency, control and effective reporting, by establishing Monash Commercial Pty Ltd reporting directly to it, to oversee commercialisation activities; to ensure compliance with University policies; and to deliver effective financial control. We are pleased to point out that in line with your recommendation (Page 4) the Board of Monash Commercial Pty Ltd, which reports to Council following each meeting, adopted corporate governance guidelines at its first meeting.

Monash has, in addition to the Monash Commercial Group, 2 other major groups of subsidiary entities, namely Montech Pty Ltd (14 Companies)m and the Monash IVF group (5 companies and trusts). In face the majority of companies under Montech Pty Ltd are in the process of being transferred to the Monash Commercial Group. The remaining companies are inactive companies remaining from R&D Syndicates. As tax matters relating to these inactive companies are resolved, the companies themselves are being wound up. When all the inactive companies are wound up Montech itself will be wound up unless it is decided to make use of the vehicle for another purpose, in which case, it too will become a subsidiary of the Monash Commercial Group.

The Monash IVF Group is the subject of a structural review. When matters relating to it are resolved, the resulting entity will be legally transferred to the Monash Commercial Group. All the entities (Montech and Monash IVF) are already under the active stewardship of the Monash Commercial Group.

The University is well aware of the administrative costs associated with the retention of inactive entities and is effectively dealing with them.

Profitability

The report makes comment on the profitability of subsidiary entities. We concur with the remark that it is incumbent on university councils to have an adequate regime to oversee the performance and business planning of their subsidiary entities, however it should be acknowledged that in the case of some subsidiary entities, specially scientific research based spin-outs, that the development path almost invariably involves net cash outflows, between injections of equity while proof of concept, and product testing is completed, and until the end product can be taken to the market. It should not, therefore be taken as a sign of inadequate management or oversight that there are net cash out flows, or operating losses. The management skill in these companies resides in ensuring that timelines to targets and hurdles are adhered to, and that expenditure is contained within budget.

RESPONSE provided by Vice-Chancellor and President, Monash University - continued

Monash University Foundation Trust is shown as making a net loss for 2001. The University wishes to point out that the Foundation exists to support the University in its activities. In each of the previous 19 years it has recorded a profit from investment and its asset base has risen from \$10 million to \$120.4 million during that period. It entered 2001 with a plan of expenditure based on income projected from investments, in line with all advice received. As all organisations relying on investment income found in 2001, the reality did not match expectations. The Foundation decided to maintain its grant of over \$10 million to the University, despite the decline in its income.

RESPONSE provided by Pro Vice-Chancellor, University of Ballarat

The University of Ballarat currently operates its activities through the structure of the University apart from some small shareholdings, which are held within the Inskill Ltd subsidiary.

The second subsidiary, School of Mines and Industries Ltd is held strategically by the council to retain the name of this body which was formed in 1908 and operated from 1870. The name is still recognised nationally and internationally. Currently there are no plans to make this company active.

As a result of the minor activity occurring within subsidiary companies, the recommendations contained in the above report are of limited application to this University.

Should the University commence to operate activity within a subsidiary, the recommendations raised in your report would be used to influence processes developed for those operations.

RESPONSE from Swinburne University of Technology

Swinburne University of Technology advised that it saw no problems with the recommendations made in the report provided that the University Council has the discretion to determine the appropriate governing principles and the formulation of the communication requirements between Boards and the Council or delegated Council committee.

In relation to improved disclosures in annual reports the University expressed the desire for Council to have the overall discretion on matters such as commercial confidentiality and equity partners requirements when determining the relevance and extent of the disclosure.

RESPONSE from The University of Melbourne

The University of Melbourne has found that the formation of the Subsidiaries Sub-Committee has ensured compliance to the University's guidelines in relation to business acquisition and divestments. It has also ensured that the Boards of Directors of these subsidiary companies have focused on business planning.

The University of Melbourne believes that the formation of its Subsidiaries Sub-Committee in 2000 has led to the rationalisation of its subsidiaries and introduced corporate governance arrangements.

RESPONSE from LaTrobe University

The University believes it complies with the 4 recommendations and one “suggestion or expectation”. Fuller compliance will occur when the detail is known. This would include a clearer definition of which legal entities/operations would be covered by these reporting requirements. Here the University would be concerned if it was required to comply where the entity is not one in which it is at risk. As identified in your report, Universities are using different legal vehicles for the delivery of services.

Another concern would be that the University would not want to jeopardise the distance it puts between itself and its independent entities in order that they can be self-managed and enjoy the benefits that flow from that independence.

RESPONSE from Vice-Chancellor and President, Deakin University

I am pleased to convey my general agreement with the report and the recommendations it contains. I have some reservations however about the report’s reference to the possibility of conflicts of interest for council members who serve on the boards of subsidiary entities. This is not a straightforward matter and one we might usefully discuss with the Auditor-General at some time in the future.

**APPENDIX 2A
UNIVERSITY SUBSIDIARY ENTITIES, ASSOCIATED ENTITIES, JOINT VENTURES AND OTHER
SIGNIFICANT COMMERCIAL ARRANGEMENTS,
AS AT 31 DECEMBER 2001**

UNIVERSITY SUBSIDIARY ENTITIES			
University, subsidiary entity	Date formed	Principal Activity	Per cent ownership
Deakin University			
Unilink Ltd	1977	Employment of staff to provide consultancy services	100
Callista Software Services Pty Ltd	1997	Marketing and support of "Callista" Student Information System	100
Deakin Networks Pty Ltd	1998	Provision of internal telecommunications services	100
Australasian Human Resources institute Pty Ltd	2000	Provision of membership and professional services	100
Deakin Prime USA	2000	Sale of distance education materials in the USA	100
La Trobe University			
La Trobe University Housing Ltd	1970	Provision of accommodation for students and staff	100
La Trobe International Pty Ltd	1989	Provision of alternative educational pathway programs for international students	100
International Education Network Pty Ltd	1990	Currently inactive	100
La Trobe Marketing Pty Ltd	1994	Promotion and merchandising of armorial bearings, name and logos	100
Australian Alpine Institute Pty Ltd	1998	Provision of educational programs	100
International Education Network (Hong Kong) Limited	2001	Currently inactive	100
Monash University			
Monash University Foundation Trust	1983	Management of investments on behalf of the University	100
Montech Pty Ltd	1986	Marketing and promotion of commercially viable projects developed predominantly by Monash University	100
Monash IVF Pty Ltd	1988	Provision of infertility medical services.	100
Monash Reproductive Pathology and Genetics Pty Ltd	1988	Trustee of the Monash IVF Pathology Services Trust	100
Monash IVF Pathology Services Trust	1988	Provision of diagnostic testing services	100
Monash Ultrasound Pty Ltd	1988	Trustee of the Monash Ultrasound Trust.	100
Monash Ultrasound Trust	1988	Provision of obstetric and gynaecological ultrasound services	100
Sir John Monash Business Centre Pty Ltd	1990	Ceased operations during 2001	100
Monash Unicomm Pty Ltd	1991	Provision of commercial services for students	80
Montech Medical Developments Pty Ltd	1993	Research, development, consulting and other services, and promoting the results of University research	100
Monash International Pty Ltd	1994	Provision of international services, projects and programs	100
Monash Language Centre Pty Ltd	1994	Ceased operations during 2001	100
Monash University Foundation Pty Ltd	1995	Trustee of the Monash University Foundation Trust	100
Monash University South Africa	1999	Operation of the University's South African campus	100
MonServe Pty Ltd	1999	Provision of services to Monash University South Africa, but now expected to be wound-up.	50
Prostate Diagnostics Pty Ltd	1999	Development and commercialisation of diagnostic for prostate biopsies	55
Monash Southern Africa Pty Ltd	1999	Development of the University's South African campus	100
Monash Digital Media Pty Ltd	2000	Delivery of multimedia services to commerce and industry	100
Monash Learningfast Pty Ltd	2000	Provision and marketing of on-line learning opportunities	51
Dealdrum Pty Ltd	2000	Currently inactive	100
Rondole Pty Ltd	2000	Currently inactive	100
ACN 056 641 420 Pty Ltd	2000	Currently inactive	100

UNIVERSITY SUBSIDIARY ENTITIES			
University, subsidiary entity	Date formed	Principal Activity	Per cent ownership
Kerbridge Pty Ltd	2000	Currently inactive	100
Rinal Pty Ltd	2000	Currently inactive	100
Montores Pty Ltd	2000	Currently inactive	100
Southwal Pty Ltd	2000	Currently inactive	100
Dentire Pty Ltd	2000	Currently inactive	100
IngenKO Pty Ltd	2000	Development and commercialisation of animal cloning technology	50
Monash Commercial Pty Ltd	2001	Marketing and promotion of commercially viable projects developed predominantly by Monash University	100
Learningfast Inc	2001	Provision and marketing of on-line learning opportunities in the USA	51
Monash Property Management Pty Ltd	2001	Development and management of University-owned property	100
Monash Reproductive Health Enterprises Pty Ltd	2001	Currently inactive	100
Monash Ed Pty Ltd	2001	Provision of education and training relating to the organisation of the Olympic Games.	80
RMIT University			
Meltech Services Ltd	1992	Currently inactive	100
Citytech Pty Ltd	1992	Currently inactive	100
RMIT Union	1993	Provision of student support services	
RMIT Foundation	1994	Provision of support to the University from gifts, donations and investment income.	100
RMIT International Pty Ltd	1995	Recruitment of fee-paying international students	100
RMIT (Malaysia) Sdn Bhd	1995	Currently inactive	100
RMIT Resources Ltd	1996	Currently inactive	100
RMIT Innovation Ltd	1996	Services returned to the University as from 1 October 2001.	100
RMIT Training Pty Ltd	1997	Provision of training-related programs, consultancies etc	100
Spatial Vision Innovations Pty Ltd	2000	Provision of geospatial and IT services	51
RMIT Vietnam Holdings Pty Ltd	2001	Provision of services to RMIT International University Vietnam Campus	100
RMIT International University Vietnam	2001	Provision of education in Vietnam	100
Swinburne University of Technology			
Swinburne Ltd	1908	Provision of educational and research services	100
Neurometric Systems Pty Ltd	1985	Provision of research and development	55
Institute for Innovation and Enterprise Ltd	1989	Trustee of the Brain Sciences Institute Trust from 1999	100
Centre for Innovation and Enterprise Pty Ltd	1996	Currently inactive	100
National Institute of Circus Arts Limited	1998	Provision of training in circus arts	100
Swinburne Graduate School of Integrative Medicine Pty Ltd	1999	Provision of postgraduate education in alternative medicine	57
Brain Sciences Institute Trust	2001	Management of product commercialisation arising from neuroscience research and development	100
Swinburne Ventures Ltd	2001	Trustee of the Swinburne Intellectual Property Trust	100
Swinburne Intellectual Property Trust	2001	Established to develop and exploit intellectual and other property of the University, however, has yet to trade	100
The University of Melbourne			
Australian Music Examination Board (Vic) Ltd	1990	Provision of graded assessments for students of music, speech and drama, and singing	100
Land and Food Services Ltd	1992	Management of the Burnley Summer School for Gardeners. To be wound-up during 2002.	100
Melbourne Business School Ltd	1994	Provision of educational services	45

UNIVERSITY SUBSIDIARY ENTITIES			
University, subsidiary entity	Date formed	Principal Activity	Per cent ownership
Melbourne Business School Foundation Ltd	1994	Trustee of the Melbourne Business School Foundation	45
Melbourne Business School Foundation	1994	Provision of funding for scholarships, building projects and staffing requirements of Melbourne Business School Ltd	45
The School of Forestry Creswick Ltd	1994	Provision of research, education and training services	60
Australian National Academy of Music Ltd	1995	Provision of education and experience to Australia's most gifted young musical soloists	100
Melbourne Enterprises International Ltd	1997	Provision of educational, research and consulting services, and management of major projects	100
The Victorian College of the Arts	1997	Provision of education in the visual and performing arts	(a)
Australian International Health (The University of Melbourne) Ltd	1998	Provision of research, education and training, and health development assistance	100
Melbourne University Private Ltd	1998	Provision of educational, research and consulting services, and the conduct of a university	100
MUP Services Pty Ltd	1998	Currently inactive	100
The Meanjin Company Limited	1998	Publication, promotion and distribution of the quarterly journal <i>Meanjin</i>	100
Melbourne Information Management Pty Ltd	1999	Provision of information management services	100
Melbourne Health Information Pty Ltd	2000	Currently inactive	100
Melbourne Enterprises International (Taiwan) Limited	2000	Operation of English language centre for international students	100
Melbourne Enterprises International (New Zealand) Limited	2000	Operation of English language centre for international students	100
Hawthorn Edinburgh Limited	2000	Operation of English language centre for international students	100
Hawthorn English Language Centres (Canada) Ltd	2001	Operation of English language centre for international students	100
University of Ballarat			
The School of Mines and Industries Ballarat Ltd	1908	Currently inactive	100
Inskill Limited	1988	Currently inactive	100
Victoria University of Technology			
Victoria University of Technology Foundation	1980	Fundraising for scholarships and management, and hiring of various university facilities	100
Victoria University of Technology Foundation Ltd	1980	Trustee of the Victoria University of Technology Foundation	100
Victoria University Enterprises Pty Ltd	1990	Currently inactive	100
Victoria University of Technology (Singapore) Pte Ltd	1999	Provision of education and training programs, predominantly in Singapore	100
Victoria University International Pty Ltd	2001	Provision of education and training programs, predominantly in Bangladesh	100

(a) By virtue of the *Victorian College of the Arts (Amendment) Act 1997*, The University of Melbourne has a substantial management responsibility for the College which is treated as a controlled entity for reporting purposes.

ASSOCIATED ENTITIES OF UNIVERSITIES			
University, associated entity	Date formed	Principal Activity	Per cent ownership
Monash University			
Open Learning Agency of Australia Pty Ltd	1991	Owned by 7 Australian universities as a broker of distance education	14.3
Thrombogenix Pty Ltd	1991	Development of therapeutic and diagnostic products for the prevention, treatment and diagnosis of thrombotic disorders	12.4
Monash University Sunway Campus Sdn Bhd	1998	Campus established in Malaysia in partnership with the SungeiWay Group	24
Metabolic Pharmaceuticals Ltd	1998	Shares issued in exchange for the assignment of intellectual property rights	24.7
Copyrat Pty Ltd	2000	Development and commercialisation of animal cloning technology	49.9
Maccine Pty Ltd	2000	Development and commercialisation of animal cloning technology	48.4
RMIT University			
Inquirion Pty Ltd	2001	Company purchased the rights to software from RMIT and entered into a 5 year R&D agreement	50
Adorna-RMIT Sdn Bhd		Currently inactive	20
Swinburne University of Technology			
Open Learning Agency of Australia Pty Ltd	1991	Owned by 7 Australian universities as a broker of distance education	14.3
Technology Training Company	1998	Provision of post-secondary education in Thailand through Swinburne Tummasiri LC School of Engineering	49
Swinburne Holdings Sdn Bhd	2000	Development of post-secondary education facilities in Malaysia	50
Swinburne Sarawak Sdn Bhd	2000	Associated entity of Swinburne Holdings Sdn Bhd, providing of post-secondary education in Sarawak through Swinburne Sarawak Institute of Technology	30
Swinburne Institute of Integrative Medical Research Ltd	2000	Provision of medical research and related services, including the operation of Swinburne University Hospital	26.6
Swinburne Vabis Indochina Ltd	2001	Provision of post-secondary education facilities in Vietnam through Swinburne Vabis University of Technology	50
3DCD Technology Pty Ltd	2001	Development and commercialisation of research relating to data storage	100
Sportsbet 21 Pty Ltd	2001	Commercialisation of mathematical models for sports betting	50

JOINT VENTURES OF UNIVERSITIES			
University, joint venture	Date formed	Principal Activity	Per cent ownership
Monash University			
Biocom International Ltd	2000	Formed with RMIT and Baker Medical Research Institute to undertake biotechnical commercialisation	33
NeuroSciences Victoria Ltd	2000	Formed with The University of Melbourne, Howard Florey Institute and National Stroke Institute to negotiate with government and pursue neuroscience research and development	25
ES Cells International Pte Ltd		Established with partners in Singapore for stem cell research	18
Swinburne University of Technology			
TAFE Frontiers		Lead partner of consortium, including South West TAFE, Adult Multicultural Education Services and Northern Metropolitan Regional Council of Adult Community and Further Education, as the peak body supporting all registered training organisations in flexible learning	25

JOINT VENTURES OF UNIVERSITIES			
University, joint venture	Date formed	Principal Activity	Per cent ownership
Intelligent Manufacturing System Consortium		Consortium for co-operative research into manufacturing systems	
The University of Melbourne			
Bio21 Australia Limited	2000	Established with other founding partners, the Walter and Eliza Hall Institute and Melbourne Health, to undertake and assist in the commercial development of bio-medical research	33
Bio21 Commercial	2000	Established as a subsidiary of Bio21 Australia Limited for the development and commercialisation of intellectual property arising from project research activities	33
Bio21 Molecular Science and Biotechnology Institute	2000	Development of new research facilities by The University of Melbourne, as part of the Bio21 agreement	
Uniseed Pty Ltd	2000	Established by Melbourne Enterprises International Ltd and the University of Queensland to identify and invest in early stage technologies	50
Lignotek	2001	Established by Melbourne Enterprises International Ltd and Carter Holt Harvey Lignotek Holdings Pty Ltd to commercialise intellectual property relating to fast pyrolysis, phenols and furans	50
Victoria University of Technology			
Victoria Institute of Biotechnology	Proposed	Established with the Austin Research Institute to focus on the discovery and production of drugs and reagents that treat disease in humans and animals	50

OTHER COMMERCIAL ARRANGEMENTS OF SIGNIFICANCE BY UNIVERSITIES	
University, commercial arrangement	Principal Activity
La Trobe University	
La Trobe Research and Development Park	The University and CRI Australia Pty Ltd have entered into an agreement that appoints CRI as developer of the R&D Park. The agreement will provide some \$200 million of development capital over a 10 year period
Medical Centre Developments Pty Ltd	The University leased land to the company, now owned by Foundation Health Pty Ltd, on which it built a private medical centre
La Trobe University Medical Centre Pty Ltd	The University leased the above medical centre and licensed this company, owned by Foundation Health Pty Ltd and a number of medical practitioners, to operate the facility
Monash University	
Co-operative Research Centres	The University has an interest in 17 Co-operative Research Centres to which it provides cash support and in-kind support with research resources
Monash Science Technology Research and Innovation Precinct (STRIP)	A \$300 million building development proposed for the Monash Clayton campus, to house a cluster of knowledge intensive enterprises and offer the opportunity to keep intellectual property onshore.
RMIT University	
Service agreements	The University has service agreements with 21 institutions in South East Asia, South Africa and New Zealand. Further details are contained in this report on offshore campuses of Victorian universities
Swinburne University of Technology	
Co-operative Research Centres	The University has an interest in 8 Co-operative Research Centres to which it provides cash support and in-kind support with research resources
University of Ballarat	
Ballarat Technology Park	Developed within the University campus to provide a centre for the region's IT industry
Service agreements	The University has service agreements with 5 institutions in Australia and South East Asia, for the provision of educational services

**APPENDIX 2B
UNIVERSITY SUBSIDIARY ENTITIES, OPERATING RESULTS AND KEY FINANCIAL DATA,
AS AT 31 DECEMBER 2001
(\$'000)**

UNIVERSITY SUBSIDIARY ENTITIES (a)							
University subsidiary entity (b)	Total revenue (c)	Total expend (c)	Net profit(loss)	Total assets	Total liab	Work'g capital	C/Flows Op Activ
Deakin University -							
Unilink Ltd	9 636	9 636					
Callista Software Services Pty Ltd	7 489	8 964	(1 475)	4 461	4 129	174	(2 170)
Deakin Networks Pty Ltd	295	295		686	686	(676)	155
Australasian Human Resources institute Pty Ltd	5 898	5 657	241	2 441	2 215	(1 322)	436
Deakin Prime USA	280	1 280	(1 000)	212	1 476	(1 315)	(972)
La Trobe University -							
La Trobe University Housing Ltd	1 792	1 745	47	1 120	196	890	117
La Trobe International Pty Ltd	2 717	2 270	447	2 077	1 400	611	854
La Trobe Marketing Pty Ltd	405	366	39	256	73	173	66
Australian Alpine Institute Pty Ltd	1 010	1 224	(214)	151	260	(105)	(104)
Monash University -							
Monash University Foundation Trust	2 440	10 278	(7 838)	120 378	5 783	5 951	4 602
Montech Pty Ltd (f)	4 168	4 205	(37)	2 453	2 322	(159)	947
Monash IVF Pty Ltd	10 083	9 979	104	3 732	2 192	446	419
Monash IVF Pathology Services Trust	1 538	1 538		541	537	42	135
Monash Ultrasound Trust	1 984	1 984		863	858	(102)	74
Sir John Monash Business Centre Pty Ltd	1 159	1 429	(270)	240	236		(365)
Monash International Pty Ltd	30 365	31 115	(750)	11 710	11 567	88	1 238
Montech Medical Developments Pty Ltd				3 157		3 157	
Monash Language Centre Pty Ltd	3 939	2 526	1 413	3 203			(35)
Monash University South Africa	3 744	6 455	(2 711)	2 385	7 593	145	(5 317)
Prostate Diagnostics Pty Ltd	8	402	(394)	210	159	51	(241)
Monash Southern Africa Pty Ltd	1 980	1 285	695	9 807	5 074	1 033	14
Monash Digital Media Pty Ltd	233	646	(413)	320	100	142	(406)
Monash Learningfast Pty Ltd	1 582	2 192	(610)	987	350	(17)	(582)
IngenKO Pty Ltd	137	1 230	(1 093)	930	523	407	(483)
Monash Commercial Pty Ltd (f)	1 582	2 192	(610)	1 838	1 991	144	(582)
Monash Ed Pty Ltd		1 187	(1 187)	130	1 187	(1 057)	
RMIT University -							
RMIT Union	10 572	9 282	1 291	16 907	1 973	12 317	994
RMIT Foundation	769	456	313	5 696		1 649	251
RMIT International Pty Ltd	15 020	14 563	457	10 113	7 439	2 247	(6 503)
RMIT Training Pty Ltd	13 305	12 372	933	8 898	5 546	3 165	1 104
Spatial Vision Innovations Pty Ltd	1 739	1 767	(28)	823	644	161	69
RMIT Vietnam Holdings Pty Ltd	5 353	756	4 597	5 078	481	3 708	4 488
RMIT International University Vietnam	993	2 245	(1 252)	1 620	949	(79)	(301)
RMIT Innovation Ltd	3 671	4 130	(459)	1 100	1 824	(298)	(1 158)
Swinburne University of Technology -							
Neurometic Systems Pty Ltd		1	(1)		205	(1)	(1)
Institute for Innovation and Enterprise Ltd	96		96				
National Institute of Circus Arts Limited	2 061	1 400	661	834	12	335	677
Swinburne Graduate School of Integrative Medicine Pty Ltd	433	743	(309)	89	1 069		(299)

UNIVERSITY SUBSIDIARY ENTITIES (a)							
University subsidiary entity (b)	Total revenue (c)	Total expend (c)	Net profit(loss)	Total assets	Total liab	Work'g capital	C/Flows Op Activ
Brain Sciences Institute Trust	656	159	497	140	140	140	593
Swinburne Ltd	1 039	1 039		55 987	8 661	554	1 037
The University of Melbourne -							
Australian Music Examination Board (Vic) Ltd	1 957	1 957		878	316	302	(40)
Land and Food Services Ltd	65	28	37	254	2	252	(5)
Melbourne Business School Ltd	19 223	16 288	2 935	80 317	5 413	13 319	1 224
The School of Forestry Creswick Ltd	1 424	1 342	82	1 269	127	815	331
Australian National Academy of Music Ltd	1 815	2 675	(860)	1 324	116	32	(725)
Melbourne Enterprises International Ltd	46 858	43 064	3 795	45 477	8 836	33 144	52
The Victorian College of the Arts	28 593	22 401	6 192	93 760	16 726	9 819	5 320
Australian International Health (The University of Melbourne) Ltd	3 955	3 968	(13)	1 799	1 636	138	1 392
Melbourne University Private Ltd (f)	1 310	5 088	(3 779)	7 616	4 473	(2 011)	(4 925)
The Meanjin Company Limited	183	169	13	50	30	20	(18)
Melbourne Information Management Pty Ltd	138	193	(55)	47	19	13	(48)
Melbourne Enterprises International (Taiwan) Limited (e)	391	1 741	(1 350)	4 191	1 281	4 102	(1 304)
Melbourne Enterprises International (New Zealand) Limited (e)	1 688	1 734	(46)	1 253	1 552	(918)	(d)
Hawthorn Edinburgh Limited (e)	2 029	1 981	48	2 052	2 024	(1 281)	(d)
Hawthorn English Language Centres (Canada) Ltd (e)	2 477	2 469	8	2 649	2 640	195	464
Victoria University of Technology -							
Victoria University of Technology Foundation	198	205	(7)	900		675	(153)
Victoria University of Technology (Singapore) Pte Ltd (e)	683	704	(21)	195	401	(52)	(191)
Victoria University International Pty Ltd	234	210	24				

(a) It needs to be recognised that some companies detailed in this appendix are subsidiaries of holding companies also detailed in this appendix. Therefore care needs to be taken when analysing the data in this appendix.

(b) Excludes entities that have not traded and those that have minimal activity.

(c) In several cases, revenue and expenditure figures have been adjusted to include extraordinary items and income tax expenditure.

(d) Relevant accounting standards in several countries do not require the preparation of a statement of cash flows.

(e) Amounts included for certain overseas-based subsidiary entities have been shown in foreign currency.

(f) Holding companies.

CASE STUDIES OF SELECTED ASSOCIATED ENTITIES AND JOINT VENTURES OF VICTORIAN UNIVERSITIES

2.33 International students are a growing part of Australia's higher education system. Australia's universities have the third highest proportion of international students in the countries forming part of the Organisation for Economic Co-operation and Development (OECD). Nationally, around 18 per cent of Australia's university enrolments comprise international full fee-paying students.

2.34 The number of overseas university students in Victoria has increased significantly over the past 10 years. In 2000, 31 689 international students were enrolled at Victorian universities, which was an increase of 14.8 per cent over the previous year. In 2001, international students made up around 20 per cent of the local university student population and around 30 per cent of the national total of 143 788 international students studying in Australia in that year.

2.35 In recent years, there has been a marked trend towards the establishment of offshore operations by Australian universities. Over the period 1996 to 2000, the proportion of international students studying on campus in Australia has declined from 76 per cent to 65 per cent, and the proportion studying offshore has risen from 18 per cent to 30 per cent.⁴

2.36 The majority of Australian universities now provide offshore educational services (mostly in joint arrangements with overseas institutions). At present, around 33 per cent of international students enrolled in Australian universities are undertaking their studies at offshore campuses. These offshore arrangements are expected to grow significantly over the next few years as countries display an increasing preference for students to undertake higher education studies in their own cultural environments.

2.37 Victorian universities have invested in providing offshore programs to international students to maintain a foothold in markets in which universities from competitor countries are increasing their presence.

2.38 Table 2C quantifies international students in Victorian universities by onshore/offshore status.

⁴ IDP Education Australia, 2000, Survey of International Students in Australian Universities, IDP Canberra.

TABLE 2C
INTERNATIONAL STUDENTS IN VICTORIAN UNIVERSITIES BY
ONSHORE/OFFSHORE STATUS, 2000
(number)

<i>University</i>	<i>Onshore</i>	<i>Offshore</i>	<i>Total</i>
Deakin University	2 190	-	2 190
La Trobe University	1 373	411	1 784
Monash University	5 648	3 204	8 852
RMIT University	4 912	4 123	9 035
Swinburne University of Technology	1 836	-	1 836
University of Ballarat	86	305	391
University of Melbourne	4 902	-	4 902
Victoria University	1 134	1 534	2 668
Total	22 081	9 577	31 658

Source: Department of Education, Science and Training, Higher Education Statistics.

2.39 This report examines the operations of 4 offshore arrangements entered into by Monash University in South Africa and Malaysia, and by RMIT University in Malaysia and Vietnam.

Monash University

2.40 In 1998, Monash University determined that:

*“Monash will operate in strategic alliances with other leading international institutions and have a matrix of campuses which will be nodes in an educational network that spans the globe”.*⁵

2.41 To implement this vision, a progressive strategy of creating strategically located offshore campuses was developed, including the establishment of 2 offshore campuses located in South Africa and Malaysia.

2.42 Monash University identified a number of rewards to be received from establishing these offshore campuses, including:

- the ability to enhance the University’s international profile;
- potential for significant contributions to the financial base of the greater Monash; and
- expanded opportunities for staff development and student mobility.

2.43 The business structures of the 2 Monash University offshore campuses have separate and distinct characteristics. To illustrate, the Malaysian campus has been established in partnership with a highly recognised and reputable Malaysian educational institution - *Sunway College Malaysia*, whereas, the South African Campus is fully funded, owned and managed by Monash University.

⁵ Leading the Way: Monash 2020 (page 5).

Monash University South Africa

2.44 The Monash University South African Project involved the creation of a campus located on a 100 hectare site at Roodepoort, 20 kilometres north-west of central Johannesburg, with an initial plan to have over 7 000 students attending Monash University South Africa (MUSA) within 10 years and to cater for students from a range of backgrounds and countries.

2.45 Monash University has established the campus in South Africa to provide opportunities for developing relations and partnerships with major educational institutions in Africa and other parts of the world, and to contribute to the shaping of the environment in Southern Africa.

2.46 While it was originally planned to start taking students in February 2002, student attendance commenced in February 2001 due to the early completion of the campus buildings. MUSA provides undergraduate programs in Arts, Business and Commerce, Business Systems and Computing.

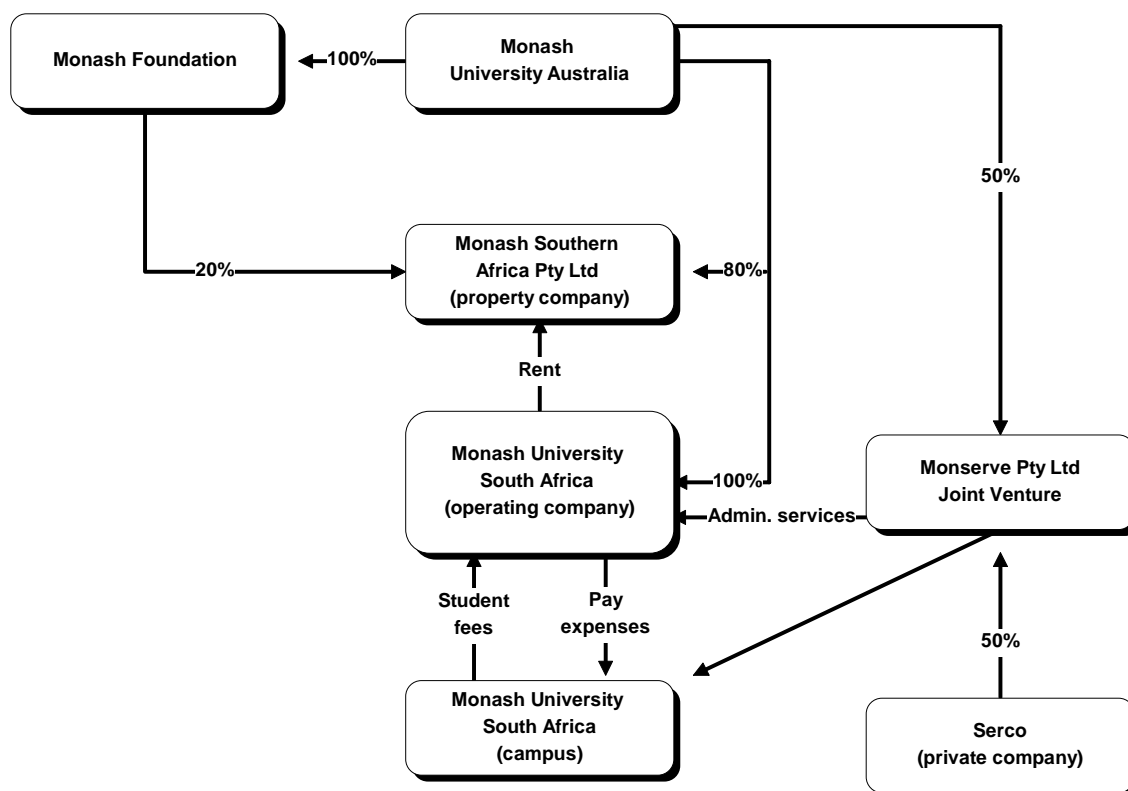
Business and equity structure

2.47 To control the operations of MUSA, Monash University created 2 companies, namely,

- Monash Southern Africa Pty Ltd, the *property owning company* incorporated in Australia in October 1999; and
- Monash University South Africa Pty Ltd, the *campus operating company* incorporated in South Africa in September 1999.

2.48 Chart 2D illustrates the business and equity structure of Monash University South Africa (MUSA).

**CHART 2D
BUSINESS STRUCTURE – MONASH UNIVERSITY SOUTH AFRICA**



2.49 As Chart 2D illustrates, the property company is 80 per cent owned by Monash University and 20 per cent by Monash University Foundation, which in turn is 100 per cent owned by Monash University. The principal function of the property company is to develop the campus land and buildings located at Roodepoort, Johannesburg, and lease the land and buildings to the operating company.

2.50 The operating company is a “not-for-profit” entity, limited by guarantee. The principal activity of the operating company is to operate the Monash University of South Africa campus.

2.51 The operating company’s administration is undertaken by Monserve Pty Ltd, which is a joint venture company between Serco (a worldwide service company) and Monash University. An equal interest in the joint venture is held by each of the 2 joint venture parties.

2.52 The current board of both the property and operating companies consists of the Vice-Chancellor and the Deputy Vice-Chancellor (Resources) of the University, and 2 members of the University Council.

Project feasibility and business planning

2.53 The original project proposal for the campus in Johannesburg was presented to the Monash University Council in May 1998 and a detailed business plan was approved in September 1999. The plan addressed how the development of a campus in South Africa would meet the strategic objectives of Monash University. The plan also addressed how a campus in Johannesburg could operate successfully in its own right, and how the campus could develop a wider set of relationships and opportunities for Monash University.

2.54 The plan also included an assessment of the viability of an investment in South Africa. This assessment concluded that:

- the project was of strategic interest to Monash University;
- the venture met an identified need and was soundly researched;
- the project was supported by strong business and political connections in South Africa;
- the project offered a differentiated approach to the South African market; and
- the project would produce an acceptable financial return for the risks undertaken.

2.55 Furthermore, the business plan projected that the campus would move into a profitable operating position in the 2005 financial year and break-even as a project in 2008. The University's revised projections now have the campus moving into a profitable operating position in 2006 with significant returns thereafter.

Financial arrangements, risks and exposures

2.56 Funding for the campus is provided by Monash University, via a contribution from its 100 per cent owned subsidiary, Monash Foundation Pty Ltd. This funding is provided by way of loans and capital contributions.

2.57 As at 30 September 2001, the Monash University group had provided loans and equity of \$16.8 million, with the entire risk and financial commitment associated with the project resting with Monash University. This compares with an initial budget projection of \$8 million for the first 3 years of the project.

2.58 The main costs incurred in relation to the campus have been the establishment of the campus site, including the purchase of the land and the construction of the buildings.

Business performance

2.59 The performance of the South African campus to date has fallen significantly short of expectations, which has required major revisions to its business plans and financial forecasts. There have been a number of factors identified by Monash University which have influenced the operations of the campus and caused the project to fall well below the expectations of the original business plan. These factors include:

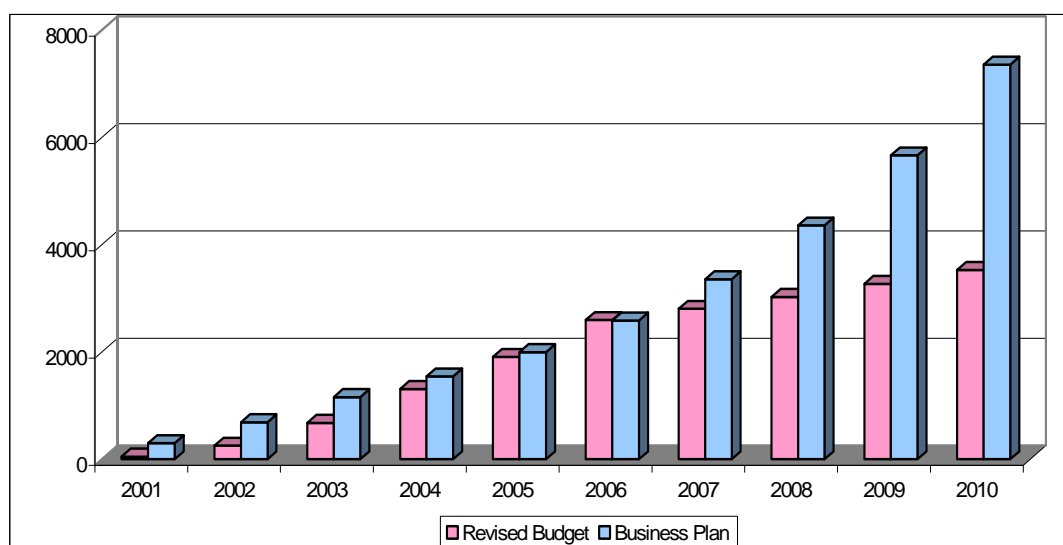
- reduced support for private education ventures by the South African Ministry of Education;
- smaller student intake;

- the impact of a 14 per cent Value Added Tax (VAT) on information technology (IT) costs and staffing;
- the decision to provide a more comprehensive approach to IT than originally envisaged;
- requirement for greater security on campus;
- need for a base level of service provision, regardless of student numbers; and
- influence of political instability and the effect of HIV/AIDS on the younger proportion of the population in South Africa.

2.60 The financial forecasts contained in the business plan were adjusted to take account of the campus commencing operations a year in advance and the influencing factors outlined above. A revised budget was developed by the University and adopted by the Monash University Council in February 2001.

2.61 A major factor influencing the revised business forecast was a significant reduction in the projected student intake. Chart 2E outlines the changed student number projections between the original business plan and the revised projections.

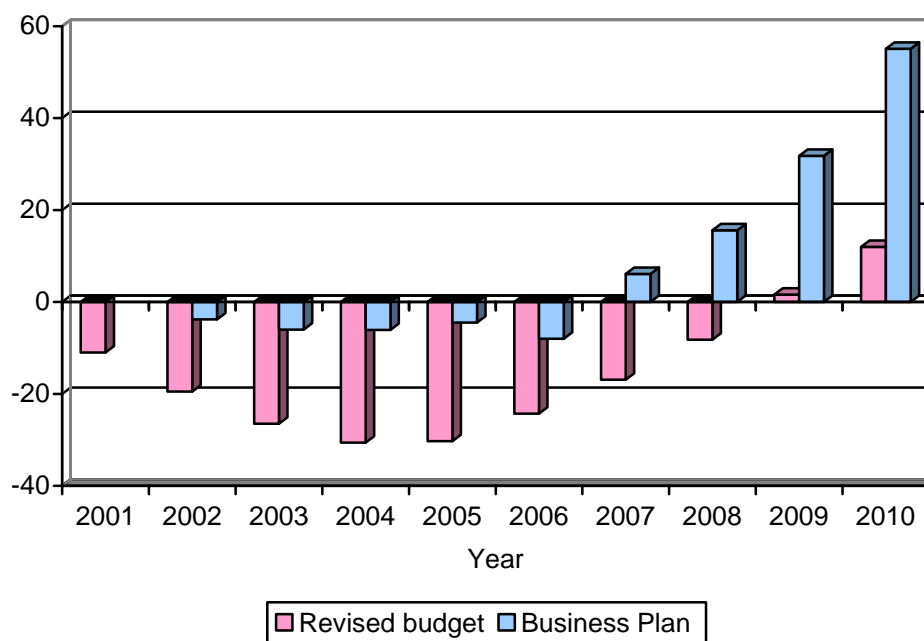
**CHART 2E
STUDENT NUMBER ANALYSIS**



2.62 The above chart shows that projected student numbers of 300 in the original business plan for 2002 were expected to grow to in excess of 7 000 by 2010. The revised budget has considerably reduced these projections to 255 students in 2002 and growing to in excess of 3 000 students in 2010, a reduction of over 4 000 students by 2010.

2.63 As illustrated in Chart 2F, the projected financial results for the project were also revised, with projected losses increasing substantially from the original business plan – peaking in 2005 with cumulative operating losses of \$30.8 million and achieving cumulative surpluses in 2009. These shortfalls are expected to be funded by Monash University.

CHART 2F
PROJECTED CUMULATIVE SURPLUS/DEFICIT
 (AUD\$million)



2.64 The University is continually monitoring the progress of the project and has developed strategies to exit the project should the need arise. Furthermore, the University has advised that the underlying property values have substantially increased since acquisition, which should cover any shortfall incurred by the University on this project.

Monash University – Malaysia

2.65 Monash University, Sunway Campus, Malaysia (MUSCM) was established in February 1998 as a private Malaysian university in Bandar Sunway, Malaysia. The campus began operations in March 1998 and the first students commenced studies on campus in July 1998. At present, there are around 1 700 full-time students enrolled at the MUSCM. The campus offers undergraduate courses in engineering, science, information technology, business and arts.

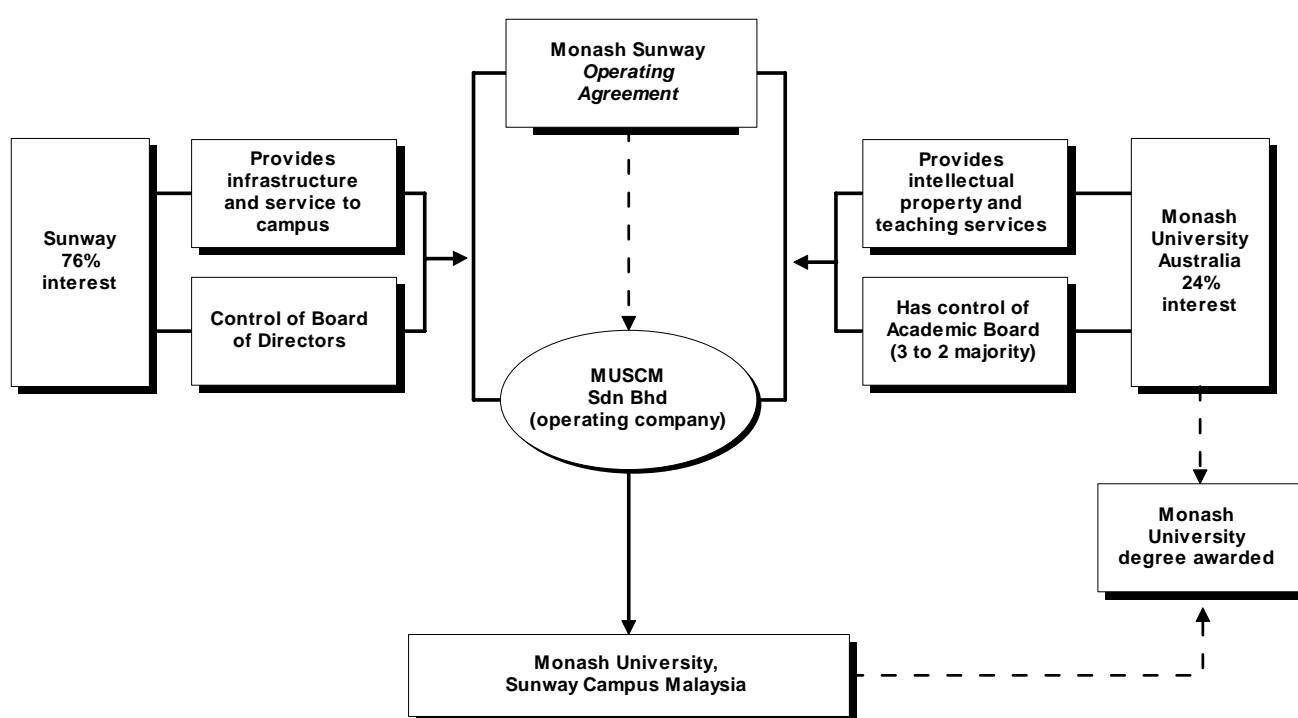
Business and equity structure

2.66 MUSCM is a joint arrangement between Monash University and the Sunway Group Malaysia (Sunway). An incorporated company, Monash University Sunway Campus Malaysia Sdn Bhd, has been established to operate the University, with Monash University and Sunway as shareholders.

2.67 Under an operating agreement between the 2 parties, Sunway provides the infrastructure facilities to the operating company under a lease arrangement, while Monash University provides the intellectual skills and knowledge required to teach students on campus. All students undertaking courses at MUSCM are enrolled as Monash students and are awarded a Monash Degree or Diploma.

2.68 A summary of the business and equity structure of Monash University Sunway Campus Malaysia is presented in Chart 2G.

**CHART 2G
BUSINESS STRUCTURE – MONASH UNIVERSITY MALAYSIA**



2.69 The issued share capital of MUSCM consists of 5 million ordinary shares, divided between Sunway, which has a majority 76 per cent equity interest (3.8 million shares) and Monash University, which holds the remaining 24 per cent of equity (1.2 million shares).

2.70 Monash University paid a total of \$503 000 for its shares in MUSCM, which is disclosed as an investment (at cost) in the consolidated annual financial report of Monash University.

2.71 The Board of Directors is structured as follows:

Board of 8 Directors	-	3 Monash University Members
	-	5 Sunway Members

2.72 In addition, there is an operationally-focused planning group comprised of 2 Monash University and 2 Sunway members chaired by a Monash University member. All academic matters fall under the authority and control of Monash University’s academic governance structures, e.g. faculty boards, Academic Board and Council.

2.73 While not having a majority equity ownership or control of the Board of Directors, Monash University through the control of the planning group, and their academic governance structures, has a strong influence over the operations and future direction of MUSCM.

Project feasibility and business planning

2.74 The proposal to establish a campus in Malaysia was built upon a successful 10 year relationship between Monash University and Sunway, for the delivery of Monash courses through a twinning arrangement with Sunway College. Under the twinning arrangements, the courses were commenced in Malaysia and completed in Australia.

2.75 In 1996, the Government of Malaysia introduced new legislation making it possible for the Minister of Education to invite foreign institutions to establish branch campuses and offer full degrees in Malaysia. Monash was the first university to receive an invitation to do so. Monash University evaluated the opportunity from various perspectives, drawing up an academic plan, capital and operating plans, and forecast financial outcomes. Following approval by the Monash University Council, the University moved forward with the establishment of MUSCM next to the site of the well-known Sunway College.

2.76 The University identified a number of benefits from this venture, including:

- enhanced regional and international profile;
- expansion of student base;
- increased income from student fees;
- increase in alumni numbers;
- additional student exchange opportunities;
- enhanced academic networking in region;
- additional opportunities for staff to gain international experience;
- development of new subjects which could be implemented at other campuses;
- piloting of campus structure which could be adapted for use by the university in other countries; and
- enhanced research and development opportunities.

Financial arrangements, risks and exposures

2.77 The establishment of the partnership to operate the Malaysian campus has resulted in limited financial exposure for Monash University with an outlay of \$503 000 in equity.

2.78 Under an operating agreement, responsibility for the operations of the campus have been shared between Monash University and Sunway College, with royalty streams established to effectively cover the operating expenses incurred by each partner. Key details of the agreement between Monash and Sunway include:

- all students undertaking courses in Malaysia are enrolled as a Monash student and are awarded a Monash degree or diploma;

- Monash is to provide to the campus curricula for courses, course guides, detailed syllabi, lecture materials, examination papers and other relevant course materials;
- Sunway sub-leases the premises of the College to the Monash Sunway Operating Company; and
- Sunway is to provide suitable student accommodation facilities.

2.79 The current agreement is to exist for 12 years and after 8 years (2008) the parties will review whether or not to continue the operations after the 12th year.

2.80 Costs incurred by Monash to provide education services and materials for students are recovered via the receipt of royalties from the Monash Sunway Operating Company. The costs of providing and maintaining facilities by Sunway are covered via the receipt of a management fee and rental charges.

2.81 The agreement outlines that Monash University receive 3 separate royalty payments from the operating company each year compensating for expenditure incurred in providing the education services and for the use of the Monash name.

2.82 A recent study completed by Monash University to determine the costs of supporting the Monash Sunway campus, concluded that annual support costs to the University were around \$832 000. A total of \$1.4 million in royalties and administration charges was paid to Monash University for the 2000 financial year. **Based on the above study completed by Monash University, it would appear that royalties received from the Malaysian campus adequately cover the costs incurred in supporting the campus.**

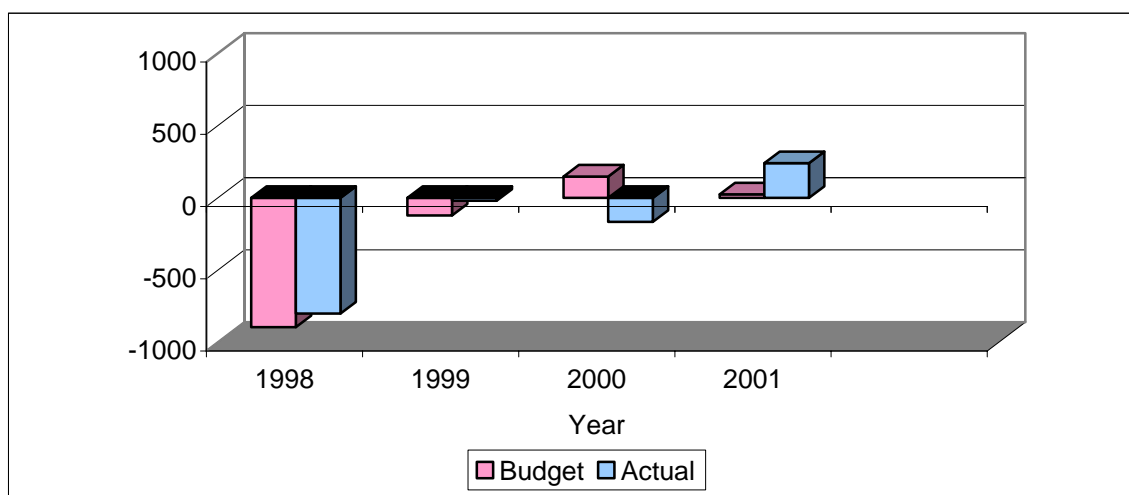
Business performance of Malaysian campus

2.83 The Malaysian campus has been operating for 4 years, with financial results progressing in line with established business plans.

2.84 The campus is currently exceeding its budgeted profit expectations. While revenue targets for each year from 1998 to 2001 have not been met, the resultant expenditure incurred has also been reduced due to decreased academic costs and royalties paid by the operating company as a result of lower than expected student numbers.

2.85 Chart 3H provides a 3 year comparison between budget and actual results for the venture.

CHART 2H
COMPARISON OF BUDGET TO ACTUAL RESULTS
 (AUD\$'000)



2.86 The Monash Malaysian campus is a self-funding operation, which is in a profitable position as it enters its fifth year of operations. The financial outlay by the University has been minimal and the day-to-day operations of the campus provide revenue to the University of over \$1.4 million per year, thus contributing to the asset base of the University. In addition, due to the enhanced profile of Monash in Malaysia, there has been a substantial increase in the flow of Malaysian students to the Monash University in Australia.

2.87 Given the structure of the Malaysian operation, Monash University has limited its exposure to potential financial losses to the value invested in the share capital of the company (\$503 000). The University is sheltered from any large un-funded losses incurred in supporting the campus, as the established royalty scheme (based on student tuition fees) is very closely linked to any required support expenditure incurred by Monash.

2.88 Like any project of this nature, the Malaysian operation faces the potential risk of financial failure and the consequent adverse impact on the University's reputation in Malaysia and elsewhere. However, Monash has in place planning and monitoring procedures to manage its exposure to these risks.

RMIT University

2.89 RMIT University's charter is to prepare students for employment in an increasingly "global" work environment. This goal is assisted through diversifying the nationalities of onshore students and providing offshore study opportunities for existing students. It is intended that the development of offshore campuses will also eventually facilitate international research based on RMIT's existing and future niche intellectual expertise. This will provide the impetus for RMIT to gain international recognition for its qualifications.

2.90 RMIT wishes to gain widespread international recognition and as such, RMIT views its international student program as a fundamental part of its overall strategy. Furthermore, all offshore campuses are intended to add to RMIT's asset base.

2.91 Most of RMIT's international offshore students are under "twinning arrangements". A "twinning" arrangement represents circumstances whereby RMIT, via a Service Agreement with an independent offshore partner (including universities), provides specific services including development and delivery to students of the offshore campus, in accordance with the Service Agreement. RMIT is generally not exposed to any financial risk other than the non-payment of Service Agreement invoices.

2.92 The term "twinning" seems to have arisen from Malaysian law but is used generically for a range of offshore delivery arrangements. Under Singapore law, where RMIT has the most international offshore twinning students, the offerings are technically "distance education".

2.93 Table 2I provides details of the offshore international student program of RMIT University.

TABLE 2I
OFFSHORE INTERNATIONAL STUDENTS AT RMIT, 2001

<i>Institution</i>	<i>Country</i>	<i>2001 student numbers</i>
Singapore Institute of Management	Singapore	2 921
Informatics	"	144
LaSalle-SIA College of the Arts	"	127
IMC Technologies	"	105
Alberton Management Centre	"	35
Shanghai Institute of Foreign Trade	China	680
Wuhan University of Science & Technology	"	210
Civil Aviation University of China	"	25
Nanjing University of Traditional Chinese Medicine	Malaysia	23
Malaysian Institute of Management	"	294
Metropolitan College	"	203
RIIAM/KLSE	"	160
Limkokwing Institute of Creative Technology		150
Hong Kong Management Association	Hong Kong	348
Hong Kong Arts Centre	"	150
Hong Kong Baptist University	"	51
Japanese Chiropractic Association	Japan	93
International Education Programs (IEP)	Indonesia	60
Hanseu University	Korea	18
Auckland City Art Gallery	New Zealand	15
Technikon SA	South Africa	3
Total Twinning Arrangements		5 815
RMIT International University Vietnam	Vietnam	60
Total		5 875

2.94 As the table indicates, during 2001 RMIT's offshore activities involved the provision of educational services to 5 875 students in 22 institutions in 10 countries.

2.95 The rewards of offshore operations include increased income, enhancement of the university’s international profile, and expanded opportunities for staff development and student mobility. However, offshore activities of universities also carry both financial and reputation risks.

2.96 This report analyses 2 offshore arrangements entered into by RMIT University, i.e. the establishment of a jointly-owned college in Penang, Malaysia and the development of a fully-owned university campus in Ho Chi Minh City, Vietnam.

Adorna Institute of Technology Malaysia

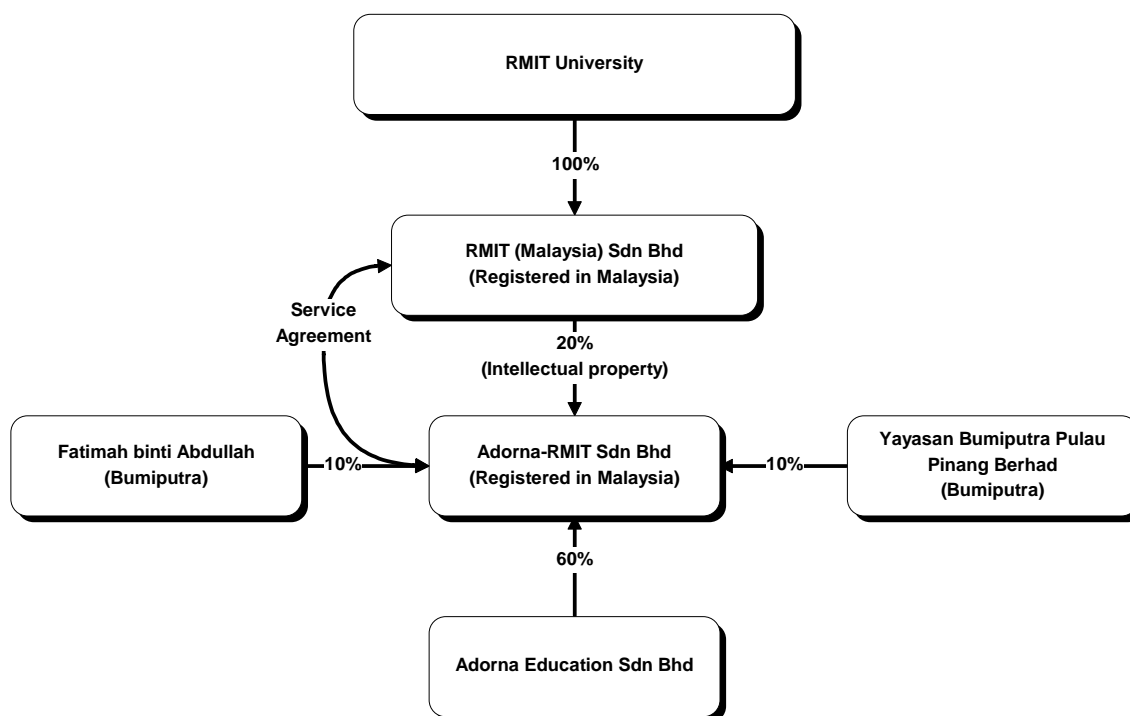
2.97 Opening in January 1996, the Adorna Institute of Technology (AIT), located in Jawi, Penang, was established to deliver a range of Advanced Diploma courses, supported by a Foundation Studies Program, which would allow successful students to articulate into the related undergraduate program at the RMIT campus in Melbourne. At its peak in 1998, there were 302 registered students at AIT.

2.98 The AIT arrangement operated for a period of 4 years and, for reasons discussed in this report, was wound-up at the end of 1999.

Business and equity structure

2.99 A summary of the operational and equity structure of the joint venture arrangement is presented in Chart 2J.

**CHART 2J
BUSINESS STRUCTURE – ADORNA INSTITUTE OF TECHNOLOGY MALAYSIA**



2.100 The AIT arrangement was governed by a joint venture agreement between RMIT and the Adorna Group of Companies. The Adorna Group held the majority of the shares and was responsible for the operations of AIT. RMIT held a 20 per cent equity interest in return for its contribution of intellectual property rights.

2.101 Under Malaysian law, it was a requirement at that time for foreign companies to have Bumiputra i.e. indigenous principals. The 10 per cent holding of Fatimah binti Abdullah and Yayasan Bumiputra Pulau Pinang Berhad satisfy this requirement.

2.102 Under this arrangement, RMIT's responsibilities included:

- designing and accrediting the courses;
- ensuring the standard of the courses was comparable with equivalent RMIT courses conducted in Australia;
- assisting AIT through the provision of teachers and lecturers as required;
- licensing the RMIT brand name to AIT for use in limited circumstances; and
- providing all educational services in accordance with a services agreement.

2.103 A service agreement was agreed between the parties outlining the conditions under which AIT would be invoiced for various RMIT services, including course development and the provision of teaching services.

Project feasibility and business planning

2.104 In late 1993, the RMIT Major International Projects Committee commissioned a feasibility process to determine the viability of a joint venture arrangement in Penang. As part of that process, the Committee investigated the suitability of Adorna as a joint venture partner. RMIT representatives met with a number of key figures in the Malaysian government and industry, each of whom were supportive of Adorna and the project. However, the Committee was advised that Adorna's lack of experience in the education sector was a potential concern.

2.105 RMIT engaged an architectural firm to visit Adorna and Penang in September 1994 to identify any design, construction and other issues, which may have an impact on RMIT's participation in AIT. Issues raised in the architect's report included:

- The proposed site for AIT was in a rural area, approximately 50 kilometres from the closest city, Georgetown;
- Two completed examples of Adorna construction were examined and were considered poor to average in comparison with local standards. Furthermore, no evidence was sighted of the Adorna team's previous experience in college planning or construction;
- Initial designs sighted were not of a high standard; and
- The quality of construction at the nearby Penang International Education and Technology Centre (PIETC) was high in comparison with previous Adorna projects, and it was recommended that PIETC's standard of design and construction be exceeded to ensure students were attracted to AIT.

2.106 Although the above report raised some concerns regarding the remote location of the proposed site, Jawi had been flagged as Penang's next growth area. Regional development in the medium to long-term was expected to be significant, and the initial concerns were allayed on this basis.

2.107 Commissioned by the RMIT Major International Projects Committee, Education Australia prepared a report entitled *Market Research on Establishing a Technical and Vocational College in Penang for RMIT*. This report highlighted a number of potential concerns with the proposed development, including:

- the private sector student market in Penang was considered relatively weak, and that AIT would need to market aggressively to attract students from other regions;
- there was a high level of capital investment required for technical courses such as those operated by AIT; and
- working visas for foreign directors and lecturers would be required.

2.108 In summary, the report stated that AIT could only be successful as a medium to long-term proposition.

2.109 Financial forecasts indicated that significant operating losses and capital costs would be experienced in the early years of the project. However, due to assurances from the Adorna Group, RMIT believed that AIT would be able to absorb these significant operating losses and capital costs in the early years.

2.110 A detailed proposal was submitted to RMIT University Council on 4 July 1994 seeking approval to proceed in negotiations with the Adorna Group. The business plan developed for the project included analyses of Adorna, market conditions, academic programs, capital requirements, source of finance, financial projections and the company structure.

Financial arrangements, risks and exposures

2.111 The Adorna Group was fully responsible for the funding of AIT's infrastructure, the provision of excess working capital requirements and for any operating losses. In return for the provision of intellectual property rights, RMIT University was provided with a 20 per cent equity holding for nil financial consideration.

2.112 In accordance with the joint venture agreement, the Adorna Group was fully responsible for arranging the financing and supervising the construction of the buildings and all other facilities as required by AIT. Furthermore, the joint venturers, as identified in Chart 2J, were contractually required to ensure AIT had sufficient funds to carry on business through:

- further subscriptions of equity capital by the joint venturers (other than RMIT Malaysia Sdn Bhd) in accordance with their respective interests;
- cash generated from income earned by AIT;

- loans to AIT by joint venturers other than RMIT Malaysia Sdn Bhd; or
- external borrowings by AIT.

2.113 As such, RMIT was not exposed to any financial risk resulting from capital expenditure or operating shortfalls generated by AIT.

2.114 A service agreement between Adorna and RMIT ensured RMIT would be remunerated (with an appropriate margin built into the pricing model) for the assistance it provided to AIT, including course development and the provision of expatriate teaching staff. Consequently, regardless of whether AIT itself was a profitable venture, fulfilment of the service agreement would have resulted in a positive contribution to RMIT. Additionally, RMIT was contractually entitled to a 20 per cent share in operating profits of AIT.

2.115 The service agreement was a key component of the relationship between Adorna and RMIT University. Outlining the financial compensation due to RMIT in return for services provided to AIT, the agreement was similar in substance to numerous other RMIT arrangements with venture partners in South-East Asia, albeit on terms favourable to RMIT.

2.116 Under the terms of the service agreement, RMIT invoiced AIT for the following:

- a base fee per student, determined by reference to the nature of the course;
- a fee for each hour of teaching provided by RMIT staff;
- reimbursement of a daily offshore allowance payable to RMIT teaching staff in Malaysia;
- a lump sum development fee for each course prepared by RMIT; and
- other miscellaneous costs.

2.117 RMIT's only financial exposure to project risk, therefore, was the possibility of partner default with respect to the terms of the service agreement.

Business performance

2.118 The Adorna Group's significant investment in the Malaysian property development market left it particularly exposed to the South-East Asian economic crisis of the late 1990s. As the crisis worsened, it became apparent that Adorna could no longer provide financial support to AIT.

2.119 Towards the end of 1998, RMIT made a strategic decision to withdraw from the Joint Venture and AIT was wound-up at the end of 1999 after the last group of students had completed their courses. An amount of \$2.3 million claimed by RMIT from AIT under the service agreement remains unpaid and was written-off in the accounts of the University on the basis of Adorna's effective insolvency.

RMIT International University Vietnam

2.120 In April 2000, RMIT became the first foreign university to receive an investment licence from the Vietnamese Government to establish a campus in that country. The licence is valid for 50 years.

2.121 RMIT International University Vietnam (RMIT Vietnam) was established and commenced operations on 1 January 2001, offering courses on a site in the heart of Ho Chi Minh City. Currently, there are around 370 students enrolled at the campus, although it is expected that enrolments will increase to around 3 000. Courses available include systems and software engineering, business, computing, accounting, computer science and information technology, multimedia and the English language. RMIT Vietnam will also provide research and development services to the private and public sectors in Vietnam.

2.122 RMIT Vietnam commenced operations in 2 stages. Stage one involved entering into a 5 year building lease in Ho Chi Minh City to enable the rollout of its courses in April 2001. These courses were provided to test the market, and attract local student and business interest at a relatively low cost and risk. Once the market had been proven, work was to commence on the building of the permanent campus at a site in South Saigon's designated development zone. RMIT Vietnam believe that sufficient interest has been shown in the venture to date to warrant commencing the building works.

2.123 The new campus is to be located on a 57 hectare site within the Saigon South Urban Development Area. The site is adjacent to major roads and to the Ong Lon River, a major causeway, and is close to the centre of Ho Chi Minh City and the planned new central business district and recreational facilities of Saigon South. Campus operations are expected to commence in early 2004.

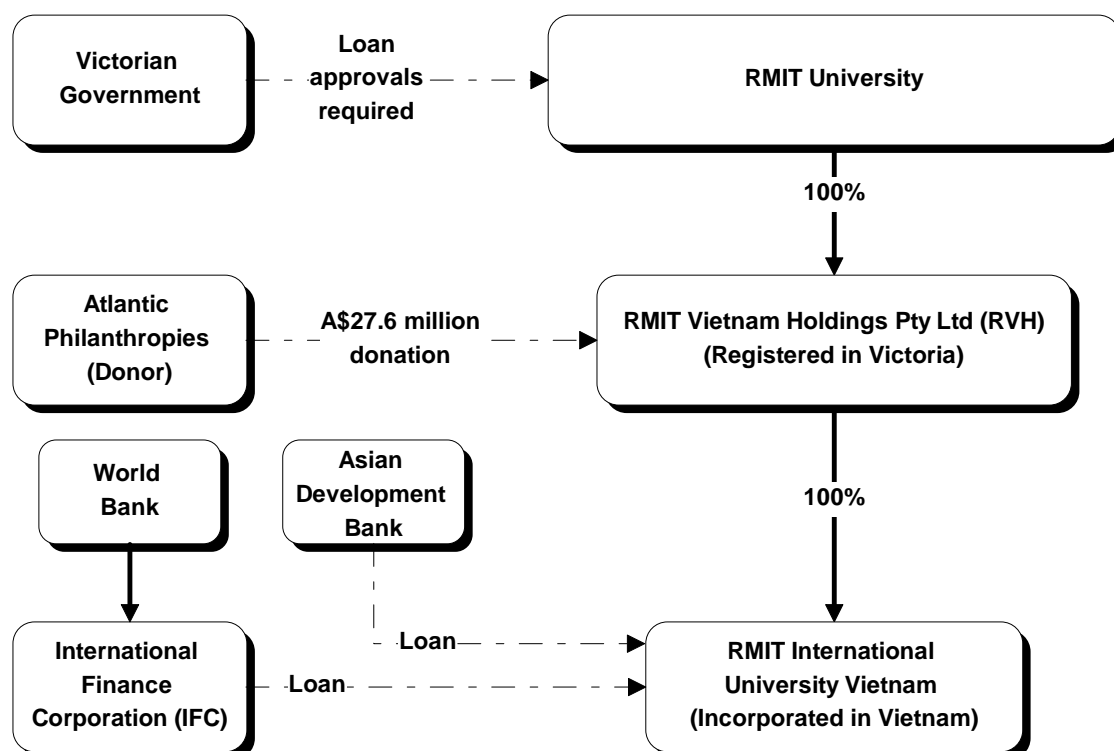
2.124 RMIT Vietnam is a wholly-owned subsidiary of RMIT and as such will be consolidated into RMIT's annual financial reports. RMIT Vietnam is the operating entity for the campus, and has the ability to set and collect fees, establish its own intake targets, and control and accredit its academic programs.

2.125 The Vietnamese operations, both through RMIT Vietnam and the value-added work (including research and development) they bring to the RMIT Group are intended to add value to RMIT's asset base as well as increase the University's overseas standing and international presence.

Business and equity structure

2.126 The following chart explains the business and equity structure of RMIT International University Vietnam.

CHART 2K
BUSINESS STRUCTURE – RMIT INTERNATIONAL UNIVERSITY VIETNAM (a)



(a) While RMIT International University Vietnam transactions are in \$US for this report they have been converted to \$A.

Project feasibility and business planning

2.127 The audit review of RMIT's feasibility process in relation to this project indicated that it has been thoroughly planned and executed. While the key assumptions in the financial model also appear to have been well researched and reasonably supported, it is premature to make an assessment on the future viability of RMIT Vietnam.

2.128 As part of the business planning for this project, a financial model was prepared and subjected to a detailed due diligence review by the Asia Development Bank and the International Finance Corporation. Both of these entities have expressed their satisfaction with the outcome.

2.129 The feasibility process identified the quality of the courses to be offered by RMIT Vietnam was crucial to the success of the campus. In particular:

- overseas course quality was to remain at least equivalent to that at RMIT University; and
- the responsibility for the assurance of the course quality is to remain that of the faculty and course teams, with very strong institutional commitment and full control from RMIT University.

2.130 The Government of Vietnam has allowed RMIT University full control over curriculum, fees, student numbers and other operational items, provided that an annual quality assurance review is carried out demonstrating the quality of courses provided is equivalent to that of RMIT University. In order to ensure RMIT Vietnam provides this level of service, RMIT University has entered into 2 service agreements with RMIT Vietnam.

2.131 The feasibility study indicated that the project would be commercially and financially viable over the initial planning and development phase, concluding in 2013.

Completion of a detailed business plan

2.132 Following approval of the project by the RMIT Council in August 2000, management carried out a detailed due diligence process. This process involved the compilation of a financial business plan for the period of project development (2001 to 2013).

2.133 The initial business plan was compiled with the assistance of external consultants and has been revised periodically as a result of changing circumstances.

Studies performed by debt providers

2.134 As indicated in the business structure for RMIT Vietnam, the Asian Development Bank (ADB) and the International Finance Corporation (IFC) have provided debt finance for the project. This entailed IFC carrying out an Appraisal Report in December 2000. During the compilation of this report, the IFC worked with RMIT to understand the risks involved in the project and made recommendations and offered professional assistance.

2.135 The IFC report indicated that the project fitted well with the World Bank's overall strategy in Vietnam.

2.136 The ADB and IFC together engaged a private accounting firm to prepare a report on the market feasibility of RMIT Vietnam in June 2000. The report identified a number of issues in the business plan and also identified some additional risks, however, it did conclude that over time the university was likely to be successful.

Financial arrangements, risks and exposures

2.137 Funding of the RMIT Vietnam Campus is expected to come from a number of sources over the lifetime of the project. The major sources of initial funding are as follows.

Donation

2.138 RMIT have been offered a gift of AUD\$27.6 million from an American Philanthropic organisation. The organisation, Atlantic Philanthropies, is a charitable organisation that identifies and supports leaders, institutions and organisations dedicated to learning, knowledge building and solving pressing social problems. The gift is subject to "no material adverse deviations". This means that if the project was to fail operationally, then there would be no requirement for RMIT to repay the gift.

RMIT project development costs

2.139 RMIT Vietnam commenced operating in January 2001. Costs incurred by RMIT University of \$2.8 million relating to feasibility studies, market research etc. have been capitalised by the University as a cost of its investment.

Debt – ADB and IFC loans

2.140 In March 2002, the Victorian Government gave approval for RMIT to secure long-term debt financing for the RMIT Vietnam project. RMIT has secured a loan of \$26.7 million from ADB (\$13.35 million) and IFC (\$13.35 million), which is a 10 year variable rate loan with repayments commencing 5 years after the first instalment.

2.141 Security over the loan is by way of:

- a foreign exchange Debt Service Reserve Account (refer further comment below);
- first ranking mortgage on immovable assets owned by RMIT Vietnam acceptable to IFC and ADB; and
- pledge of all of the shares in RMIT Vietnam owned by RMIT University.

Financial Support Agreement

2.142 RMIT University and RMIT Vietnam Holding Pty Ltd (RVH) are required to sign a Financial Support Agreement (FSA) agreeing to them being joint and severally liable for any funding shortfall. If a funding shortfall is determined by ADB and/or IFC, and a funding call is made to RMIT University or RVH, then the amount of funding for which the 2 entities are liable is capped at \$7.4 million.

Debt Service Reserve Account Agreement

2.143 A Debt Service Reserve Account Agreement is to be entered into by RMIT University, the Commonwealth Bank, the ADB and IFC. Under the terms of this agreement RMIT University can be required to deposit up to \$12.9 million in a Debt Service Reserve Account. The amount deposited will be reduced by any amount contributed under the terms of the Financial Support Agreement.

2.144 **In relation to the loans, the associated agreements limit RMIT University's liability to \$12.9 million in the event of project failure.**

Initial projected operating losses

2.145 RMIT Vietnam has been established to be a self-sustaining entity. Subject to the start-up costs incurred by the RMIT University as detailed previously, it is not the intention of the RMIT University to cross-subsidise the on-going operations of RMIT Vietnam. Accordingly, initial projected operating losses are planned to be funded out of start-up debt and an equity injection by RMIT University of \$30.4 million. **The majority of the equity injection was funded from the philanthropic donation.**

Business performance

2.146 At the date of preparation of this report, RMIT Vietnam has only recently completed its first full year of operation. Consequently, any assessment on the progress of the venture is premature. However, a review of the financial model, updated in November 2001, shows that operating losses are forecast in the financial years 2001 to 2003, followed by a minimal profit in 2004, further losses in 2005 to 2006, before the project is forecast to commence trading profitably in 2007. It is anticipated that losses will be funded out of start-up equity and debt, and not funded by RMIT University. Dividends are expected to be paid to RMIT University from 2011.

2.147 In accordance with State legislation, RMIT is required to obtain the approval of the Victorian Government prior to obtaining debt funding. Although the Victorian Government showed support for RMIT entering into the loan agreements in early 2000, such approval was obtained in March 2002. This has led to a significant delay in drawing-down on the philanthropic gift and commencing the South Saigon Campus works.

Lessons learned

2.148 The outcomes of offshore arrangements have been mixed, ranging from a failed business venture, as experienced by RMIT's involvement with AIT, to the achievement of positive financial outcomes, which Monash University has achieved to date, with its joint arrangement with Sunway in Malaysia, and similarly, RMIT with its numerous successful twinning programs with a wide range of partners throughout South-East Asia.

2.149 Critical to the success of any business venture is the development of comprehensive and realistic business plans, which cover financial, marketing and operational aspects of the business and, importantly, provide a mechanism for measuring progress toward the achievement of the stated goals. The decision to proceed with a commercial venture and the development of an effective business plan should be based on comprehensive feasibility studies, which provide accurate data upon which to take business decisions.

2.150 Feasibility studies should include:

- project background, objectives and benefits;
- market research;
- proposed development site;
- engineering studies;
- site assessment;
- legal issues;
- initial financial assumptions and forecasts;
- implementation plan; and
- risk management assessment.

2.151 Our review indicated that, with respect to the 4 arrangements, feasibility studies were undertaken and business plans developed and progressively monitored by the respective university councils. However, the following matters were identified, which impacted on the success of these ventures.

Student numbers

2.152 The expected student enrolment is a key determinant of the financial viability of offshore ventures, as student enrolments will determine the level of investment required in infrastructure and the level of fees to be charged (which, in turn, will impact on attracting students) to cover costs and generate profits.

2.153 The review found that for 3 of the 4 arrangements (with the exception of RMIT Vietnam) the original estimates were overly optimistic.

2.154 For example, Monash South Africa expected an initial start-up enrolment of 300 students, which compared with an actual number of 255, 15 per cent less than expected. In the longer-term, initial projections were 7 000 students by 2010, however, this has now been revised to 3 000 students, or 57 per cent less than originally estimated.

2.155 The financial risk of this ambitious estimate of student intake is substantial, as Monash South Africa is now expected to require capital funding of \$30 million before breaking even in 2008. This is considerably more than forecast.

2.156 Optimistic estimation of student numbers was particularly pertinent in relation to the inability of RMIT's AIT joint venture to become viable. A key factor of the Adorna Group's financial difficulties is attributed to the over-capitalisation of campus infrastructure, where facilities were built to cater for 2 000 students, with actual student numbers significantly below that forecast (only 111 in the first year). Construction of infrastructure should have been staggered to reflect the nature of the student demand curve.

2.157 In Vietnam, RMIT University has addressed this issue by:

- developing the project in Vietnam in 2 stages; and
- reducing student targets in the initial years by taking into account detailed market studies during the feasibility process and a more conservative approach to student number forecasts.

2.158 Experience suggests that universities need to take a more conservative approach in estimating student intake, particularly in the early years of such ventures.

Location of campuses

2.159 The location of campuses appears to be a key determinant in attracting students. Three of the 4 arrangements have established campuses at or near major cities and while student numbers have not as yet met expectations at any of these campuses, student intake was particularly low at MUSAC and AIT. The MUSAC campus is located in the vicinity of an internationally recognised university – the University of Witwatersrand, and is therefore facing competition, while AIT was established in a rural setting at least 50 kilometres from a major city in Malaysia. The post-project review conducted by RMIT concluded that the remote location of the campus directly contributed to the lower than expected intake.

Use of a joint venture partner

2.160 The AIT experience highlighted a significant risk for universities entering into joint venture arrangements with entities that have limited or no experience in the education industry. The expertise of the Adorna Group was in manufacturing and property development in Malaysia, and not the provision of education services in that country. RMIT University's post-implementation review identified the lack of expertise of Adorna in education as a major determinant in the failure of AIT.

2.161 Furthermore, RMIT University has also experienced success with its twinning partnerships under its offshore international student program.

2.162 A business arrangement with an experienced local service provider should increase the chances of better outcomes as information about local conditions will ensure that business decisions are based on meaningful information.

2.163 Where Joint Venture Agreements are entered into, they should be structured so as to empower universities with full control over the academic program and standards. This is crucial for the maintenance of quality control and the minimisation of reputational risk.

Use and selection of expatriate staff

2.164 Difficulties attracting quality local staff in Penang at the AIT joint venture resulted in RMIT University utilising a large proportion of expatriate staff. This contributed to a high operating cost base and lack of morale and course ownership among the expatriate teaching staff once it became clear that operations were beginning to fail.

2.165 RMIT University has addressed this issue in regard to its Vietnam campus by:

- increasing the level of remuneration of local staff to attract and maintain quality staff;
- actively assessing the mix of expatriate to local staff to ensure the campus is seen as an international university by providing a certain level of expatriate staff, while at the same time undertaking a commitment to employ and train local staff;
- seeking the full commitment of the departments and key staff to the campus; and
- offering the same course content and standard in both Melbourne and Vietnam ensuring that departmental staff take on full responsibility for the quality of courses offered.

Conclusion

2.166 The rewards of offshore operations for Victorian universities include increased revenues, enhancement of their international profile and expanded opportunities for staff development and student mobility. However, as these case studies demonstrate, offshore educational activities of universities also carry both financial and reputational risk which must be carefully managed if the expected benefits are to be realised.

RESPONSE provided by Vice-Chancellor and President, Monash University

Monash University welcomes this review of our campus operations in South Africa and Malaysia. The report confirms that Monash has in place appropriate planning and monitoring procedures, and that the campuses are reaping a range of benefits.

We appreciate the report's finding that there are several non-quantifiable, as well as financial rewards. The presence of Monash in South Africa and Malaysia has numerous invaluable spin-off benefits for Australia and Victoria. In the case of South Africa, these include: an enhanced profile, as we contribute to post-apartheid reconstruction; strengthened links with DFAT, the World Bank and the Asian Development Bank, in considering possibilities for aid projects; a closer relationship with the South African government in relation to our Centre for Law and Social Reconstruction in Southern Africa; close involvement with business in relation to in-company training programs and a proposed Business and Technology Park on the campus. From our campus in Malaysia, we have: strengthened links with government and industry; expanded our alumni base; and generated a substantial increase in the flow of Malaysian students to Monash in Australia. Between 31 March 2001 and 31 March 2002 there was a 44.6 per cent increase in commencing students from Malaysia in addition to an increasing number of students transferring from Monash Malaysia to Monash in Australia.

We concur with the observation that such activities carry risks. The report finds that these are being appropriately managed. The South Africa campus has not yet met the ambitious expectations of the initial plan. As the report indicates, the university is taking corrective action to reduce expenditures in line with the re-forecast enrolments, and carefully adjusting capital requirements during the start-up phase. The report correctly notes that the value of real estate and other capital assets owned by the university in South Africa "have substantially increased since acquisition" and "should cover any shortfall incurred by the university on this project".

Through its examination of the offshore activities of Monash University and RMIT University, we believe that the report makes a useful contribution to the study of transnational education. In the context of the globalisation of education, we anticipate that the report will be of interest both nationally and internationally.

RESPONSE provided by Pro Vice-Chancellor International, RMIT University

RMIT's involvement with Adorna Institute of Technology

RMIT did not directly invest any monies in AIT. The continued unfunded provision of academic services to students was the result of RMIT's commitment to ensuring that all students enrolled at AIT were able to complete their studies. More than half of the AIT students articulated to RMIT's Melbourne campuses and the academic performance of these students and their subsequent employment profile proved highly satisfactory. The onshore international student fees paid by this cohort of students more than offset the AU\$2.3 million notionally owed to RMIT.

RESPONSE provided by Secretary, Department of Education and Training

The report's findings highlight both the risks and opportunities of international campus development. The report provides a number of lessons for Victorian universities concerning the location and partnership arrangements for internal entities and joint ventures.

Your conclusion that there are both rewards and risks requiring careful management is supported. The Victorian Government's careful consideration of the most recent venture, RMIT/Vietnam, was mindful of both the potential benefits and risks.

NOTEBOOK COMPUTERS FOR TEACHERS

2.167 In 1997, the Department of Education commissioned a survey of Victorian State school teachers to collect data on teacher perceptions of their competency in the use of learning technologies. The results of the survey were contained in a report, *Learning Technologies To Improve Student Learning: Collection of Baseline Data*, presented to the Department in May 1997. The report identified a very low level of proficiency among teachers in the use of information technology and a lack of access to computers.

2.168 As a result of these findings and in recognition of the importance of computer education in Victorian schools, the Government initiated a program to provide Victorian State school teachers and principals with the opportunity to receive notebook computers. (This program is separate from programs designed to provide computer access to students in schools.) The Government has continued with this initiative as part of its vision of “*a society that is highly skilled in the development and application of information technologies and multimedia*”.⁶

2.169 The Notebook computers for Teachers and Principals Program commenced in November 1998 and is managed by the Information Technology Division (ITD) of the Department of Education & Training (DE&T). At the outset, the program was expected to provide up to 34 000 notebook computers to teachers and principals in Victorian government schools over a period of 6 years, at an estimated cost of \$82.7 million.

Objectives/expected outcomes

2.170 In February 1998, the Minister for Education published the Statement, *Learning Technologies in Victorian Schools 1998-2001*, which established the following overriding goal for computer education within primary and secondary schools in Victoria:

"For all schools by 2001 to have implemented a learning technologies plan that results in principals, teachers and students:

- *having access to computers, a range of applications and curriculum products and on-line information and communication as a routine part of the school's education and operational program;*
- *being regular, competent and discriminating users of learning technologies in the daily program of the school;*
- *developing skills in the use of a range of technology tools; and*
- *showing leadership and innovation in the use of learning technologies".*

2.171 The Statement also detailed overall objectives for computer education and provided a strategic framework for schools to follow to achieve the desired outcomes by the year 2001. Essential features of the Statement included the need to:

⁶ Supporting Notebook Computer Users – A Guide for School Leaders 1999, p.3.

- progressively increase teacher access to multimedia-capable computers accompanied by timely and appropriate training; and
- ensure that teachers are capable and confident in their use of new learning technologies to enhance student outcomes and manage their professional workload.

2.172 The provision of notebook computers to teachers and principals is an essential element in the achievement of these education objectives.

2.173 The specific aims of the program are detailed in a comprehensive user guide – *Supporting Notebook Computer Users, A Guide for School Leaders*, prepared by the Professional and Leadership Development Centre of DE&T, and issued to all schools in 1999. As stated in the guide, the specific aims are to:

- develop the learning technologies skill levels of principals and teachers;
- support and encourage principals and teachers to effectively integrate the use of learning technologies into classroom and administrative practices;
- develop, reward and provide an incentive for teachers undertaking significant professional development in the use of learning technologies;
- enhance the professional status of teachers;
- improve teacher skills in using learning technologies in the delivery of the curriculum; and
- improve teacher productivity.

Contractual arrangements

2.174 Following a public tender and Victorian Purchasing Board approval, contracts for the supply of notebook computers for the first rollout were entered into in October 1998 with 2 major suppliers, namely, Acer Computer Australia Pty Ltd and Apple Computer Australia Pty Ltd.

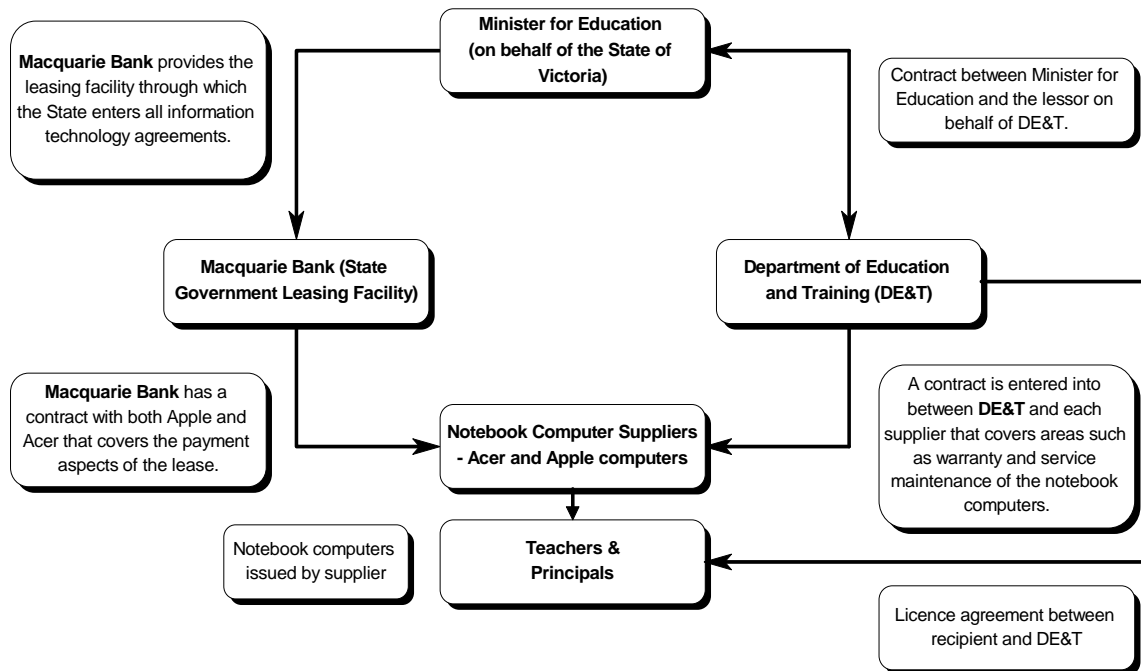
2.175 Schools were allocated Acer or Apple computers depending on the infrastructure already in place at the school, i.e. if the school had a predominately Microsoft-based system, then the school was more likely to select and be allocated Acer computers. Conversely, if the school had a predominately Apple-based infrastructure, then the school was more likely to receive Apple computers. Acer subsequently supplied around 93 per cent of the notebook computers and Apple 7 per cent.

2.176 Each supplier was contracted to supply notebook computers and related IT services for a period of 5 years. The notebook computers were acquired under a 3 year lease arrangement.

2.177 The contracts are between the Minister for Education on behalf of the Crown in right of the State of Victoria for the Department of Education (the customer) and the Macquarie Bank Limited (the lessor). The Macquarie Bank provides a master leasing facility through which the Victorian Government enters into all lease arrangements for its information technology needs. DE&T manages the lease with the Macquarie Bank to supply teachers and principals with notebook computers.

2.178 Chart 2L outlines the relationship between the various parties to the contractual arrangements.

**CHART 2L
CONTRACTUAL ARRANGEMENTS FOR LEASING
AND PROVISION OF NOTEBOOK COMPUTERS**



Source of funding

2.179 Funding for the project is provided via annual budget appropriations to DE&T and is supplemented by a contribution by each teacher or principal of around \$150 per year from their pre-tax salary. The total budgeted cost of the program over a 6 year period is \$82.7 million, of which DE&T expects to fund 82 per cent, or around \$67.9 million, with teachers and principals contributing the balance over the 3 year lease period of their notebook computers.

2.180 Table 2M provides details of budgeted expenditure for the life of the program and the actual expenditure to January 2002.

TABLE 2M
BUDGETED EXPENDITURE FOR THE PROGRAM AND ACTUAL EXPENDITURE
UP TO JANUARY 2002
(\$m)

Financial year	Total costs		DE&T contributions		Teacher contributions	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
1998-99	5.1	5.0	4.3	4.2	0.8	0.8
1999-00	16.7	16.6	14.5	14.3	2.2	2.3
2000-01	16.7	16.7	13.0	13.6	3.7	3.1
2001-02 (a)	22.5	19.6	18.5	16.3	4.0	3.3
Total to date	61.0	57.9	50.3	48.4	10.7	9.5
2002-03	16.0	n.a.	13.2	n.a.	2.8	n.a.
2003-04	5.7	n.a.	4.3	n.a.	1.4	n.a.
Total for program	82.7	n.a.	67.8	n.a.	14.9	n.a.

(a) Expenditure for this financial year only available to 30 April, 2002.

Source: DE&T.

2.181 As the table indicates, to January 2002, a total of \$57.9 million has been spent on the program, compared with a budget of \$61 million, with \$48.4 million contributed by DE&T and \$9.5 million contributed by teachers and principals.

Entrance to program

2.182 In establishing the notebook computers for Teachers and Principals Program, DE&T determined the following criteria which was required to be met by schools and teachers prior to being eligible to receive a notebook computer:

- demonstrated progress by the school towards achieving the objectives outlined in the *Learning Technologies for Victorian Schools 1998-2001* Statement, including completion of a learning technologies plan;
- demonstrated commitment to professional development in learning technologies, which includes a professional development plan that includes at least 40 hours of professional development activity focused on learning technologies; and
- commitment by teachers and principals to use their assigned notebook computer as a tool in curriculum planning, classroom practice, assessment and reporting, and to share resulting curriculum materials or teaching strategies.

2.183 The obligations and expectations of teachers and principals receiving notebook computers under the program are detailed in the publication issued to all schools - *Supporting Notebook Computer Users – A Guide for School Leaders*. This document sets out the terms and conditions of the Agreement between DE&T and the individual teacher. The main features of the Agreement are that teachers are required to:

- Use the notebook computer as a work tool in accordance with the objectives of the program;

- Contribute \$150 per year for 3 years towards the cost of the computer notebook package via fortnightly payroll deductions from pre-tax pay;
- Maintain the notebook computer in good working order, by utilising the warranty support services provided. Any loss or damage of the notebook computer is to be reported, as required by DE&T in accordance with the conditions of insurance;
- Acknowledge that if the notebook computer is lost or damaged in circumstances such that the loss or damage is not covered by insurance obtained by DE&T, then the teacher will not be eligible to receive another notebook computer under the program; and
- If required, participate in any departmental evaluation of the program.

2.184 In addition, the teachers are expected to:

- demonstrate a commitment to the use of learning technologies in the school;
- have a personal professional development plan that includes evidence of learning technologies professional development previously undertaken and a plan for further learning technologies professional development;
- use the notebook computer for curriculum planning and collaboration, classroom teaching, and assessment and reporting;
- share curriculum materials and teaching strategies that are developed using the notebook computer with other teachers;
- return the notebook computer at or before the end of its 3 year lease to enable DE&T to meet its obligation to return the notebook computer to the supplier by the end date of the lease and in good repair, condition and working order - ordinary wear and tear accepted; and
- upon ceasing to be employed by DE&T or one of its schools, or on leave without pay for longer than 6 months, return the notebook computer and associated materials in good repair, condition and working order - ordinary wear and tear accepted.

Allocation of notebook computers

2.185 In the 1998-99 State Budget, DE&T received initial funding for around 10 750 notebook computers to be allocated among 36 700 State primary and secondary school teachers and principals. The decision as to which teachers and principals received a computer in this first round was governed by the “benchmarks” detailed in DE&T’s initial Budget submission (1997-98) for the program which stated that “... *multimedia notebooks will be made available to schools and teachers able to demonstrate a capacity to integrate learning technologies into classroom practice and a commitment to on-going professional development*”.

2.186 DE&T prioritised the allocation in the following order:

1. Teachers and principals who have previously demonstrated significant professional development and or taken a leading role in formal learning technologies professional development activities;

2. Science and Technology teachers; and
3. Groups of teachers within a school, rather than individual applications.

2.187 As at February 2002, 41 656 teachers and principals were employed by DE&T in 1 630 State schools located throughout Victoria. Of this number of teachers and principals, 1 350 are currently on leave without pay and are, therefore, ineligible to receive a notebook computer. **The number of teachers and principals eligible to receive notebook computers is, therefore, 40 306.**

2.188 The physical distribution of notebook computers to teachers and principals was undertaken progressively during the period October 1998 to March 2001. For all rollout rounds, the notebook computers were distributed directly by the supplier to the schools.

2.189 Table 2N shows the dates of the first rollout round and the number of notebook computers issued to teachers and principals at each round.

**TABLE 2N
DETAILS OF THE FIRST ROLLOUT**

<i>Phases</i>	<i>Dates of roll out</i>	<i>Number of notebook computers issued</i>	<i>Percentage of teachers with a notebook computer</i>
1	October 1998	10 750	26.7
2	March 1999	1 411	30.2
3	October 1999	3 007	37.7
4	March 2000	3 201	45.6
5	August 2000	6 118	60.8
6	November 2000	7 182	78.6
7	March 2001	1 791	83.0
Total		33 460	83.0

Source: DE&T.

2.190 As the above table indicates, 33 460 teachers (83 per cent) are currently issued with notebook computers under the program. Notebook computers have not been distributed to the remaining 6 846 teachers and principals, either because they commenced employment with DE&T after the latest computer rollout, or they did not feel that a computer would provide material benefits in the context of their teaching duties.

2.191 To minimise associated risks to the program, DE&T needed to ensure that comprehensive information systems and effective controls were established so that all notebook computers were accurately recorded and physically accounted for. To mitigate the risks associated with the rollout process, DE&T instigated specific procedures to facilitate each rollout. Chart 2O details the procedures employed to facilitate the rollout of the notebook computers to teachers and principals.

CHART 20
PROCEDURES EMPLOYED FOR ROLLOUT OF NOTEBOOK COMPUTERS

- To be considered for a notebook computer, teachers completed and submitted to the school principal, a “Teacher Request For Notebook Computer” application. Accompanying the application, teachers were required to provide evidence of professional development already undertaken and proposed in future, in accordance with the guidelines issued to all schools.
- All teacher applications were made in hardcopy format and filed in the teacher’s personal file held at the school.
- To be considered for an allocation of notebook computers, the school principal completed and submitted to DE&T (through the respective Regional General Manager), the “School Request for Allocation of Notebook Computers” application form.
- In completing the application, the principal was required to indicate the steps taken by the school towards achieving the objectives outlined in the *Learning Technologies for Victorian Schools 1998–2001*, and also provide the names of the individual teachers nominated to receive the allocated notebook computers, together with evidence of the teachers’ professional development already undertaken and proposed to be undertaken in future in accordance with the guidelines issued to all schools.
- For the first 3 rounds, applications were completed in hardcopy form. From the fourth round onwards, the form was completed in electronic format, via DE&T’s intranet system – *EDUweb*.
- Upon receiving their allocated notebook computer, all teachers and principals signed a formal acceptance of the terms and conditions of the arrangement (Licence Agreement). For the first 3 rollout rounds, the acceptance was made in hardcopy format and forwarded to DE&T for processing and filing. For all subsequent rollouts, acceptance was received by DE&T electronically.
- The supplier provided the notebook computers directly to the schools.

2.192 The audit review determined that the procedures employed for the rollout of the notebook computers were appropriate and effectively carried out, thus minimising the potential risks associated with a distribution of notebook computers of this magnitude.



Notebook computers for teachers.

Financial contributions by teachers and principals

2.193 As stated earlier in this report, teachers assigned a notebook computer were required to make a financial contribution toward the cost of their notebook computer. In respect of the first 7 rollout rounds, teachers agreed to pay \$450.00 for the period of the lease of their notebook computer (\$150 per year for 3 years). This translates to \$5.75 per fortnight, which is the amount deducted from pre-tax fortnightly pay.

2.194 DE&T requires teachers to make a financial contribution for the following reasons:

- DE&T's budget allocation for the program did not fully meet the cost of supplying notebook computers to all teachers; and
- teachers would develop a sense of ownership of their notebook computers, resulting in additional care and increased use as a work tool.

2.195 DE&T ensures that teachers are paying their agreed fortnightly contribution through monitoring payments via fortnightly exception reports generated by the Department's Human Resources Management Information System (HRMS).

2.196 DE&T's Internal Audit Unit undertook a review of the program in April 2000 and concluded that the HRMS database is well maintained resulting in a satisfactory system being in place for the recoupment of teacher contributions.

2.197 Experience has shown that during the course of the school year, contributions in arrears are minimal, but usually peaks around December of each year, as teachers tend to leave or retire at year-end.

2.198 The amount of arrears at July 2001 was \$6 980 (around 4 per cent of budgeted teacher contributions). At the end of January 2002, the amount of arrears was \$8 290 (approximately 4.8 per cent of budgeted teacher contributions). If there are delays in the return of computers or reallocation following cessation of service then either the teacher or the school is invoiced as appropriate except for short periods of about a fortnight which are not tracked.

2.199 As of 29 April 2002 invoices totalling \$17,233 have been issued and no bad debts have been written-off at this stage. At the date of preparation of this report, teachers have contributed \$9.5 million towards the total cost of the program (refer Table 2M).

Asset management

2.200 DE&T is responsible for managing the contracts with the suppliers and the lessor, and is held accountable for the notebook computers. To maintain control over the location of all notebook computers leased under the program, the Department's Information Technology Division (ITD) maintains a comprehensive notebook computer database, which contains the following information for each notebook computer allocated to teachers and principals:

- serial number of the notebook computer;
- name and allocated payroll number of the recipient teacher;

- name of the school where the teacher is employed; and
- amount owing by the teacher for the remaining life of the 3 year lease arrangement (updated fortnightly by HRMS).

2.201 In addition, as an added control, the suppliers (who are responsible for the physical distribution of the notebook computers to the schools) maintain a similar listing.

2.202 Asset tracking for the notebook computer program has been enhanced in three stages. During the first 3 rollouts, asset tracking was maintained through manual data entry by ITD staff. From rollout 4 onwards, this process was semi-automated through the capability for schools to enter allocation information via DE&T's intranet. In addition to this, the database has also been linked to HRMS to enable asset tracking through the location of teachers. More recently, the system has been fully automated, enhancing previous online functionality, by enabling reallocations to be processed by schools via the intranet. Therefore, continued accuracy of the database depends on schools keying in relevant details accurately and in a timely manner.

Losses, damages and thefts

2.203 At the commencement of the program, DE&T determined that self-insurance would be the most cost-effective option to cover any loss or damage to the notebook computers. As a self-insurer, DE&T covers any repair or replacement costs and these form part of the program budget. **To January 2002, expenditure by DE&T on insurance claims was \$2.9 million, representing around 5.3 per cent of the total program cost to date of \$55.2 million.** The projected cost of insurance claims over the full 3 years of the program is around \$4 million out of the total budgeted program expenditure of \$82.7 million (around 4.8 per cent).

2.204 Table 2P quantifies the number of insurance claims which have resulted from losses and damage to notebook computers for the period October 1998 to the end of January 2002. Claims are broken down into the sub-categories of damage, burglary, theft and other claims.

TABLE 2P
INSURANCE CLAIMS BY TYPE, OCTOBER 1998 TO JANUARY 2002
(number)

<i>Phase</i>	<i>Damage</i>	<i>Burglary</i>	<i>Theft</i>	<i>Other</i>	<i>Total</i>
1	906	334	108	17	1 365
2	61	43	17	2	123
3	138	59	1	2	200
4	91	51	20	1	163
5	176	83	25	7	291
6	145	89	33	4	271
7	16	13	8	1	38
Total	1 533	672	212	34	2 451

Source: DE&T – Information Technology Division.

2.205 As the table indicates, the vast majority of insurance claims, 63 per cent, are a result of damage to the notebook computers, while 36 per cent of claims involved burglary or theft.

2.206 Of the 33 460 notebook computers leased to teachers and principals at the date of preparation of this report, 2 451 computers or 7.3 per cent of the total have been the subject of an insurance claim. In April 2001, independent insurance industry advice provided to DE&T's Internal Audit Unit suggested that a 3.1 per cent annual claim is not high and is satisfactory in the environment in which notebook computers are used.

2.207 Independent advice obtained as part of this audit review suggested that 3.1 per cent is a little higher than should be expected by industry standards for computers issued to adults in the corporate sector, however, this rate may be acceptable given the school environment in which the notebook computers are used.

2.208 DE&T monitors the incidence of losses and damages. Each month, the contracted managers of insurance claims provide ITD with a report detailing the teachers who have had computers returned for repairs or losses. Where any one teacher has put in more than one claim for repairs or losses during the 3 year lease period, ITD investigate the reason for the additional claims. If ITD feels the claims are legitimate and all reasonable care has been taken by the teacher in relation to the computer, then the claim will be allowed. However, if ITD believes that the teacher is not taking reasonable care, then ITD will request the teacher return the notebook computer. At the date of preparation of this report, only 3 teachers have been disallowed replacement computers after lodging insurance claims.

2.209 Any reported burglaries and thefts are subject to police investigations in accordance with standing procedures within DE&T.

2.210 Teachers and principals have not been required to pay an excess charge for damaged or lost computers. However, for future rollouts DE&T has determined that an excess charge of \$100 will apply for repairs and \$200 to replace a lost computer. DE&T believes that subjecting teachers to an excess fee will act as encouragement for recipients to take additional care with their notebook computers.

Notebook computer return/changeover

2.211 A significant risk associated with the program is the retrieval of notebook computers from teachers and principals at the end of their respective 3 year agreement and replacement with new updated computers.

2.212 At the date of preparation of this report, the first rollout round of 10 750 notebook computers has been subjected to the return/changeover process. The procedures followed for the changeover of the first round of notebook computers are described in Chart 2Q.

CHART 2Q
PROCEDURES FOLLOWED FOR CHANGEOVER OF NOTEBOOK COMPUTERS

- Six months before the end of the 3 year lease, DE&T notified all teachers with leases about to expire of the lease expiry date, and provided a complete list of the computer and ancillary items originally provided to the teacher.
- Three months before the lease expiry, each school nominated a representative to be responsible for the computer changeover.
- Teachers were sent a reminder letter of the computer package that is to be returned, together with instructions detailing the process for returning their current notebook computer package and collecting a new package.
- The supplier forwarded to DE&T a list of the serial numbers of the new machines to be issued. These serial numbers were entered into the notebook computer database maintained by ITD for later matching to the computers to be assigned to teachers. In addition, the goal target (total financial contribution by the teacher over the term of the lease) and the amount to be deducted from the fortnightly pay period were also entered into the database.
- Computer changeover occurred during the period November to December 2001. The new computers were delivered directly to the nominated school representative and configured to the school network. Data was then migrated from the old notebook computers to the new ones. Once data migration was complete, the old notebook computer packages were returned to the school representative for mass return to the supplier.
- As the school representative received the package from each teacher, a checklist was completed indicating whether all components of the original package were returned and that the computer was in good working order. The notebook computers were then returned to the supplier and the checklist forwarded to DE&T.
- Upon receiving the computer package, the supplier advised DE&T of any damaged or missing items.
- DE&T maintains a courier insurance policy to cover any loss or damage that occurs to the computer packages while in transit.

2.213 As at 19 February 2002, of the total of 10 750 notebook computers to be returned in the first rollout round, 10 369 were returned to the supplier during the period November to December 2001 and 261 were purchased by teachers. At that date, the remaining 120 had not been returned for a variety of reasons, e.g. teachers currently on extended travel or on extended leave due to illness. DE&T is monitoring these incidences to ensure that computers are returned expeditiously.

Evaluation of the program

2.214 In November 1998, DE&T commissioned an evaluation of the program by the Consultancy and Development Unit of the Faculty of Education at Deakin University. The University was commissioned to study the use and impact of notebook computers and to provide advice to DE&T about the most effective ways to maximise the value of this program. The evaluation is ongoing (over a 3 year period), as teachers are surveyed on a periodic basis. The survey is based on a random sample, representative of all schools and teachers across the State.

2.215 The most recent findings of the evaluation, which relate to recipients of the first rollout round, was reported by the University to DE&T. In general, the survey results indicated that the notebook computers for teachers and principals program has had an extremely positive impact on the delivery of learning technologies in schools. The report stated, “*The general impact on teachers on what in international terms is a ground-breaking initiative has been extremely positive. Time and time again, the evaluation team has received very positive reactions to the potential for the use of computers and particularly the Notebooks in teachers’ everyday working life*”.

2.216 Specifically, the survey indicated that after 2 years of possessing a notebook computer as a tool of employment, 72 per cent of teachers were using them routinely at home and 82 per cent were using their notebook computer routinely at school. In addition, around 92 per cent of teachers rated themselves as being competent or higher in the use of computers. This represents an increase of 26 per cent when compared with 2 years earlier, before teachers were supplied with notebook computers.

How notebook computers are used

2.217 Table 2R reports the uses made by teachers of their notebook computers and associated applications. These teachers received notebook computers in the first rollout round in October 1998.

TABLE 2R
TEACHER SURVEY RESULTS FOR THE FIRST ROLLOUT ROUND
(AFTER 2 YEARS)
 (per cent)(a)

Region (b)	Uses of notebook computers					
	Communication and collaboration	Research	Curriculum development and documentation	Classroom usage	Present -ations	Monitoring and reporting student progress
Barwon South Western	26	46	33	55	5	20
Central Highlands Wimmera	72	59	31	63	16	23
Eastern Metropolitan	59	53	24	68	19	11
Gippsland	55	67	19	48	14	23
Goulburn North Eastern	53	59	30	60	15	15
Loddon Campaspe Mallee	59	52	15	46	15	19
Northern Metropolitan	55	60	23	41	12	14
Southern Metropolitan	53	48	25	45	8	19
Western Metropolitan	65	65	41	44	12	18

(a) Percentage of teachers who identified using their notebook computer for each of the 6 applications.

(b) For administrative purposes, the 1 630 State schools are divided into 9 geographical regions by DE&T.

Source: August 2001, Deakin University evaluation report, known as - Cohort 1 Survey Report – Two Years on, August 2001, Consultancy and Development Unit, Deakin University.

2.218 The results of the survey indicates that teachers use their notebook computers mostly for:

- Communication and Collaboration - for most regions, between 53 per cent and 72 per cent of teachers utilised their notebook computers for regular communication and collaboration. The Barwon South Western region was the only exception, with only 26 per cent of teachers in this region using notebook computers for this purpose after 2 years;
- Research – between 46 per cent and 67 per cent of respondents in all regions indicated use of notebook computers for research activities; and
- Classroom usage - between 41 per cent and 68 per cent of respondents in all regions indicated use of notebook computers for classroom activities.

2.219 While the survey indicated a low level of usage in the remaining categories of curriculum development and documentation, presentations, and monitoring and reporting of student progress, the results in all categories were significantly higher than was reported in previous surveys undertaken at the time of rollout and after one year of the program.

2.220 **The overall results of the 3 year study indicated a pronounced upward trend in the use of notebook computers as a tool of employment for teachers and principals since the first rollout.**

Professional development

2.221 Critical to the success of the program is the ability of teachers and principals to derive maximum benefit from their notebook computer as a tool of employment. This requires a certain level of competency and skills in the use of computers and software applications. DE&T has placed emphasis on the need for teachers and principals to undertake appropriate professional development activities.

2.222 DE&T maintains the view that professional development of teachers is primarily the responsibility of the individual and the school. **DE&T has no specific mechanism in place to determine the degree of compliance with individual teachers' professional development obligations associated with receiving a notebook computer.**

2.223 On a sample basis, DE&T undertakes a regular evaluation of the program, which includes monitoring the extent of professional development and the degree to which teachers are acquiring skills and competencies in information technology and applying this knowledge to student learning outcomes.

2.224 To assist teachers and principals to meet their professional development obligations, DE&T provides a number of support initiatives, including:

- organising initial training sessions for recipients of notebook computers;
- arranging help desk services by notebook suppliers;
- issuing schools with the *Knowing Your Notebook CD-ROM* and other self-paced computer learning CD ROMs for the use of recipients of notebook computers;

- providing information technology updates on connecting the notebook computers to a school network and from remote locations;
- maintaining the SofWeb internet site, including a discussion group that provides ongoing advice; and
- facilitating the development of regional programs and materials designed to meet the professional needs of notebook computer users.

2.225 As part of their acceptance of the terms and conditions of participating in the program, teachers and principals are expected to demonstrate a commitment to at least 40 hours of professional development in learning technologies in their professional development plan. This includes completing at least one extended professional development program of at least 20 hours duration, focused on learning technologies within 3 years prior to receiving the notebook computer and committing to undertake an extended professional development program of at least 20 hours focused on learning technologies within 12 months from receiving their notebook computer.

2.226 To ensure that teachers fulfil their professional development commitments, the school principal must:

- Certify that a teacher has met the requirements to lease a notebook computer; and
- Support and monitor teachers to ensure that they successfully complete the 40 hours of planned professional development. Direct monitoring of teachers' completion of their development plans and the 40 hours commitment to professional development is undertaken by the principal, through the annual teacher review process.

2.227 As part of the Deakin University survey, teachers and principals were asked to specify the number of professional development hours completed in respect of the program. Table 2S details the number of professional development hours completed by teachers in the sample of teachers surveyed for the year to March 2001.

TABLE 2S
HOURS OF PROFESSIONAL DEVELOPMENT
(per cent)

<i>Hours of professional development</i>	<i>Proportion of responses for year to March 2001</i>	<i>Proportion of responses for year to March 2000</i>
1 to 10	24.6	11.2
11 to 20	31.4	19.1
21 to 30	14.1	15.9
31 to 40	6.5	8.6
over 40	23.4	43.7
Hours not stated	-	1.5
Total	100.0	100.0

Source: Cohort 1 Survey Report – Two Years on, August 2001, Consultancy and Development Unit, Deakin University.

2.228 The survey results indicate that teachers, in the first year following the receipt of their notebook computer, were undertaking a significant amount of professional development related to the use of their notebook computer, with more than 40 per cent of respondents reporting that they had undertaken more than 40 hours of professional development.

2.229 Of all teachers surveyed, more than 80 per cent reported that they had participated in “school-based technology programs” in the year to March 2001. When the same teachers were also asked what additional professional development they had undertaken, the following responses were provided:

- CD-ROMs (39.3 per cent);
- programs provided by private providers, universities, TAFE and DE&T (28.7 per cent);
- learning technology planning and implementation (22.5 per cent); and
- learning with the internet (18.2 per cent).

(Note that the above percentages represent teachers who indicated that they had undertaken professional development for each of the abovementioned professional development activities.)

Learning technologies development plans

2.230 In accordance with the objectives contained in the *Learning Technologies in Victorian Schools 1998-2001* Statement, schools were required by the end of the 1998 calendar year to have completed a learning technologies implementation plan (LT plan). In this context, the Notebook Computers for Teachers and Principals Program was introduced as an important initiative to assist schools in achieving the outcomes of their plan. **Responses to an audit survey to DE&T’s regional offices indicated that schools had completed their plans, although schools were not required to submit their plans to DE&T for review.**

2.231 The period of the 1998 to 2001 plans has expired and schools are now required to develop “*eLearning*” plans for the period 2002 to 2005. To assist schools in developing their new plans, DE&T has made available, on its SOFWeb internet website, a detailed Guidance Statement for all schools - *eLearning Planning Guide*. The purpose of the guide is to:

- describe the role of *eLearning* in supporting and nurturing the 21st century learner, and the 21st century classroom; and
- assist school decision-makers in:
 - preparing or upgrading an *eLearning* Plan;
 - using *eLearning* to enhance teaching and learning programs;
 - achieving the optimum benefits for the school community from the use of *eLearning*; and
 - developing future *eLearning* enhancements that are flexible and more easily attained.

2.232 In accordance with the guidance statement, each school is responsible for establishing an appropriate structure for developing, approving and monitoring their *eLearning* plans. Schools are not required to submit their plans to DE&T for review and approval. However, in order to qualify for grants under DE&T's current modernisation in secondary school's initiative, secondary schools must complete an *eLearning* plan.

2.233 The departmental regional offices have indicated that schools are currently developing these new plans with assistance provided by regional officers on request or on a needs basis.

Conclusions

2.234 Over recent years, successive Victorian Governments have directed considerable financial resources towards developing new learning technologies for the delivery of education services in Victorian State schools. The provision of notebook computers to teachers and principals complements the learning technologies initiatives undertaken by DE&T and Victorian State schools.

2.235 The magnitude of the notebook computer rollout has presented DE&T with significant challenges such as developing appropriate processes and information systems to effectively manage the program and minimise associated risks of the program.

2.236 The audit review found that DE&T has achieved its objective to supply all eligible teachers (40 306 teachers are eligible, 33 460 are currently issued with a notebook computer, while 6 846 have not been issued with a notebook computer for reasons mentioned in paragraph 2.190) with notebook computers and to date, the program has been managed effectively. Furthermore, independent research indicates that teachers and principals have endorsed the program and are progressively acquiring skills to use the new learning technologies in their teaching duties.

2.237 In the period 1998 to 2001, schools were required to implement learning technology implementation plans, and the Notebook Computers for Teachers and Principals Program was introduced as an important initiative to assist schools in achieving the outcomes of their plans. Schools are now required to develop *eLearning* plans for the period 2002 to 2005. Monitoring now needs to move from measurement of teacher access and competency to a focus on improved student outcomes as a result of the use of learning technologies.

RESPONSE provided by Secretary, Department of Education and Training

The Department of Education and Training has noted the report and is pleased to note it reports positively on the compliance of this program and the outcomes that it has achieved.

Part 3

Human Services

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LATROBE REGIONAL HOSPITAL

3.1 Our *Report on the Government's Annual Financial Statement, 1996-97* commented on the arrangements established between the Government and a private sector consortium for the design, construction, ownership and operation of a new hospital located in the Latrobe Valley.

3.2 The key government objective of the hospital project was to ensure the delivery of a cost-efficient and improved health service to public patients in the Latrobe Valley and the greater Gippsland region from a new "greenfields" facility located on one site utilising the build, own and operate (BOO) model of private sector involvement. The Government intended that the privatised hospital would provide services to the public, similar to other public hospitals located throughout the State.

3.3 Following a competitive tender process, the Australian Hospital Care Ltd consortium (AHCL) was selected as the successful private sector provider and was awarded the contract to build, own and operate the new Latrobe Regional Hospital. The new Latrobe Regional Hospital commenced operations on 1 September 1998.



Latrobe Regional Hospital.

Principal parties to the agreement

3.4 The key contractual arrangements for the new hospital were set out in the New Latrobe Regional Hospital Agreement dated 24 January 1997. The key parties to this Agreement were:

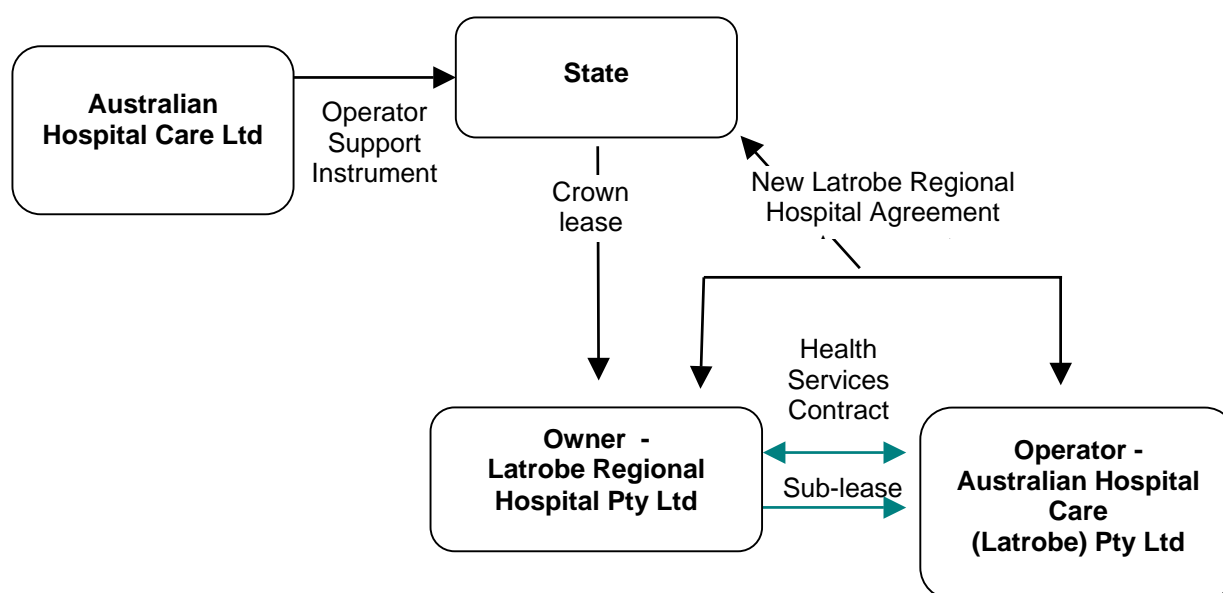
- Minister for Health, acting on behalf of the State of Victoria;

- Latrobe Regional Hospital Pty Ltd (the owner), which was established as a “special purpose vehicle” to own the new Latrobe Regional Hospital; and
- Australian Hospital Care (Latrobe) Pty Ltd (a wholly-owned subsidiary of AHCL), as the operator of the hospital.

3.5 The Agreement specified the conditions covering the design and construction of the hospital and the subsequent provision of services to public hospital patients in the Latrobe Valley and the greater Gippsland region. The period of the Agreement was for an initial term of 20 years, with an option to extend for a further 5 years subject to negotiation between the parties. It also established quality standards and performance measures for the delivery of health services, and incorporated a dispute resolution process and step-in rights where default by the company endangered the health or safety of patients.

3.6 Chart 3A outlines the relationship between the various parties to the Agreement.

**CHART 3A
PARTIES TO THE NEW LATROBE REGIONAL HOSPITAL AGREEMENT**



Original funding arrangements

3.7 Under the terms of the New Latrobe Regional Hospital Agreement, AHCL was required to provide services to specified quality standards. In return for services delivered, the State paid AHCL a service charge comprising a service component and an allocated facilities component.

3.8 The service component was based on the normal funding policy mechanisms applied by the Department of Human Services to other public hospitals under casemix funding arrangements. The allocated facilities component was around \$4.5 million per annum (adjusted for movements in the CPI) and was applied to service the debt (consisting of \$40.7 million CPI-linked annuity bonds issued by Latrobe Regional Hospital Pty Ltd to finance the construction of the hospital facility) and other costs such as insurance and maintenance.

3.9 The overall arrangements as structured, effectively transferred a significant proportion of the financial risk to the private sector.

Difficulties experienced by the hospital

3.10 In the period between June 1999 to December 1999, AHCL made a number of representations to the Department that the hospital had been incurring substantial operating losses. During that period, the Department managed the relationship with AHCL in accordance with the Agreement and refrained from entering into any discussion regarding the renegotiation of elements of the Agreement.

3.11 AHCL took a number of different approaches to seek to improve its financial position, including instituting the “Dispute Resolution” process contained in the Agreement. Many of its grievances related to specific terms of the Agreement, which AHCL wanted altered, or questioned the effect of, particularly its contractual requirement to pay payroll tax.

3.12 Negotiations canvassing a range of options to resolve AHCL’s grievances took place between the Department and AHCL over a 6 month period. However, as the matters were not resolved, on 22 February 2000 AHCL issued proceedings in the Supreme Court of Victoria against the State for breach of contract. AHCL’s claim ultimately sought damages of up to \$23 million for the first 2 years of operation of the hospital, on the grounds of under-payment for services provided, under-provision and discounting of casemix payments, and payment disparity with other public hospitals. These claims were disputed, and the action was defended by the State.

3.13 By July 2000, the Department concluded that, as a result of financial problems stemming from the low original bid price and the inability of AHCL to make the efficiency gains upon which the bid price was predicated, it was only a matter of time before the State would need to consider either the renegotiation of the contract or manage the collapse of the arrangement.

Settlement arrangements and unwinding of the business structure

3.14 On 23 October 2000, after court-ordered mediation was undertaken, the Government announced that an “in-principle agreement” had been reached with AHCL subject to a due diligence review. On completion of the due diligence review, the in-principle agreement was ratified and approved by the Government.

3.15 In accordance with the step-in provisions of the New Latrobe Regional Hospital Agreement and with the concurrence of AHCL, the Latrobe Regional Hospital (Public), a public sector agency established under the *Health Services Act* 1988, became the temporary operator of the hospital, assuming all operational and financial risk from midnight on 31 October 2000.

3.16 The transfer of the hospital's operations to the public sector was formally completed on 18 January 2002. Formal completion occurred on the basis that all outstanding AHCL claims were withdrawn. **The terms of settlement required AHCL to pay the State around \$2 million, representing the net assets and liabilities assumed from AHCL.**

3.17 On 20 March 2002, an "in principle agreement" was reached between the Department of Human Services and the owner of the hospital building to wind-up the financial structure of the hospital project. The agreement provides for the transfer of ownership of shares in Latrobe Regional Hospital Pty Ltd (and, therefore, the ownership of the hospital) to the State for a nominal amount of \$1. The settlement occurred on 8 May 2002.

Adequacy of bid price

3.18 Our *Report on the Government's Annual Financial Statement, 1996-97* noted that as part of the tendering development process for the new hospital, a benchmarking methodology was developed (by independent consultants engaged by the Department of Human Services) in order to determine whether it would be feasible to allow private sector participation in the project on the basis of a BOO arrangement. The established benchmark represented the net present value of the cost to the Government, after allowing for Commonwealth grants, to operate and maintain over the term of the proposed arrangements, an equivalent public hospital in an equivalent rural setting with the same service profile. It was determined that the project would only proceed if submissions were at or below the desired benchmark cost level. The successful bid of AHCL was materially below this financial benchmark price.

3.19 The hospital project financial benchmark was estimated at a total Net Present Value (NPV) cost to government of \$482.5 million. The bid submitted by AHCL was \$438 million (NPV using 1997 as the base year), which represented a \$44.5 million saving (relative to the benchmark) to the State and was premised on AHCL's belief that it could provide hospital services more economically and efficiently than the public sector.

3.20 Due to the long-term nature of the hospital agreement and the significant infrastructure investment by AHCL, it would be reasonable to expect that the bid price would have been determined so that the amount paid by the Department of Human Services was sufficient to provide the quality of hospital services required, and provide for an adequate return on investment. However, given the realised financial losses experienced by AHCL and its ongoing financial difficulties, it became clear that the price tendered for the provision of the public hospital services was either too low or that the expected efficiency gains had not been attained.

3.21 Following the assumption of responsibility by the State for the operation of the hospital, as from 1 November 2000, a review of the hospital's operating costs was undertaken by the Department. This revealed that the inherent complexities of public health provision and the full cost of operating a major public hospital had been underestimated. In particular, the Department identified that the key contributors to the failure of the privatised hospital were:

- AHCL incorrectly identified and calculated the full cost of operating the hospital, in particular, it failed to adequately take into account payroll and fringe benefits taxes and the cost of equity, which other public hospitals were not required to pay or fund. These factors significantly raised the cost base for operating the privately run public hospital compared with other public hospitals; and
- AHCL had limited flexibility to generate efficiency gains, given that the bulk of their operating costs were for payment of staff (non-doctor) wages and salaries, and the higher costs involved in operating a hospital in a rural setting.

3.22 As previously indicated above, AHCL's bid was based on the presumption that it could provide hospital services far more economically and efficiently than the public sector and on that basis it had tendered a contract price at a substantial discount (compared with the costs of internally providing the hospital services). The fact that the tender process allowed for what proved to be an unsustainable bid price by AHCL to succeed is of concern. As identified in the abovementioned 1996-97 report to Parliament by our Office, at the time these arrangements were established, comprehensive studies had not been undertaken by the Department relating to costs and efficiencies associated with the privatisation of public hospitals or the private provision of public hospital services.

3.23 Although, the contractual arrangements for the privatisation of the Latrobe Regional Hospital were successful in transferring financial risk to the private sector, the social responsibilities of the State meant that any threat to public health and safety or hospital service provision could not be allowed to occur. In this case, the State stepped in when it appeared that a risk to the provision of on-going hospital services was developing. The final outcome was that AHCL was able to avoid the full financial risk obligations embodied under the contractual arrangements.

RESPONSE provided by Secretary, Department of Human Services

The Department of Human Services (DHS) welcomes the Auditor-General's report on the Latrobe Regional Hospital Project.

The Latrobe Regional Hospital Project was one of a number of privatisation projects carried out in accordance with the then Government's Infrastructure Investment Policy of Victoria (IIPV). That policy stipulated the approval and management process for such projects. The IIPV policy and approach was terminated by the current government.

In settling this dispute with Australian Hospital Care (Latrobe), DHS's priority was to ensure that health services to the Latrobe Valley were not compromised in any way, and that hospital employees and their entitlements were protected. Both of these priorities were fully met in a difficult environment and at minimal cost to the Government.

VISITING MEDICAL OFFICER ARRANGEMENTS AT RURAL PUBLIC HOSPITALS

3.24 The objective of this review was to assess the adequacy of controls associated with Visiting Medical Officer (VMO) arrangements at rural public hospitals.

3.25 Medical services within the Victorian public hospital system are provided by salaried medical officers and private practitioners engaged by hospitals who are generally referred to as VMOs.

3.26 VMOs are paid for services provided under either the:

- fee-for-service system - where VMOs are paid for each medical service provided to public patients; or
- sessional system - where VMOs are engaged to attend to public patients for specified sessions, at a fixed rate per session.

3.27 For the year ended 30 June 2001, moneys paid by public hospitals across the State to VMOs under fee-for-service and sessional arrangements amounted to around \$103 million and \$127 million, respectively.

3.28 In 1993, our Office conducted a performance audit of VMO arrangements and in 1996 undertook a follow-up review. The subsequent reports to Parliament highlighted that hospitals using fee-for-service arrangements had inadequate monitoring and accountability processes over VMO claims, and that there was prima facie evidence of over-servicing of public patients. The key findings of our previous reports to Parliament are highlighted in Table 3B.

**TABLE 3B
KEY FINDINGS OF PREVIOUS REPORTS TO PARLIAMENT ON VMO ARRANGEMENTS**

1993 Special Report Number 21: Visiting Medical Officer Arrangements

- Payments for VMO services were not supported by documentary evidence that such services had been provided.
- There was significant potential to reduce public health costs through the use of sessional VMO arrangements by medium-sized hospitals, as opposed to fee-for-service arrangements.
- Only minimal action had been taken by the former Department of Health and Community Services to address the identified deficiencies.

1996 follow-up review of Visiting Medical Officer arrangements, included in Report on Ministerial Portfolios

- While a number of hospitals had made significant steps to improve controls over payments to VMOs, further work needed to be done, particularly in improving the standard of record keeping and adhering to established procedures. To facilitate the process, it was recommended that the Department of Human Services should, as a condition of funding, require hospitals to have in place appropriate accountability procedures.
- Significant savings could be made by medium-sized hospitals moving to revised VMO engagement arrangements. It was recommended that the Department should work with these hospitals to ensure that uneconomic fee-for-service arrangements do not continue.

Current review

3.29 The objective of the recent audit was to assess the adequacy of current controls associated with VMO arrangements at rural hospitals by:

- identifying the key controls associated with the provision of service and payment to VMOs;
- establishing whether procedures for the payment of VMOs were followed and whether internal monitoring processes detected potential over-servicing; and
- identifying actions taken by the Department of Human Services to:
 - assist hospitals with VMO negotiations; and
 - encourage hospitals to develop appropriate information technology systems to enable adequate monitoring of individual VMO workloads on an ongoing basis.

3.30 A cross-section of rural hospitals was selected for audit examination, namely:

- Central Gippsland Health Service;
- Colac Community Health Service;
- Cobram District Hospital;
- Goulburn Valley Health;
- Portland and District Hospital; and
- Tallangatta Health Service.

3.31 These hospitals almost exclusively remunerated their VMOs on a fee-for-service basis, with the exception of 2 hospitals which engaged some VMOs on either a sessional or fixed salary basis. With respect to the 6 hospitals reviewed, the total number of VMOs engaged exceeded 200.

Government policy on fee-for-service remuneration of VMOs

3.32 The Conditions of Funding included in the Policy and Funding Guidelines for 2001-02 issued to hospitals by the Department of Human Services, state that: *“It is the Government’s expectation that there will be a significant shift away from pure fee-for-service remuneration model for VMOs providing regular and substantial service. Hospitals should be actively working towards a sessional model of remuneration and will be asked from time to time, to report on their progress. Pure fee-for-service payment remains an option, but it is a non-preferred option from the Department’s perspective ...”*

3.33 Notwithstanding this departmental preference, rural hospitals have continued to remunerate most of their VMOs on a fee-for-service basis generally in line with the preference of their medical officers. We were consistently advised by hospitals that, to date, there had been no specific communication with the Department of Human Services on progress made by hospitals in revising VMO remuneration arrangements.

3.34 A number of hospitals indicated that while they have appointed VMO specialists on a salary basis, they have reverted back to fee-for-service arrangements in view of issues relating to the quality and quantity of services provided.

Controls over the payment and processing of VMO claims

3.35 The systems in place to process and approve VMO claims vary between hospitals. Generally, VMO claims are processed via the hospital's accounts payable system and in a few instances depending upon VMO arrangements, also via the payroll system.

3.36 We identified that hospitals, particularly those with a larger number of fee-for-service VMOs, were cognisant of the need for strong controls over the processing of claims to preclude incorrect payments and over-servicing. Specific action taken by hospitals to enhance controls in this area have included:

- implementation of *DOCPAY*, a system specially designed to support fee-for-service accounting, at one hospital and it was planned to be implemented at another hospital in June 2002;
- the utilisation of appropriately experienced and qualified personnel involved in the verification of VMO claims, for example Directors of Medical Services;
- the issuing of Payment Guidelines to VMOs, clearly outlining their responsibilities in the submission of claims; and
- the conduct of random audits of VMO claims by administrative staff, internal auditors and management to ensure the appropriateness and accuracy of VMO charges compared with the service provided.

3.37 However, not all hospitals reviewed had a formal internal audit function in place to periodically review and assess internal controls operating over the hospital's key management systems.

3.38 In spite of the abovementioned actions, we identified weaknesses in the controls over the processing of VMO claims with each of the 6 hospitals. In most cases, while hospitals had established measures to validate VMO claims prior to payment, certain key elements of VMO claims remained unverified, sound payment practices were not always evident and errors were identified in the processing of VMO claims. These concerns are outlined below.

Inadequate verification of claims prior to payment

3.39 Processes employed by hospitals to verify VMO claims prior to payment were variable. In the smaller hospitals subject to audit review, processes associated with the verification of VMO claims were limited, and generally did not extend to checking:

- whether services had been provided to the hospital;
- whether the claims were in accordance with VMO remuneration terms;
- the arithmetic accuracy of the claims; and
- the accuracy of the rates used for the services claimed.

3.40 Our limited testing revealed a number of instances where VMOs had either incorrectly invoiced the hospital for public patients or the amounts claimed were incorrect resulting in both over and under payments to VMOs.

3.41 To strengthen controls in this area, one of the hospitals had recently implemented a practice whereby it will not pay VMO invoices that cannot be substantiated by reference to patients' medical records. An analysis performed by the hospital highlighted that around 16 per cent of VMO claims in the months of January and February 2002, could not be substantiated by information contained on patients' medical records.

Lack of evidence of review against patient medical records

3.42 In line with the recommendations of our previous reports to Parliament on this subject, some hospitals have adopted the practice of verifying the provision of VMO services back to patient medical records prior to payment. Half of the hospitals subject to this audit advised that they were performing this review on either a random or targeted basis depending on the VMO involved or the treatment provided. The hospitals estimated that around 25 to 50 per cent of VMOs claims were subject to verification to patient medical records.

3.43 In one instance, a hospital's internal auditors provided analysis and advice on appropriate sample sizes for the purpose of claim verification. In this case, the Hospital's Director of Medical Services advised that until very recently, the established practice was to verify 25 per cent of VMO attendance sheets and that approximately 300 sheets were reviewed each year. However, we were advised that there were around 3 000 to 5 000 attendance sheets submitted by VMOs to the hospital each year, which meant that the number reviewed equated to a maximum of only 10 per cent of VMO attendance sheets.

3.44 That particular hospital acknowledged that, in the past, verification of VMO claims had not been satisfactory performed, largely due to the part-time appointment of its Director of Medical Services. However, since March 2002, the hospital has implemented the *DOCPAY* system and it envisages that there will be "*a higher level of confidence of accuracy in processing VMO payments than experienced previously*". The hospital further advised that it intends to analyse historical VMO claims data via the *DOCPAY* system and seek recoveries from VMOs where inaccuracies are identified.

Inaccurate calculation of VMO payroll

3.45 One of the hospitals subject to audit review, substantially paid its VMOs through the payroll system. The audit review of a selection of these payments highlighted numerous discrepancies in the remuneration of VMOs. These discrepancies were advised to the hospital and action was commenced to rectify them.

3.46 Our review further identified that a considerable amount was being repaid due to the over-payment by the hospital to 4 VMOs during 1997 and 1998 of around \$90 000. The over-payments were not discovered until late in 1999 when VMO contracts were being re-negotiated by the hospital. We were advised that the hospital was in the process of recovering the overpaid amounts from 3 VMOs. In the case of the remaining VMO, the repayment of a specified amount was waived in March 2001 upon re-negotiation of a new agreement with the VMO.

Utilisation of VMOs and related payments without current agreements

3.47 Instances were noted where hospitals were making payments to VMOs who did not have current formal agreements with the hospitals. At one small hospital, formal agreements were not in place for the majority of the VMOs utilised and, at 2 of the larger hospitals, a number of VMOs were providing services without a current agreement. We were advised that this was due to an oversight by the respective hospitals and, in one instance, due to the difficulty in finalising the agreement because of a lack of consensus on terms and conditions.

Audit recommendation

3.48 Most hospitals subject to the audit review indicated they have limited opportunity to change the remuneration basis of their VMOs from the traditional fee-for-service arrangement unless the VMOs are in agreement. In such a situation, it is therefore critical that appropriate mechanisms for sound control over the processing of such payments occurs.

3.49 We are concerned that, notwithstanding our 2 earlier reports to Parliament highlighting the need for improved controls over the processing of VMO claims, there still exist significant deficiencies in hospitals' payment processes.

3.50 We reiterate our earlier recommendation outlined in previous reports to Parliament, that the Department of Human Services include in Hospitals' Conditions of Funding, specific clauses requiring hospitals to have appropriate accountability procedures over VMO payments. This should include a specific requirement for each hospital to have in place an appropriate internal audit function to review the adequacy of management controls over key hospital systems.

Monitoring to detect potential over-servicing

3.51 Our 1993 report to Parliament disclosed *prima facie* evidence of over-servicing of public patients in hospitals using fee-for-service arrangements. Our following report to Parliament in 1996, revealed that this situation had remained unchanged. Hospital information systems did not facilitate regular review of the outputs of individual VMOs, and individual VMO claim patterns could not be reviewed as a means of detecting potential over-servicing.

3.52 Hospitals subject to the current audit review had either taken no action or only limited action to specifically address the issue of potential over-servicing of patients by VMOs remunerated by fee-for-service arrangements.

3.53 Some hospitals had identified certain undesirable practices associated with their VMOs, including:

- medical officers in certain specialties had the tendency to admit patients and allow them to stay in hospital longer than necessary, to maximise their remuneration;
- VMOs charging in-patients who had undergone a surgical procedure for consultations which should have been included as post-operative care; and
- VMOs unnecessarily consulting in-patients over the course of a weekend.

3.54 In relation to the smaller hospitals subject to our review, audit was advised that current administrative staff did not possess the necessary expertise or time (given part-time appointment of medical staff), to scrutinise VMO claims and consequently relied upon the integrity of their VMOs to ensure that services provided were medically necessary.

3.55 However, hospitals currently implementing the *DOCPAY* fee-for-service accounting system advised that the level of control and monitoring of VMO claims will be significantly enhanced once the system is implemented, given the ability of the system to generate a suite of reports which assist in monitoring the performance of individual VMOs. Specifically, VMO claims requiring investigation will be highlighted, in terms of the volume and nature of elective surgery, length of patient stay, procedures performed that did not warrant admission, patterns of service and the accuracy of medical coding. One hospital had initially estimated annual savings of around \$28 000 to be achieved as a result of the *DOCPAY* system assisting in the identification of incorrect VMO claims for in-patients' post-operative care.

3.56 None of the hospitals reviewed by audit specifically monitored the outputs of individual VMOs or had undertaken analysis of unusual trends or patterns of VMO provided services, due to the inability of hospitals' current information systems to provide this information.

Audit recommendation

3.57 Given that the fee-for-service model will continue in rural hospitals, and to a greater extent in the smaller hospitals, and that limited action has been taken by the hospitals reviewed to address the issue of over-servicing, audit recommends consideration be given to the following suggestions to facilitate internal assurance regarding the appropriateness of, and necessity for, medical services:

- The establishment of regional peer groups, comprising personnel with appropriate medical experience drawn from regional hospitals and health services, to undertake periodic reviews of VMO claims;
- Assessment by hospitals of specifically designed fee-for-service systems such as *DOCPAY*, which improve their ability to analyse levels of claims and service, especially in view of the potential benefits claimed thus far;

- Provision by the Department of Human Services of guidance to hospitals in their review of VMO claims, which could include the development of benchmarks in relation to medical procedures, for example, measures relating to theatre utilisation, length of bed stays etc. by which hospitals could assess the appropriateness and efficiency of VMO claims and services; and
- Inclusion in Hospitals' Conditions of Funding of specific clauses requiring hospitals to have in place appropriate accountability procedures to verify payments and to monitor potential over-servicing by VMOs. This should include a specific requirement for each hospital to establish an appropriate internal audit function to review the adequacy of management controls over key hospital systems.

Assistance by the Department in VMO negotiations

3.58 Traditionally, rural and regional hospitals have experienced difficulties in the recruitment and retention of VMOs with appropriate skills and expertise. To assist with this process, audit was advised of several mechanisms/incentives utilised by hospitals to attract and retain VMOs, including:

- engagement of recruitment agencies to attract specialists both nationally and overseas; and
- provision of incentives such as relocation expenses, rental assistance, over-award payments etc.

3.59 In addition, since 1996 the Department has provided "core specialty grants" to rural and regional hospitals aimed at ensuring the ongoing availability of designated specialist services. This funding was provided to hospitals in the recognition that their capacity to pay these incentives was not provided for in the casemix funding model. More recently, the Commonwealth Government has provided additional funds to rural hospitals to employ specialists through its Medical Specialist Outreach Program.

3.60 Hospitals are responsible for undertaking their own negotiations with VMOs regarding remuneration levels, terms and conditions. Concerns have been expressed by some hospitals regarding their ability to undertake effective negotiations in view of the complexity and sensitivity of VMO arrangements. Consequently, the potential exists for considerable diversity in terms and conditions within regional areas and across the State.

3.61 One regional hospital subject to our review commissioned a review of VMO agreements currently in place. The review was undertaken in February 2002 by an industrial relations consultant who has subsequently been engaged by the hospital to undertake future re-negotiations with VMOs upon the expiry of their existing contracts. The consultant reported that:

- there were several different contractual arrangements in place and some VMOs were providing services to the hospital unsupported by any formal documentation; and
- differing payment rates were used for doctors providing identical services.

3.62 The consultant's review also highlighted that a diverse range of remuneration models had been entered into which have proved difficult and complex for the hospital to administer.

3.63 Recent strategic reviews by external consultants at 2 of the hospitals subject to our review which were experiencing liquidity problems, have highlighted a number of issues with the provision of services by fee-for-service VMOs which have contributed to the hospitals' adverse financial position. These include over-award VMO payments, higher lengths of stay for some fee-for-service based specialities and opportunities to improve VMO allocation of theatre sessions.

Audit recommendation

3.64 In view of the experiences of rural hospitals in recruiting, negotiating and managing VMOs, the Department should re-assess whether it should have a role in such matters. It may be appropriate for the Department to actively assist hospitals by developing and providing guidance in the form of best practice statements in the recruitment and management of VMOs.

RESPONSE provided by Secretary, Department of Human Services

General comments

The Department of Human Services (DHS) finds the audit report to be useful in identifying a range of issues with current practice in relation to the remuneration and hospital accountability arrangements for Visiting Medical Officers (VMOs). The report makes recommendations that are worthy of close consideration in order to address any shortcomings with existing arrangements.

It is important to re-iterate at the outset that in principle DHS supports sessional arrangements whenever appropriate, rather than fee-for-service VMO arrangements, within public hospitals. However, DHS acknowledges that in many rural areas, sessional arrangements are not able to be put in place, due to volume of work or recruitment and retention issues.

Metropolitan Health Services and major rural hospitals are currently required under the DHS Conditions of Funding to operate and maintain, to a minimum standard, patient costing systems to allow recalibration of the casemix funding formulae. It is anticipated that patient costing systems will be in place in all larger Victorian public hospitals within 2 years. These patient costing systems can be used by hospitals to monitor the output of VMOs in terms of patient costs under each Diagnostic Related Group. This will be a significant advance in equipping Hospital Management with the necessary information to monitor VMO activity.

Small to medium rural public hospitals operate within a more challenging environment. Difficulties in recruiting and retaining medical personnel in rural areas limit the capacity of rural hospitals to dictate the terms and conditions for medical staff. The small size of some hospitals to some extent limits their monitoring and accountability systems.

RESPONSE provided by Secretary, Department of Human Services - continued

Audit emphasises the need for all hospitals, but with an emphasis on small to medium hospitals, to have in place appropriate internal audit arrangements, and that DHS should specify this as a condition of funding. DHS is quite prepared to take this step, but considers such audit arrangements to be so fundamental that they should be “bread and butter”, not any different to any other set of internal audit requirements as are generally required by a combination of by-laws, the stipulations of the Health Services Act, general conditions of funding and the stipulations of the Financial Management Act. It is neither appropriate nor practicable for DHS to specify individual VMO accountability arrangements within hospitals.

DHS considers that ultimately the matters raised in the audit report are for hospital management to address, subject to Board scrutiny, but acknowledges the need for improved guidance and monitoring from DHS.

Hospital management will need to make an assessment of the practicality and cost-benefit of introducing changed systems and practices. However, DHS will take steps to strengthen the capacity of Hospital Chief Executive Officers (CEOs) and Boards to manage this aspect of their agency’s operations. DHS support will include training and the development of guidelines.

DHS will also initiate a level of compulsory, external, random review of this, and other internal audit procedures within hospitals in the scope of this audit report. The findings of any such reviews will be forwarded to the Board of the hospital concerned.

Specific comments**Controls over the payment and processing of VMO claims**

Difficulties in recruiting and retaining medical personnel in rural areas limit the capacity of rural hospitals to alter current remuneration arrangements. Agency-specific payment systems and practices are the responsibility of individual hospitals. DHS will remind hospitals of their responsibility to have appropriate and reasonable practices in place and will look at practical training to facilitate this.

DHS will also include a requirement in Conditions of Funding that hospitals have in place appropriate accountability procedures over VMO payments. Requirements for internal audit and a level of random, external review will be addressed as described earlier.

Monitoring to detect potential over servicing

DHS broadly supports and will encourage the development of regional peer groups. The introduction of systems such as DOCPAY is a matter for individual hospitals to decide, based on a cost-benefit analysis of the outlay involved and the likely savings associated with the system. For some small rural public hospitals, it is unlikely that the return through potential savings will warrant the outlay in staff time and capital costs. DHS will pilot the development of benchmarks in relation to medical procedures. However, it needs to be recognised that the development of benchmarks in and of itself does not equip hospitals to be able to control the professional practice of their medical staff. “Over servicing” is a difficult issue, usually subject to substantial disagreement by the profession, and one which is frequently stated to be a management problem, but rarely successfully addressed.

RESPONSE provided by Secretary, Department of Human Services - continued

Assistance by DHS in VMO negotiations

DHS will consider whether it can provide guidance in the form of best practice guidelines to agencies following a determination that these would not contravene competition requirements.

REVIEW OF ACUTE AND PSYCHIATRIC INFORMATION DIRECTIONS PROJECT

3.65 At the time of its establishment in 1996, the Department of Human Services assumed responsibility for a range of information systems related to patient health and clinical data, including:

- the Psychiatric Records Information Systems Manager (PRISM), which was used to collect and record data on patient treatments relating to Victorian public mental health services;
- the Victorian Inpatient Minimum Database (VIMD), subsequently known as the Victorian Admitted Episodes Database, which was a statistical database used to centrally record data on admitted patient treatments in all Victorian public and private acute hospitals and extended care agencies;
- the Patient Reporting System (PRS), used to submit data to the VIMD received from the patient management information systems of hospitals and other health service providers;
- the Victorian Emergency Minimum Dataset (VEMD), which collected and recorded data relating to activity at public hospital emergency departments; and
- a number of other systems related to the collection and storage of clinical data in the areas of aged care, ambulance services and hospital waiting lists.

3.66 In February 1996, the Department employed consultants to review the patient health information needs and processes for Victoria's health services. This review was known as the Review of Acute and Psychiatric Information Directions, or the RAPID project.

3.67 The scope of this departmental review was to:

- examine the information requirements for mental health, general health (hospital) admitted patient and emergency services;
- assess the existing operational systems and processes, and evaluate their adequacy against current and future needs;
- assess existing technology platforms; and
- conduct a cost-benefit analysis of recommendations emanating from the review.

3.68 The consultants subsequently recommended the replacement of the existing information systems with 2 systems to be managed centrally by the Department and one field system to be used by hospitals and other agencies in relation to mental health services. The recommended systems were:

- Data Warehouse (DWH) - for the collection and storage of information relating to services provided to patients of public and private hospitals (central system);
- Operational Data Store (ODS) - for the collection and storage of patient level mental health information (central system); and

- Client Management Interface (CMI) - to be used by mental health service providers to interface with the ODS and provide local management functionality (field system).

3.69 The DWH was to replace the VIMD and PRS systems, and the CMI and ODS were to replace the functionality of PRISM.

3.70 The cost-benefit analysis conducted by the consultants at the end of 1996, which supported the replacement of the existing systems, utilised a number of key assumptions including that:

- the development of the new systems would commence in January 1997 and be completed by June 1998; and
- the implementation of the ODS and the DWH, as well as the decommissioning of previous systems, would be completed by 31 March and 30 June 1998, respectively.

3.71 Following this analysis, the Department of Human Services prepared a formal Project Business Case, which included a revised cost-benefit analysis, to assess whether the RAPID project in the recommended form should continue, be terminated or be modified. The recommendation arising from the business case was to proceed with the development of the 3 new systems. The main factors supporting this recommendation included:

- substantial benefits would arise through the avoidance of high facilities management costs and increasing maintenance and enhancement costs associated with the existing systems;
- deficiencies associated with the existing PRISM system, including inadequate transaction performance (average of 30 seconds per transaction) and a lack of functionality, would require high modification costs; and
- development of the DWH would avoid the need to develop separate data repositories for activity at public hospital emergency departments, hospital waiting lists, ambulance services and aged care assessments.

3.72 In January 1997, departmental approval was given to proceed with the development and implementation of the 3 new systems.

RAPID contractual arrangements

3.73 A formal Request for Tender for the development and facilities management of the RAPID systems was released in February 1997. The key project deliverables of the tender included:

- the development and implementation of the 2 central systems:
 - the Data Warehouse (DWH); and
 - the mental health Operational Data Store (ODS);
- the development of the Client Management Interface (CMI) system;
- the migration and conversion of data in existing systems to the new systems; and

- facilities management for the 2 central systems (the DWH and the ODS), for an initial period of 5 years with an option by the Department to extend the agreement on an annual basis for up to another 5 years.

3.74 The tender required that the 3 new systems be fully implemented and operational by 1 July 1998.

3.75 Tenders for the RAPID systems closed in March 1997, with 5 tenderers subsequently short-listed. **Due to the tender bids being in excess of the estimated costs used in the preparation of its Project Business Case, the Department conducted a further analysis to determine whether or not to proceed with the RAPID project. The outcome of the analysis was to proceed with the project as initially specified.**

3.76 The evaluation of tenderers occurred during 1997 and following an evaluation and selection process, a final recommendation for the preferred tenderer was submitted to the Victorian Government Purchasing Board in October 1997. This was subsequently approved by the Board on 30 October 1997.

3.77 In January 1998, the contract for the RAPID project was awarded to Aspect Computing Pty Ltd at a cost of \$16.1 million. These charges included both the development of the RAPID systems and facilities management fees for a 6 year period. Aspect Computing sub-contracted the facilities management of the 2 central RAPID systems to Allegiance Systems Pty Ltd (known as Health Computing Services at the time of the contractual arrangements).

Development and implementation of the RAPID systems

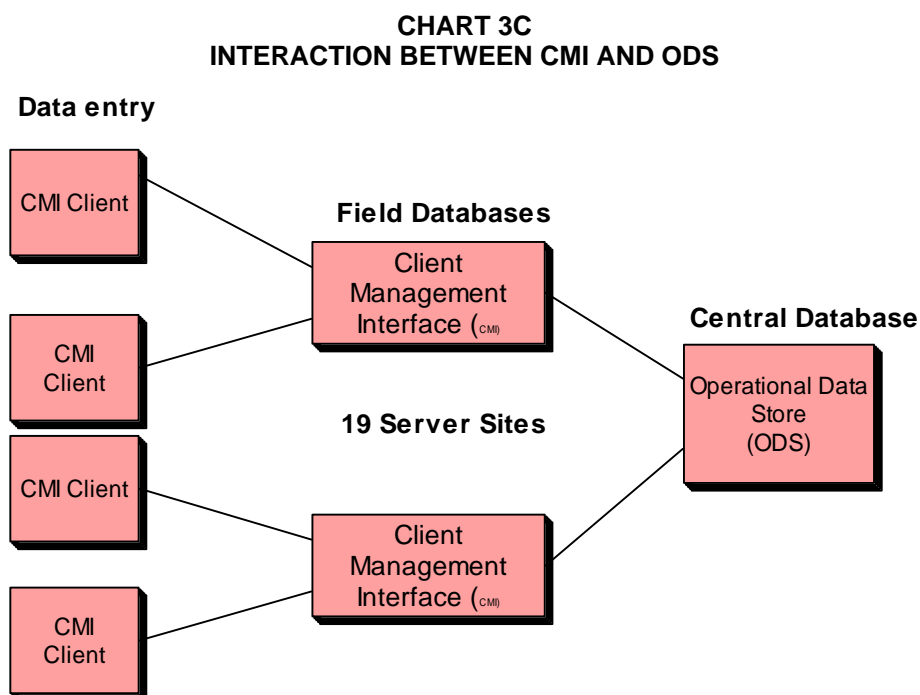
3.78 The development of the CMI, ODS and the DWH systems commenced in January 1998. However, due to delays in finalising the tender, the timeline for the completion of systems implementation was revised from 1 July 1998, as outlined in tender documentation, to 29 March 1999 which was incorporated into the initial contract project management plan.

3.79 Furthermore, key issues at various stages of project development and implementation have further affected the timeliness of the completion of the project, the quality of the systems implemented and the costs of the project outlined in the contractual arrangements. These issues are referred to in subsequent paragraphs of this report.

CMI and ODS systems development and implementation

3.80 The CMI system provides hospitals and other mental health service providers with their own local mental health database and management functionality to record and query patient information. Nineteen CMI server sites are located throughout the State which in turn allow the connection of all mental health service providers to the system.

3.81 The CMI directly interfaces with the ODS to provide a central management system that stores patient mental health data from all mental health service providers. Chart 3C illustrates the interaction between the CMI and ODS systems.



3.82 The CMI and ODS systems were implemented on 31 October 2000, 19 months after the deadline proposed in the initial contract project management plan. Key issues contributing to the delays in delivery of these systems included:

- changes to the initial documented system requirements due largely to a higher than anticipated number of hospitals and other agencies taking up the CMI system in preference to modifying their existing patient management information systems to interface with the ODS;
- under-estimation of the complexity of the systems in initial contract specifications;
- the need to correct system deficiencies identified during the acceptance testing phase of the systems;
- system enhancements required as a result of problems identified with the migration and conversion of existing data to the new systems; and
- the need to resolve data communication connection and security issues for server sites located throughout the State.

3.83 Following the implementation of the CMI and ODS systems in October 2000, further issues were identified with the performance and quality of the new systems. These included:

- Slower than anticipated system response times;
- A number of system bugs and errors, and potential enhancements identified by users following system implementation; and
- Problems with the quality of data converted from the previous systems and produced by the new system. These included missing, incomplete and duplicated records. Due to the problems encountered with the migration of existing data, the previous PRISM system was kept operational until July 2001, approximately 8 months after the implementation of the new systems.

3.84 To address issues associated with the new systems, a further contract was signed between the Department and Aspect Computing in February 2002 to provide for additional modifications to the systems and 12 months support for the CMI system. Subsequently, release 2 of the CMI and ODS was implemented in early March 2002.

3.85 While release 2 of the CMI and ODS systems addressed performance issues and certain other essential business requirements, a number of system changes requested by users were yet to be implemented, including many rated as being of a high priority.

3.86 The failure to implement highly prioritised changes may impact on the effective operation of the system. In conjunction with stakeholders, management should conduct a further review and prioritisation of all current outstanding change requests. Where these changes are considered essential in meeting business requirements, they should be approved and implemented as a matter of urgency.

3.87 In October 2000, just prior to the initial implementation of the systems, an independent privacy review of the RAPID project, and specifically the ODS, was conducted. One of the recommendations of the review was the need to enhance the existing password security controls within the systems. At the date of the preparation of this report, these changes were yet to be implemented.

3.88 We recommend that the Department implement enhanced password security controls over the CMI and ODS systems in line with the privacy review and current security standards.

3.89 In addition, while an auditing and logging tool is available to assist in the monitoring of the usage of the ODS system, this function has not been utilised due to system capacity and performance issues. We recommend that the use of this functionality be re-assessed with a view to ensuring that privacy and security risks are adequately managed.

Data warehouse system development and implementation

3.90 The Data Warehouse (DWH) incorporates a number of separate components that are used to collect and record clinical data. Some of the key components of the system include:

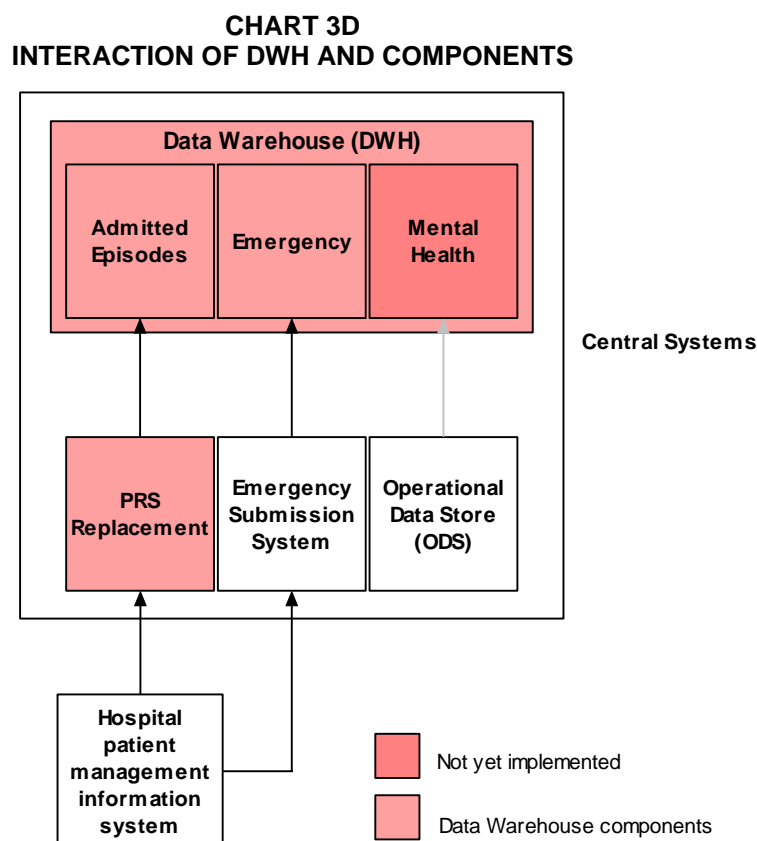
- Patient Reporting System Replacement;
- *Admitted Episodes*, which replaces the VIMD system;
- *Mental Health*, which replaces some of the management functionality of the PRISM system; and
- *Emergency*, which provides storage of VEMD public hospital emergency department data.

3.91 The development of a number of minor databases was removed from the scope of the initial RAPID project to enable the development to focus on the business critical components. In particular, databases were not built for the ambulance and aged care assessment data-sets.

3.92 The information recorded on the DWH is sourced from hospital patient management information systems. Data from the hospital systems is sent to the DWH Admitted Episodes component via the Patient Reporting System Replacement component. This information once validated updates the central database.

3.93 A separate submission system is used to update the emergency component, while the ODS is to be used to update the Mental Health component.

3.94 Chart 3D summarises the interaction between some of the various components making up the DWH.



3.95 The Department signed the certificate of acceptance for the DWH, excluding the Mental Health component, in August 2001. However, following this acceptance process, the performance of some of these components was considered by the Department to be unsatisfactory.

3.96 Utilising the specifications and design work delivered by the RAPID project, the Department successfully implemented a number of these components independently on a different database platform, including the Admitted Episodes and Emergency components, which are currently managed and maintained internally at the Department's cost. This was made possible by the identification of new, lower cost database management alternatives.

3.97 The DWH Emergency and Admitted Episodes components were developed by the Department and implemented in June 2001 and March 2002, respectively, and the Patient Reporting System Replacement component developed by Aspect Computing was implemented in February 2002. However, the Mental Health component is yet to be fully implemented and, at the date of preparation of this report, was expected to be finalised in May 2002. **These implementation dates represent significant delays compared with the milestone of 29 March 1999 outlined in the initial contract project management plan.**

3.98 The key issues leading to the delays in the DWH development and implementation include:

- substantial changes to the initially documented requirements of the system;
- under-estimation of the complexity and scope of the system;
- replacement of the methodology adopted for the development and implementation of the DWH after commencement of the project;
- initial failed development of some of the components of the system; and
- problems with the conversion of data from existing systems to the DWH.

3.99 Currently, 2001-02 year-to-date hospital data has been successfully transmitted via the new Patient Reporting System component of the DWH to the Admitted Episodes database managed by the Department. Historical data for this component is to be loaded during 2002.

3.100 The problems experienced in this systems development reinforce the need to establish robust systems acceptance procedures to ensure that the contracted deliverables are achieved and the State's interests are protected.

Summary of project costs

3.101 As referred to earlier in this report, in January 1998 the contract with Aspect Computing was signed at a cost of \$16.1 million, including both the cost of development of the RAPID systems and facilities management fees for a 6 year period. However, an overall project budget, including internal costs, was not prepared by the Department.

3.102 Our analysis showed that the costs for the project as at March 2002 together with future committed expenditure totalled \$22.1 million. Of this amount, \$18.7 million related to the contractor, which was \$2.6 million higher than the initial contract amount. As indicated earlier in this report, this variance was mainly due to changes to the initial specifications and additional system and maintenance requirements.

3.103 The projected expenditure for the project of \$22.1 million excludes the cost of internal staff associated with the RAPID project, which the Department has not specifically recorded or monitored. A summary of the recorded project costs is detailed in Table 3E.

TABLE 3E
SUMMARY OF PROJECT COSTS
AT MARCH 2002
(\$'000)

<i>Item</i>	<i>Expenditure to March 2002</i>	<i>Future committed expenditure</i>	<i>Total</i>
Development of Systems	5 800	-	5 800
Facilities Management	7 441	2 859	10 300
Contract Variations	1 833	(a) (489)	1 344
System Change Requests	462	-	462
Release 2 CMI and ODS	570	-	570
CMI Support and Maintenance	38	192	230
Additional RAPID costs (non-Aspect Computing)	3 400	-	3 400
Total	19 544	2,562	22 106

(a) A \$489 000 decrease in the contract with Aspect Computing was negotiated, due to the reduction in the time the RAPID system was to operate in a "live" environment.

3.104 Our review identified that delays in the development and implementation of the RAPID systems resulted in an extended period of simultaneous facilities management for the operation of both old and new systems. The Department has incurred facilities management costs of \$3.9 million for the old systems while also incurring facilities management charges associated with the CMI, ODS and DWH systems. At the time of preparation of this report, the decommissioning of all aspects of the systems was expected to occur within 6 months.

Concluding comments

3.105 The enhancement of the systems supporting the collection and analysis of health and health service provision data is an important step in improving the quality and availability of acute and mental health information within the State. While the current RAPID systems are a significant improvement to the pre-existing systems and processes utilised by the Department, and have led to additional opportunities for improved reporting and data management, issues occurring during their development have led to delays in the successful implementation of the RAPID project and have subsequently increased the costs incurred by the Department.

3.106 A formal evaluation of the implemented RAPID systems has not yet been undertaken to assess the outcomes and benefits of the new systems. **It is recommended that a formal post implementation review of the implemented systems be conducted to determine whether:**

- **they satisfy user and business requirements;**
- **system controls are operating as intended and are adequate; and**
- **the initially anticipated benefits have been realised.**

3.107 In addition, the Department is currently addressing a number of the key issues relating to the future operation of the RAPID systems. However, a comprehensive strategy had not been developed to guide the effective and timely resolution of these issues, which mainly include:

- A decision on ownership and support for the CMI. Initial plans by the Department were to transfer responsibility of the CMI to the State's hospitals after implementation. The current support for the system will cease on 31 January 2003;
- Data quality and reporting problems within the CMI and ODS systems;
- Re-establishment of system performance targets for the CMI and ODS, and measurement against actual performance;
- Consideration of the future facilities management; and
- Finalisation of the development of all RAPID systems, including associated security issues.

3.108 **It is important that such a strategy be developed and implemented as a matter of priority so that the full benefits of the substantial investment in systems development are realised.**

RESPONSE provided by Secretary, Department of Human Services

RAPID was a large and complex project. Throughout the contract period many issues needed to be clarified and agreed between the contactor and the Department before arriving at agreed detailed functional and technical specifications, as new issues of information became available. These had to be resolved to the reasonable, commercial satisfaction of both parties.

Variations to scope throughout the project were largely attributable to: (i) the CMI becoming a major operational system as all hospitals chose to take up this facility, rather than a small number of smaller agencies as originally envisaged; and (ii) the leading edge nature of much of the integration and design work in the Data Warehouse and data transmission areas.

The Department did have in place extensive project management and review processes to monitor and steer the project, supervise the 2 formal contract variations that have occurred and overcome the complications and problems that have arisen to date during the contract's lifetime.

RESPONSE provided by Secretary, Department of Human Services - continued

The recommendations of the audit report are accepted and will be actioned by the Department. The Department had already planned for a post-project review and this will proceed as a matter of priority.

The core achievements of the project in successfully replacing 2 ageing legacy systems with a State-wide operational mental health management system, an acute hospital data submission system, and hospital oriented Data Warehouse systems which provide a more robust basis for integrated data management and reporting functionality, are considerable.

Part 4

Infrastructure, including Local Government

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STATUS OF FEDERATION SQUARE DEVELOPMENT

4.1 Federation Square is a major development project encompassing a range of recreational, cultural, commercial, multimedia and entertainment facilities. The Square is situated in Melbourne at the intersection of Flinders Street and Swanston Street.

4.2 The key features of the Square comprise:

- the Ian Potter Centre – a multi-storey structure displaying the National Gallery of Victoria’s Australian art collection;
- the Australian Centre for the Moving Image – a multi-storey facility housing Cinemia and the Special Broadcasting Service (SBS);
- the Atrium – a steel and glass structure that creates an undercover promenade;
- two multi-storey commercial buildings – known as the Yarra and Transport Buildings, the latter of which will include a hotel;
- amphitheatre – a 450 seat venue for public and ticketed performances;
- a multi-purpose function centre to be known as Federation Functions;
- the Plaza and courtyards – representing public open spaces;
- restaurants and cafes – at various locations around the Square;
- an entry point for visitors to the northern end of the Square to be known as St Pauls Court;
- visitor information centre – operated by the Melbourne City Council at a below ground location and accessed via the Shards; and
- a multi-storey car park.

4.3 Construction of the Square commenced in 1998, following an international architectural design competition in November 1996.

4.4 Responsibility for project management of the Square was initially assigned to the Office of Major Projects and subsequently transferred in November 2000 to Federation Square Management Pty Ltd, a state owned company. The Company is assisted in this task by consultants, the Managing Contractor and the Architect. The Company is directly accountable to the Minister for Major Projects and the Premier for this project.

4.5 Progress on the development of the Square has been previously reported in my 2000 and 2001 *Report on Ministerial Portfolios*. Some of the key observations from my 2001 report included:

- The assignment of responsibility to Federation Square Management Pty Ltd and the appointment of professional project managers, in conjunction with the establishment of a simplified project management structure, alleviated some of the accountability and control deficiencies that were inherent within the previous management arrangements for the construction of Federation Square;

- The original cost estimate for the development of the Square, set prior to the design competition in March 1996, was \$110 million. Revised estimates at March 2001 substantially exceeded the original cost estimate and a funding shortfall existed at that time. At the date of preparation of the 2001 Report, \$202 million had been expended on the project; and
- The procurement of tenancies in accordance with the commercial retail strategy is a key element to the successful and sustainable operation of the Square. The Company advised that it was continuing in its endeavours to expedite the finalisation of leases for all tenancies.

4.6 As at March 2001, the cost estimates for development of the Project, including the estimated fitout costs of the Square for the National Galley of Victoria and Cinemedia, amounted to around \$394.8 million. Also at that time, the State Government had committed \$249.7 million, the Commonwealth Government \$50 million and the City of Melbourne \$64 million towards the funding of the Square, making total available funding of \$363.7 million.

4.7 The City of Melbourne, who was the other original joint venture partner with the State in the development of the Square, has now formally decided not to take up a share in the Company leaving the State as the sole shareholder in the Company.



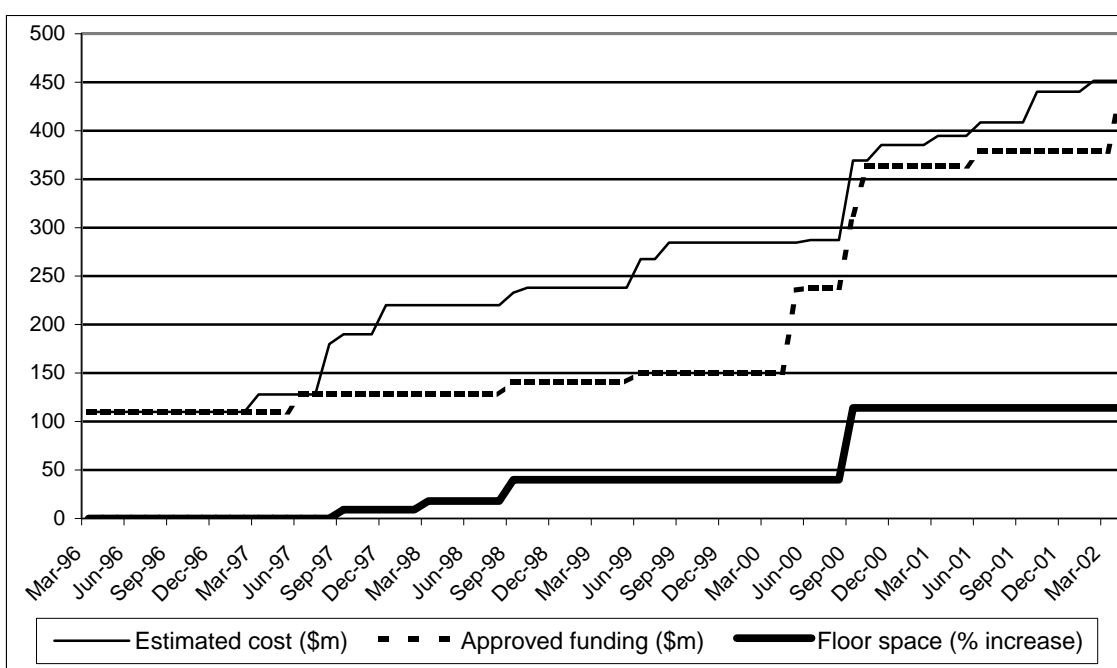
Federation Square development.

Escalation in project costs

4.8 The estimated completion cost of the Square has increased significantly from the \$110 million estimated at the inception of the Square in 1996, to the most recent estimate of \$451.5 million (as at February 2002), an increase of \$56.7 million from the March 2001 estimate.

4.9 Chart 4A illustrates the significant and on-going increases in estimated cost, project scope (as indicated by the percentage increase in floor space) and approved funding over the life of the project to date.

CHART 4A
TRENDS IN ESTIMATED COST, APPROVED FUNDING AND PERCENTAGE INCREASE IN FLOOR SPACE (a)(b)(c)(d)



- (a) Approved funding includes confirmed non repayable funding from all sources, that is State Government, Federal Government and Melbourne City Council and \$25 million in borrowings from the State Government by the Company (which comprise a repayable advance of \$14.2 million and a \$10.8 million loan).
- (b) Approved funding and estimated costs includes all fitout costs to be incurred by the State Government.
- (c) As at March 2001, the cost estimate for the development amounted to around \$394.8 million. Our previous report referred to \$369.5 million without taking account of the cost of the fitout of the National Gallery of Victoria and Cinemedia of \$25.3 million which is separately funded by the State.
- (d) Data for this Chart was based on information supplied by the Company.

4.10 The above chart not only highlights the substantial increases in cost estimates but also reflects the impact of the State Government’s recent announcement of additional funding for the Square.

4.11 As highlighted in our 2000 Report to Parliament on Ministerial Portfolios, not all State costs associated with the development of the Square are included in the estimated completion cost. For example, the State funded costs incurred in the demolition of the former Gas and Fuel Corporation Towers and Princes Plaza amounting to \$5.4 million are not included. Further, part of the fitout costs to be met by the Commonwealth Government and commercial tenants are also not included in the cost estimates.

Recent key drivers of cost increases

4.12 The most recent estimated completion cost for the Square reflects an escalation in costs from March 2001 of \$56.7 million to \$451.5 million in February 2002. This 14 per cent increase in the estimated completion cost of the Square results from:

- a costing review conducted by the Company and its consultants during February 2002 which identified a further \$42.9 million in estimated completion costs; and
- the inclusion of an additional \$13.8 million in estimated fitout costs (comprising mainly technology infrastructure) for Cinemedia.

4.13 The major factors contributing to the \$42.9 million cost escalation arising from the February 2002 costing review include:

- construction and engineering challenges associated with the design complexities of the Square, particularly the Atrium, together with delays in the completion of the Square have caused substantial increases in Managing Contractor, trade contractor and consultant costs; and
- the inclusion of a function centre within the cost estimates as a publicly funded, rather than privately funded structure.

4.14 The Company, together with its consultants, are monitoring all costs associated with the development of the Square and has introduced some strategies to slow the rate of growth in project costs and to achieve cost savings. However, the final construction cost and completion date appears to be susceptible to further escalations beyond that currently estimated by the Company in light of:

- the on-going design and engineering complexities associated with the construction of certain structures on the Square;
- increases in costs associated with completion extensions;
- the value of outstanding variation and prolongation claims; and
- unfavourable trends in certain of the Company's key performance indicators for the Square.

Further timing and cost risks for the Square

4.15 The Company's current *best estimate* of the completion cost for the Square, based on its February 2002 costing review, assumed a completion date of September 2002. The Company's *worst case scenario* cost estimate identified further costs amounting to \$16 million, making a total estimated cost of \$467.5 million. The *worst case scenario* assumed a further extension in time to December 2002 and deterioration in the anticipated completion costs for the major cost centres of the Square.

4.16 While the Square was initially scheduled for completion by December 2000, **the Company currently expects a partial opening of public areas in late August 2002 to precede a major launch of the Square in September 2002, at which time most of the construction works, other than certain fitout works, are expected to be completed. Completion of the Square, including each tenants' fit out works, is estimated by the Company to be achieved by December 2002 at the earliest.**

4.17 The Company's estimated construction cost has increased by approximately \$80 million since September 2000 when the Company made its first submission to the State Government on funding, however by way of contrast some of the larger reductions in costs identified by the Company since that time have included:

- deleting the two LED screens from the east shard (reduced costs by approximately \$450 000);
- reducing the number of site artworks (reduced costs by approximately \$400 000);
- leaving the upper levels of the east shard internally incomplete (reduced costs by approximately \$200 000);
- reducing the area of zinc cladding (reduced costs by approximately \$200 000); and
- simplifying the North West corner steel building frame (reduced costs by approximately \$100 000).

4.18 In addition, the Company has advised that it has also implemented a number of actions aimed at reducing the rate of increase in costs during that same period by:

- rejecting requests for additional fitout works from certain tenants; and
- letting trade package contracts within budget limits, which has reduced the level of contingency costs arising from trade package contracts.

4.19 These outcomes suggest that further opportunities for significant cost reductions at this late stage of the Project are limited given that the rate of cost increases has been substantially greater than the level of cost savings.

Key performance indicators

4.20 The Company has developed several key performance indicators to monitor the level of resources and progress of works at the Square. Results against targeted performance levels are regularly reported to the relevant Ministers. While some indicators record positive results that are consistent with targeted levels of performance, others highlight the potential for cost increases and timing delays.

Variation and prolongation claims

4.21 Two of the key drivers of cost increases included the adoption of a 'fast track' approach to construction, whereby construction moved ahead of the detailed design work, and the adoption of a complex and unique architectural design. One impact of these features of the Project, together with other factors which have caused delays in the project, has been to generate many variation and prolongation claims from contractors. The Company, together with its consultants and managing contractor as appropriate, has already achieved a negotiated outcome for a large number of claims which in total had represented a significant cost risk for the Square.

4.22 As at March 2002, the total value of unapproved variation claims amounted to \$16.3 million. Further, a number of prolongation and other claims have been lodged by trade contractors for disruption to work programs and loss of profit resulting from delays associated with design and construction complexities inherent in the Project, notably associated with the Atrium and Amphitheatre. Prolongation and other claims, valued by the Managing Contractor at \$17.2 million, were outstanding as at March 2002. Consequently, **a contingent liability of \$33.5 million exists as at the date of preparation of this report.**

4.23 A contingency budget for variation and prolongation claims has been included in the latest cost estimates for the Square, however the current level of outstanding or unapproved variation and prolongation claims is significantly higher than the contingency amount. Nevertheless experience to date indicates that the Company should not have to meet the entire value of claims made.

4.24 While it is difficult to estimate the final net cost to the Project that will arise from current and any future claims, these claims represent a significant cost risk to the Square until they are resolved.

4.25 The Company has recently appointed contractors, in addition to its Managing Contractor and contracted project managers, to assist in the evaluation of variation and prolongation claims.

2001 amendment to the Managing Contractor's Agreement

4.26 As outlined in our previous reports to the Parliament, the Managing Contractor was engaged during 1998 under an Agreement to provide certain services, manage specified risks and construct certain works in relation to the Square on a lump sum and fixed fee basis. The original contract sum was \$34.5 million.

4.27 Under the original Agreement, the Managing Contractor was to be responsible for cost, design and time risks after the Target End Cost and Target Program (that is the construction timetable) were set under the Agreement and the Architect's Agreement was novated by the State to the Managing Contractor. These key actions under the Agreement were to take place after the completion of the schematic design, which was scheduled for August 1998.

4.28 The Managing Contractor's specific responsibilities under the Agreement were to include:

- leading, managing and directing the activities of the Architect and its sub-consultants;
- ensuring that design development was completed in a manner which is consistent with the approved schematics and the brief, and which achieves the target end cost and target program;
- managing trade contracts and any other construction documentation relating to the works so that they are completed in a manner which achieves the target end cost and target program; and
- ensuring that all relevant approvals are obtained from authorities having jurisdiction over the works, subject to certain specified conditions.

4.29 In particular, the Managing Contractor was to assume the risk of omissions, discrepancies and ambiguities existing in the design and documentation of the works, and the risk that the design of the works was fit for the purpose for which it was intended, as set out in the Project Brief.

4.30 The Managing Contractor received a fixed fee for the provision of the design and construction management services by progressive payments under the Agreement.

4.31 Early in the contract term, that is during late 1998, the State decided not to novate the Architect's Agreement to the Managing Contractor on the basis that the design was incomplete and that the State was best able to manage the design risk. Consequently, the State did not set a target end cost or target program under the Agreement. Adjustments were not made to the fixed fee arrangements in place with the Managing Contractor to compensate for the acceptance of these risks by the State at that time.

4.32 Against this background, the Company renegotiated the Managing Contractor's Agreement during 2001. Key events leading up to the renegotiation of the Managing Contractor arrangements are set out in Table 4B.

**TABLE 4B
KEY EVENTS LEADING TO THE 2001 RENEGOTIATION OF THE MANAGING CONTRACTOR'S
AGREEMENT**

<i>Date</i>	<i>Event overview</i>
December 1999	The Managing Contractor lodged a claim for additional fees and other costs due to the extension in project scope and delays in the construction program. That claim totalled \$10.4 million and did not result in an agreed outcome between the parties.
December 2000	The Managing Contractor offered, subject to certain conditions and with certain exclusions, to complete the works on a total fixed price and fixed time basis. The offer provided for the Managing Contractor to assume design risk and proposed additional fees and other costs to the Managing Contractor amounting to \$35.2 million. In addition, the Managing Contractor had also proposed a substantial contingency amount as part of the total fixed price. Following detailed analysis, the Company rejected this offer because it believed that the offer would increase the overall costs of the project and have a detrimental affect on the finished product.
August 2001	After further significant negotiations, the parties to the Managing Contractor's Agreement executed a deed of variation, which provided for a mediated settlement of the dispute over the fee arrangements.

4.33 Key changes arising from the August 2001 Deed of Variation to the Managing Contractor's Agreement, and subsequent mediation, included:

- The Managing Contractor was no longer required to accept novation of the Architect's Agreement, and the State formally accepted responsibility for design risks. This amendment brought the contractual arrangements into line with what had actually taken place early in the original contract term;
- The Managing Contractor's responsibilities in relation to the target end cost were changed and now consist of an obligation to keep the State "fully informed" on actual costs incurred. In addition, the Managing Contractor has a "reasonable endeavours" level of responsibility in relation to the cost of trade contracts it manages on the State's behalf;
- The Managing Contractor's responsibilities in relation to the target program (that is the construction timetable) and quality obligations were also changed, and now consist of an obligation to use "all reasonable endeavours" in that regard;
- The Managing Contractor's fixed fee of \$3.6 million for the provision of design and construction management services was changed to an agreed percentage of actual project costs. The Managing Contractor's fees are currently estimated to cost \$9.2 million. The actual agreed percentage to be applied was set as part of a mediated settlement involving an eminent independent person. The mediation bound both the State and Managing Contractor, and took into account a number of factors including the nature and changes to the scope of the Project, and the re-assignment of design, cost and timing risks from the Managing Contractor to the State; and
- The Managing Contractor will now be reimbursed for their actual costs incurred for preliminaries, that is on site and off site establishment costs, currently estimated at \$31.9 million as opposed to the originally agreed lump sum of \$13.2 million.

4.34 A key outcome from the State's 1998 decision not to novate the Architect's Agreement to the Managing Contractor, and the deed of variation and subsequent mediation, is that the Managing Contractor has moved from a position of having originally contracted to bear the cost, time and design risks for the Square in return for a fixed fee, to a position where it does not bear those risks and its management fees are based on a percentage of actual project costs. This outcome has occurred against the background of a Project whose scope and nature has changed significantly.

4.35 The above changes to the Managing Contractor's Agreement, together with other variations to works undertaken directly by the Managing Contractor, have increased the total estimated payments under the Agreement to \$70 million, compared to the originally agreed total contract sum of \$34.5 million. It is noted in this regard, that there has also been a substantial growth in the scope and estimated cost of the Square as outlined in this Report.

Funding shortfall

4.36 Funding for the Square has been sourced from the State Government, the City of Melbourne and the Commonwealth Government, with the State being the major contributor. Total confirmed funding to the date of preparation of this report is summarised in Table 4C.

**TABLE 4C
CONFIRMED FUNDING
(\$million)**

<i>Source of funding</i>	<i>As at March 2001</i>	<i>Increase since March 2001</i>	<i>Total confirmed funding as at April 2002</i>
Grants:			
State Government	235.5	69.4	304.9
City of Melbourne	64.0	1.2	65.2
Commonwealth Government	50.0		50.0
Company borrowings:			
Repayable Advance (a)	14.2		14.2
Loan Facility		10.8	10.8
Total	363.7	81.4	445.1

(a) The State Government provided a repayable advance of \$14.2 million to the Company for the construction of the two commercial buildings, i.e. the Transport and Yarra buildings. These buildings were originally proposed to be privately financed. The advance was approved during October 2000.

4.37 The above table indicates that total confirmed funding for the Square has increased over the period March 2001 to April 2002 by \$81.4 million. This increase has resulted from:

- A further capital contribution of \$55.6 million endorsed by the State Government during April 2002;
- The inclusion of \$13.8 million in State capital funding for additional fitout costs of the Square (comprising mainly technology infrastructure). This State capital funding was approved during 2001-02 to be expended by Cinemedia during that same financial year;

- Melbourne City Council agreeing to provide an additional \$1.2 million for fitout costs to the Visitor Information Centre, certain pavement and roadworks, and certain improvements to the north bank of the Yarra River; and
- The State Government in April 2002 endorsing a borrowing authority for the Company to enable it access to an additional \$10.8 million from the Treasury Corporation of Victoria.

4.38 The current level of confirmed project funding of \$445.1 million does not completely cover the most recent completion cost estimate of \$451.5 million. Consequently a funding shortfall of \$6.4 million existed at the date of preparation of this Report. In order to bridge this funding shortfall, the Company has been negotiating potential sponsorship arrangements as a further source of revenue and may meet certain other costs of the development of the Square from the operating budget of the Company.

4.39 The funding shortfall may be further extended if the Company's worst case scenario cost estimates, which amounts to an additional \$16 million in estimated completion costs, were realised. It should be noted that the State Government in April 2002 also resolved that should the Company's worst case scenario be realised then the Company would in effect receive an additional grant of up to \$14.2 million for the Square. However, a total shortfall of up to \$8.2 million would result from this scenario unless the Company can identify other non-State funding sources.

4.40 The funding strategies proposed by the Company to bridge the current funding gap needs to be finalised as a matter of priority to remove any further uncertainties in relation to the funding position of the Square.

Status of tenancy arrangements

4.41 The 1998 retail strategy defined the mix and theme of retail opportunities available at the Square. Expressions of interest were invited from prospective tenants during December 1998.

4.42 The current status of tenancy arrangements at the Square is that:

- the Company has executed *Agreements for Lease* for 12 of the 20 tenancies at the Square. These tenancies are almost all small food and retail outlets;
- negotiations are well progressed with a further 7 prospective tenants; and
- negotiations with a potential tenant for one of the tenancies have been unsuccessful.

4.43 Those tenancy arrangements not finalised to agreement stage relate to some of the key and larger tenancies. These tenancies include the National Gallery of Victoria, the Australian Centre for the Moving Image, the Yarra commercial building and the function centre. These tenancies account for a significant proportion of the total potential lease area of the Square and the commercial spaces are expected to generate a higher level of rental revenue for the Company. The construction of the function centre (that is, Federation Functions) and the Yarra commercial building, is already underway and both buildings are proposed to be debt financed by the Company.

4.44 A number of lease incentives are currently proposed which create certain costs and risk exposures for the Company. Specifically, while all proposed tenancy arrangements include a base rental, the linking of total rents for some tenancies to sales turnover and the capping of tenant outgoings, together with fitout contributions by the Company, will impact on the net revenue streams that may be generated from tenancy leases. Further, it is noted that proposed Victorian public sector tenants will not pay any rent for large parts of areas that they will occupy, other than for retail or commercial areas.

4.45 Impediments to the finalisation and execution of tenancy leases include:

- Delays in the completion of the Square; and
- Land title arrangements remain outstanding.

4.46 As reported in my 2001 report to Parliament, title to the site resides with Victorian Rail Track Corporation and was expected to pass to the Company during June 2001. While a transfer of land document was lodged during November 2001 at the Land Titles Office to give effect to the surrender of the land to the Crown, at the date of preparation of this report, title had not transferred to the Company.

4.47 While the Company has made significant progress in relation to tenancies since my 2001 Report, it needs to continue to seek to finalise leasing arrangements with prospective tenants to enable the timely commencement of commercial operations at the Square upon its opening. In addition, the Company needs to evaluate the impact of final tenancy arrangements upon the sustainable future operations of the Square.

Programming of events at the Square

4.48 The Company is responsible for the cultural and civic activities to be held at the Square and has developed an *Arts, Events and Activities Plan* to support the presentation of a range of activities by artists, producers, festival and event organisers. The Company has also prepared a schedule of potential events to be held at the Square from September 2002 to September 2003.

4.49 In common with the tenancy arrangements, the Company's ability to secure an agreed events program is constrained by the delays in the completion of the Square. Nevertheless, at the time of preparation of this report, the Company advised that four events or functions, including one major event, had been secured in this period. The Company is continuing to negotiate with potential event organisers and work through a significant program of introductions, familiarisations and presentations in order to secure more events and a balanced mix of programs at the Square.

4.50 As events programming has the potential to affect the success and on-going viability of the Square, the Company should continue to actively pursue the establishment of an agreed events program.

Ongoing operations of the Square

4.51 The Company has principal responsibility for managing the operation of the Square after its completion and has set out its key strategies and direction for the on-going operations of the Square in its 2001-02 annual business plan.

4.52 Financial projections in the Business Plan reflect a positive cashflow position from the second year of operation of the Square subject to several key assumptions, many of which remain uncertain. Some of the key variables that will impact on the net cash flows from the operations of the Square include:

- the level of borrowings, and associated financing costs, used to fund the construction of the commercial buildings on the Square;
- net income from the car park;
- costs of the major launch of the Square, planned for later this calendar year;
- actual operating costs of the Square, including security, cleaning and maintenance;
- actual net rental income, which in turn is in part dependent on trends in tenancy revenue and outgoings;
- net revenue arising from events held at the Square and sponsorships; and
- extent to which any final funding shortfall for the Square may become the financial responsibility of the Company.

4.53 Confirmation of these key assumptions will be possible closer to the completion of the Square, especially once the tenancy, events programming and project funding arrangements are finalised.

RESPONSE provided by Secretary, Department of Infrastructure

Cost increases

The estimated completion cost of \$451.5 detailed in the Report is misleading as it includes funding for fitout works of \$39.1M that have been separately budgeted for since 1998 and are not considered a Project cost. The fitout for the National Gallery of Victoria's Ian Potter Centre Museum of Australian Art and the Australian Centre for the Moving Image (ACMI) were budgeted as follows:

- \$12.95M was approved in 1998 for part of the ACMI fitout;
- \$9.6M in 00/01 budget which was increased by \$2.7M in 01/02 for fitout of the Ian Potter Centre and ACMI; and
- \$13.84M was approved in 01/02 budget for technology infrastructure for ACMI.

These budget allocations are Agency costs and not considered to be a cost to the Project. These works are not required to complete the project's base building works, nor are they able to be depreciated in the hands of the Federation Square Management (FSM) company. It is acknowledged however that these funds will be spent during the 02/03 financial year as a result of the delay in completion of the Project construction.

Project funding

The actual estimated 'best case' completion cost of the Project reported by FSM in March 2002 is \$396M plus \$16M in contingency costs, an increase of \$43M from the \$369M estimated completion cost reported in the Auditor General's report of March 2001. FSM further estimated that a 'worst case' estimate would cost an additional \$16M, however this included \$5M in additional contingency funding which the State was not prepared to fund.

The State has therefore provided the Project with an additional \$55.6M in capital and a loan facility up to \$25M, which can be repaid through the revenue from tenancies and the carpark. This ensures the 'worst case' estimate can be funded through the loan facility should it be required.

Funding shortfall

The total shortfall of \$8.2M identified in the Report is as a result of the decision by the State not to fund the additional \$5M in contingency detailed in the 'worst case' scenario leaving the \$3.2M in funding FSM is actively seeking through sponsorship and other funding sources.

Managing Contractors Agreement

The circumstances leading to the formalisation of the Deed of Variation to the Managing Contractors Agreement have not been fully explained in the Report. The Report clearly details the decision in 1998 not to novate the design to the Agreement that resulted in a situation where the Managing Contractor was working on a cost recoverable basis. However what is not clearly detailed in the report is that the FSM was forced into resolving the issue when the Managing Contractor, in early 2001, threatened to cease work until the Agreement was formally resolved and amended to reflect the 'actual' nature of the relationship.

RESPONSE provided by Secretary, Department of Infrastructure - continued

Status of tenancy arrangements

The reference in the report that 'negotiations with a potential tenant for one of the tenancies have been unsuccessful' also has the potential to be misleading. Negotiations with this tenant have not yet reached a resolution however they are still underway and may result in a successful outcome.

CITY LINK: SURPLUS LAND

4.54 At an estimated total cost of \$2 billion, including \$1.8 billion financed by a private sector consortium (Transurban) and \$266 million of associated works and land financed by the State, the Melbourne City Link project represents one of the largest infrastructure projects ever undertaken in Australia. It comprises some 22 kilometres of road, tunnel and bridge works and involves linking 3 of Melbourne's most important freeways, namely, the Monash, the West Gate and Tullamarine Freeways, together with the upgrading of parts of the Monash and Tullamarine Freeways.

4.55 In previous reports to Parliament we have provided detailed analysis of the arrangements established between the State and Transurban for the financing, construction and operation of the Melbourne City Link. This report examines the finalisation of the project with a particular focus on processes established to identify and deal with land which may be surplus to that required for the ongoing management and operation of the City Link.

4.56 Under arrangements established by the State, Transurban has designed, financed, constructed and is maintaining and operating the City Link project. **The freeway linkages and upgrade works were progressively completed and commissioned by the consortium, with the final completion of the project occurring in December 2000.** The City Link is constructed on Crown land to be leased from the State as a public tollway for a base period up to January 2034, with toll revenues collected from motorists mainly applied towards its cost of construction, operation and maintenance, with a return on investment available for the investors in the project. At the end of the specified period, ownership of the City Link will revert to the State at no cost and in a fully maintained condition.

4.57 The Melbourne City Link Authority was formed in December 1994 under the auspices of the *Melbourne City Link Authority Act 1994*, and allocated primary responsibility for overseeing the development and delivery of the project. Following the appointment of the preferred consortium and execution of the agreements between the State and the consortium, the Authority was responsible for co-ordination and consultation with other government agencies involved in the development of the project. The Authority was also responsible for ensuring the obligations of Transurban under the agreements were met and that the project was completed and delivered as planned. The Authority ceased operations on 28 February 2002. The management of the State's part of the City Link arrangements is now delivered through the Office of the Director, Melbourne City Link, a statutory position, established under the *Melbourne City Link Act 1995*, within the Department of Infrastructure. For the remainder of this report, references to the "Authority" encompass the activities of both the former Melbourne City Link Authority and the newly established Office of the Director, Melbourne City Link.

4.58 In October 1995, the State and Transurban entered into a Concession Deed, being the primary contractual document setting out the basis on which the project was to proceed. In December 1995, the *Melbourne City Link Act 1995*, which incorporated the Concession Deed, was passed by Parliament. That Act gave the State certain powers in relation to such matters as the acquisition of land, enforcement and privacy. The Act also enables the relevant corporation (Transurban) to charge and collect tolls on the City Link.

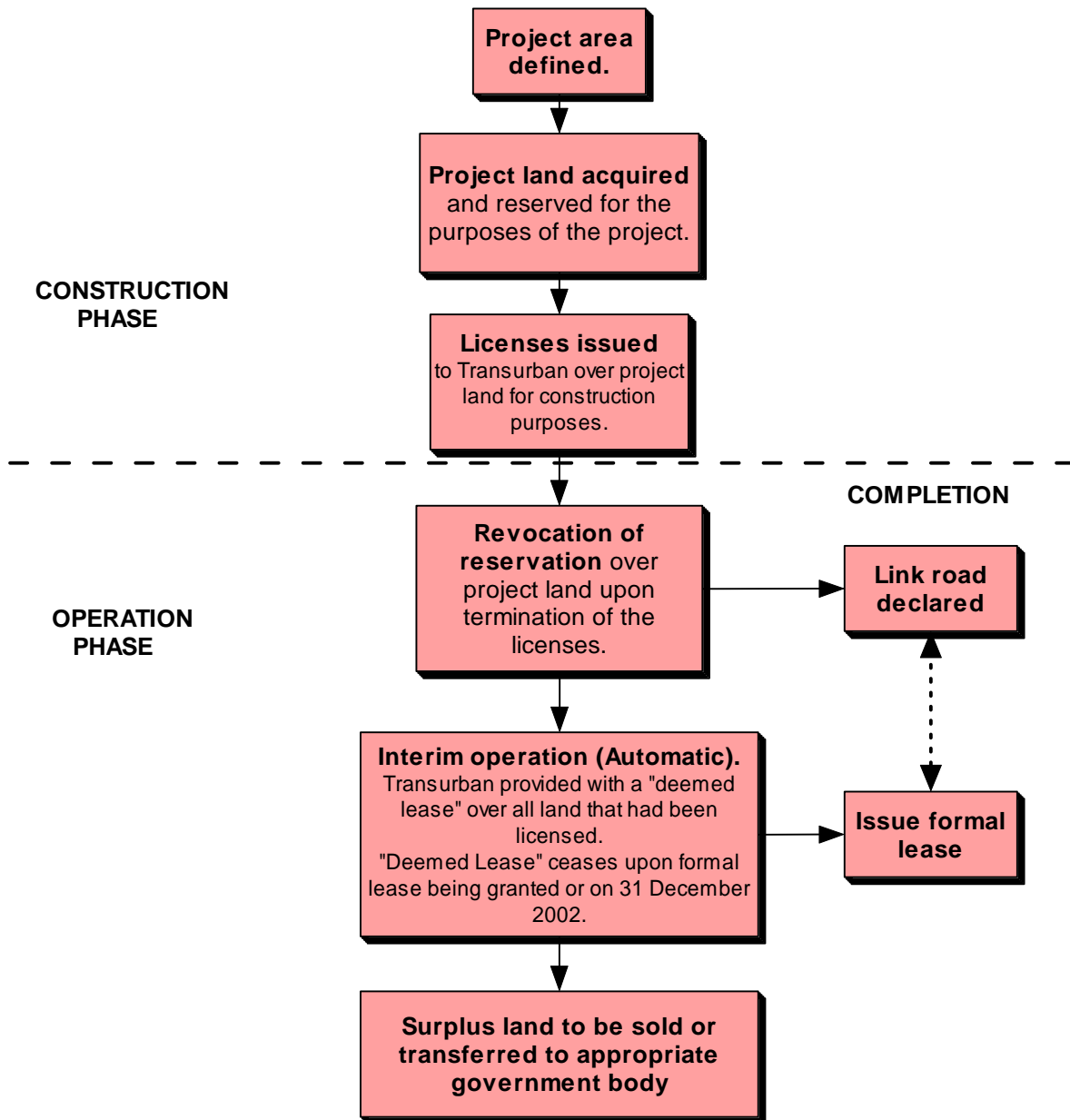
4.59 The State's facilitation of the project included obtaining and making available to Transurban sufficient land to construct and operate the City Link. Land obtained by the Authority along the corridor of the project is defined in the *Melbourne City Link Act 1995* and is referred to as the project area. Within this area, Transurban defined the land it required to construct the Link and this is referred to as project land. More than 500 parcels of land, with a total area of approximately 2.5 million square metres, were acquired for the project. This land was either purchased from private parties (30 per cent) or transferred from other government agencies (70 per cent). Access to certain other areas of land within the project area was also acquired on a temporary basis.

4.60 During the construction phase of the project, the State was required to issue licences to Transurban providing a non-exclusive right of possession over the project land, and to grant powers of entry and occupation of other areas, sufficient for Transurban to perform its obligations under the Concession Deed. Prior to the date of completion of each section of the Link, Transurban had no interest, right or title in the project land or associated areas, other than its ability to use the land to construct the Link sections. The process envisaged by the Act and the Concession Deed was that once completion of a section of the Link had occurred to the State's satisfaction:

- the reservation over the relevant land would be revoked;
- the licences issued to Transurban for construction of that section of the link would be terminated; and
- a lease would be entered into by the State and Transurban at an annual nominal rental amount of \$100 for that section.

4.61 Chart 4D depicts the processes and various steps involved in the acquisition and ultimate disposition of the project area land.

CHART 4D
CITY LINK PROJECT LAND - PROCESSES AND STAGES



4.62 To date, all licences issued to Transurban for construction of the Link sections have been terminated and the reservations of the land covered by these licences have been revoked, but no leases have been entered into despite the completion of the project. In 1998, the *Melbourne City Link Act 1995* was amended to provide Transurban with a “deemed” lease over land which had been the subject of a licence and reservation, but which had not been formally leased to Transurban at the completion of the Link section. This was done to provide certainty over the status of the land comprising the various completed Link sections during the interim period between completion of the section and finalisation of the lease boundaries for that section.

Acquisition of project land

4.63 The total cost to the State for the acquisition of the project land (including land in respect of which only temporary access was required for construction purposes) was \$94.8 million to 30 June 2001. The total land area acquired for the purposes of the project was 2.5 million square metres.

4.64 The Authority acquired 735 000 square metres of land from private parties at a total cost of \$60.1 million with an additional 1.7 million square metres transferred from government entities at a total cost of \$28.2 million. The Authority paid a further \$1.9 million for temporary access to land with an area of 83 075 square metres and incurred costs relating to the land acquisition process and the associated management process. Table 4E provides details of the various categories of land acquired for the purposes of the project and associated costs.

**TABLE 4E
DETAILS OF LAND ACQUIRED FOR THE PROJECT AND ACQUISITION COSTS**

<i>Land description/category</i>	<i>Land area (square metres)</i>	<i>Total cost \$000's</i>
Land acquired or transferred from government entities (a)	1 715 000	28 243
Land acquired from private parties (b)	735 000	60 137
Land where temporary access acquired	83 075	1 906
General costs attributable to compensation (c)	3 925	2 999
Other costs associated with the management of the land acquisition process	n.a.	1 549
Total	2 537 000	94 834

(a) Land acquired or transferred from government entities is recorded in the Authority's financial statements at a value of \$112.2 million.

(b) Land acquired from private parties is recorded in the Authority's financial statements at a value of \$14.4 million. The difference between the value recorded in the financial statements and the total cost of acquiring the land represents the amount paid by way of compensation.

(c) At least one parcel of land costing \$1.9 million was acquired to form part of a compensation package.

4.65 Of the total land area acquired for the project, 2.45 million square metres is controlled by the Authority and is therefore available for lease to Transurban or, if determined to be surplus to requirements, sale or transfer. This land was reported in the financial statements of the Authority at 30 June 2001 at a value of \$126.7 million.

Compensation payments

4.66 The total cost of acquiring land for the project of \$94.8 million included compensation payments totalling \$78.8 million (compensation being the amount paid above the market value of the land acquired in accordance with legislation and normal government processes and payment for the temporary use of land required during the construction phase of the project for the temporary storage of construction materials and access to construction areas). These payments were made to third parties from whom land was permanently or temporarily acquired. The amount paid to third parties for the temporary use of land for the purposes of the project totalled approximately \$1.9 million.

4.67 In a number of instances, municipal councils were also paid compensation for the acquisition of land over which they held freehold title. Compensation was also paid to private parties affected by the transfer of land from government entities. For example, this occurred where leases between government entities and private parties had to be terminated prematurely to allow land to be made available for the project. In one such instance, a compensation package costing approximately \$18 million was provided, which included the cost of land acquired by the Authority to form part of the compensation package.

4.68 There were approximately 100 compensation claims made in respect of the City Link project land acquisition process. As at 1 March 2002, there were 14 outstanding compensation claims in relation to the State's acquisition and temporary use of land. The Authority expects the majority of these compensation claims to be settled over the next 12 months.

4.69 **The audit review included an examination of the management and settlement of a small sample of compensation claims. The audit review disclosed, that in relation to the sample examined, settlement of these claims was negotiated effectively and the compulsory acquisition process was undertaken in accordance with relevant legislative requirements.**

Classification of land as required for lease or surplus to requirements

4.70 The *Melbourne City Link Act 1995* contains provisions which facilitate the establishment of leases between the State and Transurban for land required for the operation of the City Link and the transfer or sale of surplus land to third parties.

4.71 In simple terms, the final disposition of the City Link project land requires agreement to be reached between the State and Transurban on the boundaries of the land to be leased to Transurban. The Authority has been involved in discussions with Transurban on the lease boundaries for more than 2 years. Agreement "in-principle" has been reached on around 95 per cent of the project area in terms of whether it should be included within the lease boundaries or categorised as surplus to requirements.

4.72 The total area of land acquired for the project, after eliminating land acquired temporarily, was 2.45 million square metres. The total area of land available to be either leased to Transurban or disposed of as surplus is, however, greater than the total area initially acquired. This is because at some locations on the Link road, such as the elevated structures, the land is effectively available for distribution twice. Firstly, the area of the aboveground structure (a lease stratum) and secondly, the area of land underneath the elevated structure (a surplus stratum). The impact of this capacity to distribute the same area twice is that the total area available for distribution as either leased or surplus land is increased from 2.45 million square metres to 2.67 million square metres.

4.73 As at 1 March 2002, it is estimated that 1.64 million square metres (61 per cent) of the project land available for disposition is to be leased to Transurban. This area comprises surface land of 1.23 million square metres, strata land such as the elevated road on the Western Link of 220 000 square metres and land deeper than 10 metres from the surface (primarily tunnels) of 190 000 square metres. **The remaining 1.03 million square metres (39 per cent) of the project land available for disposition is surplus and comprises surface land of 600 000 square metres (around 96 000 square metres of this land is considered to have commercial value), strata land such as the land underneath the elevated road on the Western Link of 220 000 square metres and land deeper than 10 metres from the surface (primarily land either side of tunnels) of 210 000 square metres.**

4.74 The process of reviewing project area land and agreeing lease boundaries with Transurban is continuing. The Authority advised that it expects the leases to be finalised by the end of 2002.

4.75 Under section 60A of the *Melbourne City Link Act 1995*, Transurban currently has a “deemed lease”, which provides it with the right to operate and toll the Link, over all the land that was licensed to it during the construction phase of the project. The creation of the “deemed lease” was necessary because when the Link achieved completion, the parties could not execute formal leases as the lease boundaries and terms of the lease had not been finalised. Section 60A will be repealed by the proclamation of the *Melbourne City Link (Miscellaneous Amendments) Act 2000* on 31 December 2002. **If the “deemed lease” has not been superseded by formal leases by 31 December 2002 it will cease on that date. This further highlights the need for the Authority to agree on the lease boundaries and finalise the leases by that date. Failure to do so could result in Transurban operating the Link without authority. This outcome could only be avoided by further legislative amendments to extend the period of operation of the “deemed lease”.**

4.76 In May 1996, in response to concerns raised by various public sector entities, the then Minister for Finance gave in-principle approval for land or an interest in land surrendered by public authorities for the project, which on the completion of the City Link project is determined to be not required for the operation of the City Link, to be returned to the public authorities free of charge. In February 1997, the Minister for Finance extended the ambit of this policy to include municipalities.

Surplus Land Working Group

4.77 In September 2001, Land Victoria (a division within the Department of Natural Resources and Environment) recommended to the Authority that a working group be established to identify and evaluate surplus land and develop a process for the future management and/or disposal of such land. The Authority subsequently established such a working group with the following terms of reference:

- to identify, on a whole-of-government basis, the most appropriate future use of all City Link surplus land, and to identify the appropriate land managers; and

- to provide relevant support for the smooth transfer of land from the Authority to the new land manager.

4.78 The working group consists of representatives from the former Melbourne City Link Authority, Department of Natural Resources and Environment, Department of Infrastructure and the Victorian Government Property Group from the Department of Treasury and Finance. As at 1 March 2002, the working group has met on 4 occasions.

4.79 The working group has been primarily focused on clearly defining the processes to be adopted in assessing whether land is surplus to requirements, determining the appropriate land manager (which could be a private party) and effecting the transfer of land to the identified manager or new owner. The working group has recommended that where land is not commercially attractive and is not required or wanted by a public body or council, it will be transferred to the Department of Natural Resources and Environment to manage.

4.80 The working group has also focused on identifying and examining a number of commercially attractive sites within the project area which Transurban has acknowledged will not be required for the operation of the City Link. **An estimated 96 000 square metres (or 3.5 per cent) of the total project area has been identified as potentially commercially attractive. The 21 parcels of land comprising this total area were recorded at a value of \$7.5 million in the financial statements of the Authority as at 30 June 2001.**



*Land located at Thackery Road, Port Melbourne.
Identified as surplus and commercially attractive.*

4.81 As at 1 March 2002, two properties have been sold and a further 4 sites have been targeted for priority sale. The Victorian Government Property Group within the Department of Treasury and Finance was assigned responsibility for the sale of these sites. The process established by the working group is that, for each of the commercially attractive sites, prior to the sale process commencing Transurban will be requested to sign a formal agreement acknowledging that it does not require the particular area of land nor any interest or right over it (such as an easement) and that the land can be removed from the project area and the operation of the deemed lease under the *Melbourne City Link Act 1995*. **The remaining 15 sites designated as commercially attractive are currently being assessed prior to consideration for sale.**

4.82 In terms of the 2 properties sold to date, the Authority did not obtain formal agreement and acknowledgement from Transurban that they were not required to be included in the lease area. In one case, Transurban's agreement was not required as the land while acquired for the purposes of the project, and included in the project area, had not been included in any licence to Transurban due to design changes during the construction process. In the other case, the Authority advised that Transurban has agreed that the land will not be required for the operation of the Link.

4.83 In addition, as at 1 March 2002 the Authority had transferred 129 parcels of surplus land comprising 110 340 square metres for no consideration to the Roads Corporation (VicRoads). This surplus area, including air space, was originally transferred into the project area from VicRoads for no consideration. The vast majority of this surplus area is either underneath or above the western section of the City Link road, or consists of strips of land adjacent to that section of the City Link. Transurban has provided formal acknowledgement that these areas are surplus to its requirements for the operation of the City Link.

4.84 It is important that future sales of surplus land and transfers of land to other government bodies do not proceed until Transurban has specifically agreed that it does not require the individually identified parcels of land for the operation of the Link

4.85 In addition to the activities of the working group, the Department of Infrastructure is preparing a document setting out the general principles and processes that should be followed in identifying the "best use" for surplus land and addressing a range of issues associated with the transfer of land from the project area to government agencies. In general terms, land acquired from government bodies and deemed to be surplus will be offered back to the government body from which it was transferred. This is consistent with the *Government Policy and Instructions for the Purchase, Compulsory Acquisition of Land and Sale of Land* and the commitments made in 1996 and 1997 by the Minister for Finance.

4.86 It is recommended that the Authority continue to pursue the finalisation of the lease boundaries with Transurban with a view to ensuring that the leases are finalised as soon as possible so as to facilitate the transfer or sale of surplus land.

Condition of land

4.87 Under the project agreements, the State made no representation or warranty as to the condition of the project land, any structures thereon or associated areas. However, the State had indemnified Transurban for costs incurred for compliance with clean-up notices issued by the Environment Protection Agency within these areas where the State, a Victorian Government agency or occupants of the polluted land, caused or permitted the pollution to occur prior to Transurban taking possession of the land or the State granting a licence for the use of the land. This indemnity did not apply if the existence of the pollution was known or should have been reasonably known by Transurban prior to entering into the arrangements.

4.88 Under the Concession Deed, Transurban must leave land which is surplus to its requirements for the operation of the City Link and, therefore, not to be included within the lease boundaries, as nearly as possible, in the condition in which it was immediately before that land was occupied. In short, the Concession Deed requires Transurban to hand back surplus land to the State in “no worse a condition” than the land was when initially provided to Transurban.

4.89 Transurban carried out environmental investigations on land it received during the construction phase of the project and has undertaken similar investigations subsequent to the completion of the City Link to determine any changes in the levels of contamination on the land. These investigations have been performed by specialists on behalf of Transurban. The Authority has engaged its own specialist environmental auditors to review the quality and reasonableness of the analysis performed on Transurban’s behalf. **The conclusion reached by the Authority was that Transurban has been able to meet its obligations under the Concession Deed in terms of handing back surplus land in no worse condition than when it was provided to Transurban.**

Sub-leasing of leased land by Transurban

4.90 In April 2002, the *Melbourne City Link Act 1995* was amended to allow the granting of a lease over land to Transurban for purposes other than managing the City Link roadway and ancillary works.

4.91 The Authority advised that this legislative change facilitates Concession Deed amendments to allow Transurban to sub-lease particular areas to third parties for community or related purposes and which would not involve the generation of revenue for Transurban. For example, it is envisaged that the land area of approximately 4 000 square metres under the Link road immediately east of Glenferrie Road will be included in a lease to Transurban as the company will require access to this land to maintain the pylons supporting the road at that point. The inclusion of this area in a lease to Transurban would have effectively prevented the use of the area by other parties prior to the legislative amendment. Transurban has been approached by an organisation currently utilising adjacent land with a proposal to establish a car park underneath the Link road.

4.92 Prior to the amendment, the legislation did not allow the State to lease land to Transurban for purposes other than for the management of the roadway and ancillary works or other related purposes. On this basis, amendment of the Act was required to facilitate the proposed use of the land referred to above for the purpose of a car park. The Authority envisages that there may be other instances where land leased to Transurban may be able to be made available to adjacent land users for various purposes which would not be inconsistent with the effective management and maintenance of the City Link.

4.93 The City Link project was completed in December 2000. However, leases between the State and Transurban over the various sections of the Link road are yet to be finalised and, therefore, the process of disposing of surplus land acquired to facilitate construction of the Link has not progressed significantly. Of the 21 sites identified as commercially attractive, only 2 have been sold as at 1 March 2002, a further 4 sites have been targeted for priority sale and the remaining 15 sites are being assessed. In accordance with the legislation, the Authority needs to finalise the lease boundaries by the end of 2002.

RESPONSE provided by Director, Melbourne City Link, Department of Infrastructure

I have examined the report closely and note in particular your emphasis on the need for this Office to finalise lease boundaries by the end of 2002. I fully support your timely reminder. This Office remains committed to achieving this objective and recognises the importance of meeting responsibilities in this area.

I doubt that there has been another project of the scale and complexity of City Link in Victoria that has posed so many challenges for government in acquisition, licensing and leasing of land. It is important that this work is documented.

COUNCIL MONITORING OF BUSINESS VENTURES AND COMMUNITY SUPPORT ARRANGEMENTS

4.94 Councils, in seeking to carry out their responsibilities and achieve their objectives, establish relationships with a range of associated entities. The spectrum of relationships include ownership of stand-alone incorporated trading enterprises, joint venture arrangements with other councils for library or waste management services, and assistance to associated bodies such as community based organisations through the provision of grants, loans and loan guarantees. Our audit review focused on councils' relationships with associated bodies.

4.95 Councils can be exposed to financial and other risks as a result of these relationships. Councils therefore need to have processes in place to ensure that:

- Councils' objectives are being met;
- legal obligations are met; and
- proper assessment, approval, reporting and accountability mechanisms are in place.

4.96 On this basis, councils should establish appropriate risk management and governance arrangements for their involvement with all associated entities. The nature of these arrangements will necessarily vary according to the circumstances of the relationship and the nature of the associated entity.

4.97 Our November 2001 *Report on Public Sector Agencies: Results of 30 June 2001 financial statement audits* included a review of the City of Greater Geelong's involvement in the Geelong Business and Trade Centre Limited. In the conclusion to that review, we signalled an intention to examine the quality of governance arrangements for similar ventures across a number of local government entities and prepare guidance material to assist the sector to avoid or minimise the risk of adverse outcomes such as those highlighted in that Report.

4.98 For the purposes of this report we have focussed on risk management and governance arrangements established by a number of councils for relationships with associated entities where the councils have some form of financial or other exposure resulting from the provision of loans, loan guarantees and/or ongoing grants.

4.99 Based on a review of the audited financial statements within the sector for the year ended 30 June 2001, it is estimated that Victorian councils have a total exposure of approximately \$35 million arising from relationships with associated entities (excluding regional library corporations and regional waste management groups) made up of loans and loan guarantees totalling approximately \$8.5 million and \$25.6 million respectively.

4.100 Our review included an examination 5 councils which have exposures to associated entities through loans and loan guarantees. Our examination of each council focused on the following 5 areas considered to be critical to the effective management of relationships with associated entities:

- existence of an overall policy framework to promote an effective and consistent approach to the management of such relationships;
- quality of initial analysis underlying reports and recommendations to councils regarding proposals to involve councils in relationships with external entities involving some element of risk;
- endorsement by councils for the establishment of the relationship;
- establishment of effective risk management and governance arrangements at the commencement of the relationship using formal agreements and reporting and accountability mechanisms; and
- actual operation of, and compliance with, on-going risk management and governance arrangements during the period of the relationship.

4.101 The results and common themes arising from the review in each of these areas are reported below, along with guidance material which is considered to have relevance for all councils.

Overall policy framework

4.102 Council's are approached regularly by community and sporting groups seeking financial or other support in order to continue or expand the provision of services and facilities to the community. These groups typically operate from council controlled properties.

4.103 The majority of councils examined had not formally endorsed policies specifically addressing the provision of loans and/or loan guarantees to such groups or other external entities. In addition, where formal policies did exist, they were not comprehensive as they failed to address issues such as the criteria to be used in determining whether support would be provided and the requirement for formal agreements to be established to outline the relationship between the council and the associated entity.

4.104 There was also variability in the formal and informal policies of the councils examined in terms of whether or not they would provide loans and or loan guarantees. It is the policy of 2 of the councils examined to not provide loan guarantees under any circumstances while the other 3 councils examined provide loan guarantees to a wide range of community and sporting groups.

4.105 **It is recommended that councils establish and formally endorse a policy which addresses the provision of loans and/or loan guarantees to associated and other external entities. The policy should be focussed on risk management and governance and include a statement summarising the council's position on whether or not it will provide loans and or loan guarantees or other financial or "in-kind" support to community and sporting organisations.**

4.106 Where a council is prepared to consider the provision of such support to associated entities, the policy should include the elements outlined in the guidance that follows.

**GUIDANCE
THE POLICY FRAMEWORK**

- A requirement for formal submissions or applications from entities seeking the involvement and support of council.
- Clear criteria to be used in assessing and determining whether support will be provided. The criteria could include:
 - demonstrable alignment between the objectives of the entity and those of the council;
 - extent to which the entity provides services, facilities and/or benefits to the wider community;
 - evidence of the financial and other commitment of the entity to any proposed capital project(s) associated with the request for council support;
 - evidence of any other proposed funding sources for any proposed capital works or expansion of services associated with the request for council support;
 - evidence of the financial viability of the entity both current and projected with a particular focus on its capacity to service any proposed borrowings; and
 - evidence that the entity has a sound management and governance structure in place.
- A requirement for a report and recommendation from senior management to council regarding the proposed council involvement and support.
- A requirement for formal council approval prior to any financial support proceeding.
- A clear statement of council policy on representation by councillors and/or council officers on associated entities which have been provided with financial or other support by council. This policy should address the legal responsibilities of City officers and Councillors who accept Directorships of associated incorporated entities and the appropriateness of Council placing reliance on such Directors to keep it informed about the performance of the entity. Such representation can raise questions relating to potential conflicts of interest and Directors' capacity to keep Council informed of any financial and legal consequences and risk exposures. Directors' responsibilities are to the company under Corporations Law and, on this basis, the Council policy should require the establishment of other mechanisms to ensure that Council is informed of the entity's financial and operational performance.
- A requirement for a formal agreement to be established between the council and the associated entity setting out the nature of the support to be provided, the basis for the relationship and the responsibilities of both parties. The agreement should be required to include adequate performance monitoring and reporting mechanisms to ensure Council is provided with credible and timely information regarding the operational and financial performance of such entities.
- A clear statement of Council's expectations and requirements in terms of the on-going monitoring and management of its relationship with and exposure to the associated entity.

Quality of analysis and reports to council

4.107 Before establishing relationships or becoming involved with external entities councils should undertake adequate due diligence and other investigations to ensure that the relationship is consistent with the council's functions and objectives and that council decisions are soundly based. This is particularly the case where councils propose to expose ratepayers to financial or other risks through the establishment of such relationships.

4.108 As part of the review, we examined the content of reports and supporting analysis presented to councils by council management as the basis for decision making on the nature and extent of financial or other support to be provided to associated entities. There was considerable variability in the quality of reports provided to councils both within and across the councils examined. Even the more comprehensive reports were usually focussed on the immediate decision point and did not adequately address the future implications of the proposed involvement.

4.109 The audit review focused on reports to council recommending the provision of a loan or loan guarantee to an associated entity. Very few of the reports examined were considered to be comprehensive in that they often failed to address critical matters such as the alignment between council objectives and those of the entity seeking support, councils actual and potential financial contributions and exposures beyond the initial support, the adequacy of the associated entities management and governance structures, and the mechanisms to be established to enable council to monitor and manage its exposure to the associated entity.

4.110 It is recommended that reports to council from council management which form the basis for decision-making on the nature and extent of council involvement with associated entities should contain an analysis of the matters outlined in the guidance that follows.

**GUIDANCE
CONTENT OF REPORTS FORMING THE BASIS FOR COUNCIL DECISION-MAKING**

- Discussion of the extent to which the proposed involvement and relationship is consistent with council objectives and the alignment between the objectives of the associated entity and those of council.
- Examination of the anticipated benefits expected to arise from the council support and involvement and the likelihood of realising the benefits to be generated for the community and Council from the proposed involvement and support.
- Analysis of the projected financial viability of the associated entity including identification of the demand for the functions to be performed or services to be provided by the entity and other relevant market analysis.
- Examination of alternative options for council support (for example, loans, grants, loan guarantees, in kind support).
- Assessment of any legislative compliance issues.
- Details of financial contribution requirements from Council beyond the initial support, including on-going recurrent financial implications and potential exposures in respect of the establishment and/or on-going operation of the entity.
- A risk assessment in respect of the entity from Council's perspective including identification of risks and how they would be managed and mitigated.
- Assessment of the adequacy of the associated entity's management and control structure, and of the expertise of those responsible for management of the entity.
- Identification of mechanisms to be established to provide Council with the capacity to monitor the operation of the venture and protect the interests of ratepayers.

Council endorsement for establishment of relationship

4.111 It is important that the establishment of a relationship between a council and an external entity be formally endorsed by council. This is particularly critical in circumstances where the relationship involves the assumption of financial or other risks by council.

4.112 It was pleasing to observe that all councils examined were able to provide evidence of formal council approval or endorsement for the establishment of relationships and provision of financial and other support to external entities. As outlined in the guidance that follows, council resolutions approving the establishment of such relationships should contain any conditions considered necessary.

**GUIDANCE
COUNCIL ENDORSEMENT**

- The Council should formally endorse the establishment of a relationship with an external entity by passing an appropriate approval resolution containing any conditions considered necessary.
- Council management should ensure that any conditions contained in council motions approving establishment of relationships and provision of financial or other support to associated entities are satisfied in a timely manner.

Establishment of effective risk management and governance arrangements

4.113 If council endorses the establishment of a relationship and provision of financial or other support to an associated entity, it is essential that effective risk management and governance arrangements are put in place to protect the council's interests. The most effective way to achieve this aim is to establish an agreement between the council and the associated entity which assigns clear roles and responsibilities to the parties and provides the council with the capacity to hold the associated entity to account.

4.114 The vast majority of relationships between councils and associated entities examined as part of this review involved the provision of loan guarantees by councils over borrowings taken out by the associated entities. **While there was invariably an agreement established between councils and the relevant financial institutions to evidence the provision of loan guarantees, it was rare for councils to establish an agreement with the associated entity in respect of the guarantee.**

4.115 The failure of councils to establish appropriate agreements with entities for whom a loan guarantee has been provided can limit the capacity of councils to require such entities to provide them with sufficient information to enable monitoring of their on-going financial viability and operational performance, and their actual performance in meeting loan repayment commitments.

4.116 A number of councils used representation by councillors or council officers on the governing body of associated entities as one of the primary means of monitoring the performance of these entities. The November 2001 Report to Parliament referred to earlier, which included a review of the City of Greater Geelong's involvement in the Geelong Business and Trade Centre Limited, raised questions regarding the legal responsibilities of council officers and councillors who accept directorships of associated incorporated entities and the appropriateness of council placing reliance on such directors to keep them informed about the performance of the entity. The directors' responsibilities are to the company under Corporations Law and on this basis councils should establish other mechanisms to ensure that they are kept them informed of the financial and operational performance of associated entities.

4.117 In one instance observed during this review, a councillor was also chairperson of an associated entity. That councillor in the capacity as chairperson of the associated entity formally sought the provision of a loan guarantee from the council and then in the capacity as a councillor moved the motion recommending the granting of such a loan guarantee to the associated entity. The motion was carried and the loan guarantee provided. Such events highlight the potential for suggestions of conflicts of interest between the roles of individuals as councillors and/or council officers and their roles as members of the boards of governing bodies of associated entities.

4.118 While councils may seek to ensure they are represented on the governing bodies of associated entities as a means of providing assistance and expertise to the entities, they should not use this as the mechanism to ensure that they are kept informed of the entity's financial and operational performance.

4.119 Councils should formalise the establishment of a relationship with an external entity involving some risk or exposure to council arising from the provision of financial or other assistance by requiring the establishment of an agreement which incorporates adequate performance monitoring and reporting mechanisms. The agreement should seek to protect the interests of council by ensuring it is provided with credible and timely information.

4.120 As outlined in the guidance that follows, councils should ensure that agreements are put in place with associated entities where the nature of the relationship involves some risk or exposure to council.

GUIDANCE CONTENT OF AGREEMENTS ESTABLISHING EFFECTIVE RISK MANAGEMENT AND GOVERNANCE ARRANGEMENTS
<ul style="list-style-type: none"> • Clearly identify the basis for the relationship and define the roles and responsibilities of each party. • Set out any financial or other support to be provided by council and any related risks which council has agreed to bear. • Address the issue of council representation on the board or equivalent governing body of the entity and the fact that any such representation is not relied upon by council as the means of monitoring the performance of the entity. • Require the entity to inform Council of any known or anticipated change in circumstances which could be considered to impact on the nature of the relationship between the Council and the associated entity. • Establish mechanisms which allow Council to monitor the operational performance and financial position of the entity and protect the interests of ratepayers. • Establish a dispute resolution process. • Require the entity to acknowledge the support provided by Council. • Allow Council to renegotiate the basis for the relationship if circumstances change. • Establish a process for the termination of the agreement and relationship.

Implementation of risk management and governance arrangements

4.121 While each of the areas dealt with in the above paragraphs are vital to the effective management of exposures arising from relationships with associated entities, they are of little consequence if there is ineffective implementation of risk management and governance arrangements.

4.122 The audit review identified weaknesses in the practices adopted by some councils to manage the exposures arising from relationships with associated entities. The primary weakness related to the lack of evidence of timely monitoring of the financial and operational performance of entities for whom councils had provided loan guarantees. In many cases, the evidence of monitoring activity did not extend beyond the receipt of annual financial statements from the associated entity and/or the receipt of advice from the relevant financial institution regarding the loan balance outstanding at a point in time. There was generally little evidence of forward looking analysis contained in periodic formal advice provided to councils on the status of associated entities or reassessments by councils of their risk exposures.

4.123 The audit review also identified a number of instances where associated entities provided with some form of financial or other assistance, typically a loan guarantee, subsequently approached councils seeking additional assistance in the form of grants, loans or further loan guarantees as a means of ensuring their continued operation and existence or to fund an expansion in their services and facilities. Councils generally agreed to provide additional assistance. Such situations present councils with difficult choices and may indicate weaknesses in the up front analysis supporting initial council decisions to provide support and the quality of the associated entities management and governance arrangements. These situations also illustrate the potential danger of councils becoming “locked in” to the on-going support of an associated entity.

4.124 The quality of reports and financial statements provided by associated entities to councils to fulfil their accountability obligations was highly variable in terms of their content and the degree to which their credibility was enhanced by management and external audit certification. The audit review identified numerous errors and inaccuracies in the reports and financial statements submitted by such entities and there was little evidence of any formal review and analysis of this information by council officers.

4.125 In a number of instances, it was clear that the associated entities had experienced liquidity difficulties associated with the repayment of debts owed to, or guaranteed by, councils. As indicated previously, the vast majority of associated entities provided with financial support in the form of loans or loan guarantees by the councils examined were community and sporting groups occupying council controlled land, and in some cases facilities. To ensure continued access for the community to the facilities, in the event of such entities failing to meet their obligations, councils are called upon to honour their loan guarantees, forgive debts or extend the existing facilities, and in some cases the councils assume control of the facilities.

4.126 The councils examined as part of this review generally provided an adequate level of public accountability for their relationships with associated entities through the inclusion of information in their annual reports and, where appropriate, the disclosure of details of loan guarantees in the notes to the financial statements.

4.127 As outlined in the guidance that follows, councils need to ensure the effective implementation of risk management and governance arrangements established for relationships with associated entities. Such arrangements need to be established by councils to ensure they have access to sufficient information and capability to:

- monitor the financial and operational performance of the entities;
- periodically assess the status of councils' risk exposure;
- promote councils interests; and
- influence the direction of the entities, where considered appropriate.

GUIDANCE EFFECTIVE IMPLEMENTATION OF RISK MANAGEMENT AND GOVERNANCE ARRANGEMENTS
<ul style="list-style-type: none"> • The effective implementation of risk management and governance arrangements is best achieved by formally assigning to a senior council officer responsibility for the implementation of these arrangements which have been established in agreements or through other mechanisms, and management of the council's relationship with the associated entity. Such officers should be required to provide the council with periodic reports on the status of the relationship with the associated entity, its financial and operational performance, any changes in the assessment of councils risk exposure and any recommendations regarding the management of the relationship into the future. • Councils should ensure that there is adequate accountability to their communities for the management of relationships with associated entities through their annual reports and, where appropriate, annual financial statements (for example through disclosure of loans and loan guarantees).

RESPONSE provided by Executive Director, Local Government Division

The Local Government Division (LGD) supports the general thrust of the Report and the recommendations made.

The recommendations in the Report will provide valuable encouragement to councils in the establishment of appropriate policies and frameworks on governance arrangements and risk analysis and management. With appropriate policies and frameworks in place, the risk to ratepayers of councils providing loans or loan guarantees to local community groups can be reduced. The LGD will bring these recommendations to the attention of all councils once your report is tabled in Parliament.

REVIEW OF MUNICIPAL BUSINESS UNITS

4.128 As part of a review of the implementation of the then State Government's policy for compulsory competitive tendering within local government, my Office's 1998 *Report on Ministerial Portfolios* included the following key findings from a review of the management of business units by municipal councils:

- Twelve municipal councils with contract expenditure in excess of \$68 million were unable to identify the surpluses or losses generated during the 1996-97 financial year from their business unit operations. This management deficiency may have exposed ratepayers' funds to risk, particularly where such units provide services external to the council;
- Fifty per cent of municipal councils who responded to an audit survey indicated that profits of council business units were shared with employees;
- A council had awarded a contract relating to road maintenance services valued at \$5.2 million to the business unit of another council, however, the terms and conditions of the contract had been subjected to differing interpretations due to a lack of clarity of the contractual obligations of both parties, especially the expected type and standard of service to be provided. Subsequently, during February 1998, a Deed of Amendment was entered into by the parties clarifying various provisions of the initial contract and incorporating a variation to the contract totalling \$620 000 to enhance the level of service provided for unsealed roads; and
- Councillors of another council resolved to award a contract to its in-house service provider notwithstanding that the tender evaluation panel's recommendation was to award the contract to an external provider. In December 1997, a writ was lodged in the Victorian Supreme Court on behalf of the external provider seeking damages against the council in excess of \$1.5 million. However, a settlement was reached during April 1999 in which the council agreed to pay \$100 000 to the external tenderer.

4.129 My subsequent reports to Parliament have also commented on the activities of municipal council business units, including:

- The overall cost to ratepayers of the Colac-Otway Shire Council for the acquisition and operation of an abattoir until its closure, and contributions to the owners of the new facility, totalled around \$2.4 million, with a further \$250 000 provided by the State; and

- In view of the differing risks for municipal councils involved in the creation and operation of entrepreneurial arrangements, such as companies created under section 193 of the *Local Government Act* 1989, including the potential exposure to public funds, the legislative responsibilities and accountability requirements of these arrangements required further clarification. In particular, some entities created under section 193 did not have any external reporting obligations under that Act unless the relevant Ministers created an expressed external reporting obligation as part of the approval to create the entity pursuant to the Act.

4.130 A further review of municipal council business unit activities was considered warranted given the significance of the previous audit findings and the replacement of the previous policy for compulsory competitive tendering with the Government's Best Value policy during 1999.

4.131 The objective of this audit review was to identify the extent of business unit activities undertaken outside the "parent" council and assess the effectiveness with which these activities were being managed. Specifically, the review assessed the number of councils undertaking external work, that is undertaking work for other councils or other entities.

4.132 For the purposes of this report, a business unit has been defined as any division, unit, section or other entity of council which provides or intends to provide goods or services (generally under contract or written agreement) to external clients, or to both external clients and the parent council. External clients include other councils and other entities in the private or public sectors. External clients do not, for example, include ratepayers who are in receipt of normal municipal services, such as garbage collection.

Trends in the incidence of business units

4.133 The *Local Government Act* 1989 enables councils to create business units pursuant to their objectives, functions and purpose under the Act, and also provides councils with entrepreneurial powers. Further, the functions of a council under the Act are wide-ranging and include encouraging employment, commerce, industry and agriculture.

4.134 Consistent with the approach adopted during my Office's 1998 review, a survey of councils was undertaken early in 2002 to ascertain the nature and extent of business unit activities. The 2002 survey revealed that municipal business units are currently undertaking the following types of activities:

- civil works, including road maintenance and construction;
- garbage collection;
- building approvals;
- food and cleaning services; and
- management of:
 - tourist attractions;
 - leisure centers and pools, including gymnasiums;

- aged care hostels;
- golf courses;
- museums and galleries;
- reception/conference centers;
- car parks;
- childcare centers;
- sale yards;
- caravan parks;
- parks and gardens;
- markets; and
- landfills and quarries.

4.135 Table 4F sets out a comparison of the number of councils operating business units between 1998 and 2002.

**TABLE 4F
MUNICIPAL BUSINESS UNITS – COMPARISON OF THE NUMBER OF
COUNCILS OPERATING BUSINESS UNITS, 1998 AND 2002**

<i>Business units</i> (no. of units)	<i>1998 audit survey</i> (no. of councils)	<i>2002 audit survey</i> (no. of councils)
In-house units -		
1 to 5	20	30
6 to 10	20	6
11 to 20	12	4
greater than 20	1	1
Separate trading entities	8	3
Total	61	44

4.136 Table 4F indicates a 28 per cent reduction between 1998 and 2002 in the number of councils operating business units, and a significant reduction in the number of business units per council. This is, in part, a response to the 1999 repeal of the former legislative obligations for compulsory competitive tendering by councils, which had encouraged the creation and maintenance of business units by councils. **Nevertheless, the incidence of business units within the local government sector is still significant given that 44 of a total of 78 municipalities still operate business units.**

4.137 The 2002 audit survey also revealed that the significance of the dollar value of work undertaken by business units, when compared with their parent council’s turnover, varied substantially between councils. While for many councils, business unit turnover was not significant, for others it was a major activity (case study examples of such business units are discussed later in this section of the report). It is acknowledged that the level of business unit turnover may not necessarily be reflective of the resultant level of risk posed to the parent council by the operation of business units.

Risk management framework

4.138 In accordance with contemporary management practices, councils have a responsibility to maintain adequate risk management strategies across all of their activities. The need for the adoption and management of effective risk management strategies is increased when councils elect to undertake work for external clients or engage in other entrepreneurial activities using business units.

4.139 Approximately 88 per cent of councils which responded to our 2002 audit survey question on risk management strategies indicated that they did not have a risk management strategy. Nevertheless, of those councils which did not have a strategy, 61 per cent indicated they were in the process of developing such a strategy and/or that they already had a risk management policy in place which provided the framework for development of risk management strategies and plans.

4.140 Councils, which elect to engage in work for external clients, or engage in other entrepreneurial activities, can change existing risks, or create new risks in several respects, including:

- public liability;
- occupational health and safety;
- financial losses, which may cause other municipal services to be curtailed or stopped;
- fraud and break down in internal control;
- professional negligence in the management of entrepreneurial ventures and business activities;
- diversion of council resources into non-core activities;
- environmental threats;
- redundancy risks, including unemployment;
- business continuity threats;
- legislative and regulative compliance matters; and
- privacy and information management issues.

4.141 Nevertheless, councils may also potentially derive some significant benefits for their municipalities from the operation of business units, such as:

- an increase in local employment and economic development;
- creation of additional revenue streams for council;
- creation of economies of scale and cost reductions for council;
- creation of competition; and
- achievement of other environmental and social objectives.

4.142 Risk management is an ongoing responsibility of councils. All councils should ensure that an effective and responsive strategy is in place and that it remains relevant to council's changing risk environment. **In particular, attention should be given to the specific risks arising from the operation of business units in the development and maintenance of municipal risk management strategies.**

Departmental Initiatives

4.143 In response to my Office's parliamentary reports into business units and entrepreneurial undertakings within local government, the Department of Infrastructure has undertaken a number of initiatives. In particular during November 2002, the Department released a discussion paper entitled *Risky Business – Improving Council's Management of Entrepreneurial Risk*.

4.144 Further, the Minister for Local Government announced in November 2000 that the *Local Government Act 1989* would be updated to correct anomalies and ensure that the Act reflected contemporary thinking about the role of local government, its accountability to its constituents and its relationship with the State. During February 2001, a report on *Consultation with Councils on the Discussion Paper* which included suggested revisions to the *Local Government Act 1989* was released. The legislative provisions related to entrepreneurial undertakings of municipal councils and the *Report on Consultation with Councils on the Discussion Paper* have been considered as part of the legislative update process.

4.145 It is anticipated by the Department that the new legislation will be presented to Parliament in the autumn session of 2002.

4.146 The Act currently places certain obligations on councils where they elect to establish their business units as separate entities, such as companies, joint ventures, trusts or partnerships. Those obligations include requiring the approval of the Minister for Local Government for the establishment of such entities and subjecting those bodies to audit by the Auditor-General. Further, the Minister, when approving the creation of such entities, had required those entities to provide regular reports to the Department.

4.147 The Department has proposed as part of the current review of the Act that councils be required under the legislation to obtain a risk assessment report for some of these entities and the Department's proposals would create a legislative power for the Minister to publish guidelines on risk assessment reports.

4.148 Our 2002 survey has revealed that most business units have been created as an internal unit of council rather than as a separate entity under the Act. **However, there is currently no existing legislative obligation requiring Ministerial approval for councils to provide significant services to external clients** (other than for arrangements established under section 193 of the *Local Government Act 1989*) **nor is it proposed to require the preparation of a risk assessment report for the provision of such services.**

Accountability to the council and community

4.149 The 2002 audit survey results indicated that councils have established similar internal reporting and accountability procedures for their internal business units, as exists for other activities of council. Common features include financial and performance-based reporting against budgets and sometimes service agreements. These internal reports are generally initially presented to line management and then to the Chief Executive Officer, a Committee of Council and ultimately to council.

4.150 The frequency of reporting varied between each level of recipient and between councils. The reporting to council varied from monthly to annual reporting, which was accompanied by more frequent reporting to the Chief Executive Officer and Committees of Councils.

4.151 Externally-reported information on the operation of business units varied significantly. Generally, council business units did not have a regular external reporting regime in place. However, audit did note instances where some information on some business units was available from council annual reports, council minutes and internet websites.

4.152 Detailed publicly available information on the existence, operation and performance of business units was generally not available or very limited. As noted earlier, there are no specific legislative external reporting obligations for business units arising from the *Local Government Act 1989*.

4.153 The need for regular, publicly available audited information on the operation and performance of business units is heightened not only by the different risk profile created by the operation of business units that provide significant services to external clients but also by the fact that 20 per cent of business units still have profit sharing arrangements with employees.

4.154 The adoption of a segment reporting regime within council annual financial reports for internal business units that provide significant external services could alleviate this deficiency. Information provided in council annual financial reports under such a regime could not only include revenue, expenditure, assets and liability information for each significant internal business unit, but could also provide information on the financial performance of internal and external work undertaken by business units.

Case studies

4.155 During the audit review, a number of business units were selected for a closer inspection, the results of which are set out below. These business units were selected on the basis that they may be illustrative of some of the issues faced by councils in the operation of business units which undertake work for external bodies.

4.156 Key overall observations from the review of the case studies include:

- all of the business units reviewed represented a substantial operation when compared with the value of their parent councils' turnover, and all had a significant proportion of external work;
- the parent councils sometimes provided certain guarantees relating to the timeliness and quality of their business units' works for external bodies;
- all of the business units examined were in-house business units, nevertheless, one of these business units had also established a separate corporate identity and operated "independently" of its parent council;
- the business units contributed to their parent councils' objectives, which included promoting employment, growth and business development opportunities;
- the operations of the majority of the business units examined were monitored by a special committee of council, established pursuant to the *Local Government Act 1989*, which acted as defacto Boards of Management;
- the complexity of managing these business units was increased by the conduct of a combination of municipal and commercial/entrepreneurial activities, and that they sometimes endeavoured to deliver a large range of diverse services; and
- only some of the business units examined had positive corporate governance features in the form of internal reporting and shorter-term planning arrangements, and voluntary annual external reporting practices together with risk management strategies.

4.157 In summary, the review of the business units covered by the case studies reinforces the need for improved governance arrangements over these activities within the local government sector.

Case study A

4.158 The council created an in-house business unit during 1997 and established a Special Committee of Council, pursuant to the *Local Government Act 1989*, to act as a governing board for the business unit. The council delegated certain powers to the Special Committee of Council to incur expenditure and enter into contracts below certain prescribed limits.

4.159 The business unit's mission is to

- provide a range of high quality programs and services under contract to the council, and other customers from within and external to the municipality; and
- trade as a separate entity to the council, paying all its own expenses, and achieve a surplus.

4.160 The business unit has established its own corporate identity, its own accounting system, internet web page and bank accounts, and operates independently from council. However, it remains an internal unit of council reporting to a Special Committee of Council acting as a Board of Management.

4.161 The business unit employs approximately 300 people, has a significant turnover (which represents 55 per cent of its parent council's 2000-01 turnover) and **37 per cent of the Unit's turnover was sourced from external clients**. The business unit which operates on a full cost recovery basis, had a positive net asset position and working capital position, and achieved a very small profit for the 2000-01 financial year, based on the unit's management accounts. These accounts, which do not separately report the financial result arising from work undertaken for external clients, were reviewed by an internal auditor engaged by the unit.

4.162 Profits are generally shared on a 50/50 basis between the business unit and the council. The unit retains its share of the profits to guard against any future losses and as a fund to pursue future business opportunities and operational refinements. Council is currently considering expanding the business activities of the unit through a partnership arrangement. Some parts of the business unit had profit sharing arrangements with employees, however, these arrangements have now ceased for most staff.

4.163 The business unit's non-current assets have been debt financed by the council. This borrowing is secured by mortgage over the council's general rates. The council also provides guarantees for the business unit's external works contracts.

Corporate governance

4.164 The business unit's Board of Management meets monthly to monitor the operations of the unit and comprises 2 councillors, the Chief Executive Officer of the council, 2 independent representatives appointed by council, a staff representative and the General Manager of the business unit. The independent representatives have been appointed by the council on the basis that they have suitable service contract management experience. The General Manager and the staff representative are non-voting members. Lastly, the council's Mayor holds a seat on the Board of Management in an ex-officio capacity.

4.165 The composition and structure of the Board of Management highlights the hybrid nature of the arrangement chosen by council to establish its business unit. On the one hand, the Board of Management is strongly representative and very much a part of council, but at the same time acts as a commercial undertaking.

4.166 The complexities of managing this partly commercial business undertaking, which operates from within council, is also highlighted by the diversity and large number of services provided by the Unit. Those services include:

- domestic services, including driveway maintenance and installation, house levelling, maintenance and cleaning, and septic tank installation;
- youth support and advice, home care, immunisations, and maternal and child health services;
- payroll and administrative support;
- planning mediation and conflict resolution;
- commercial cleaning;

- plant hire and road maintenance;
- swimming pool management;
- grounds maintenance of parks and reserves, and tree planting;
- animal control; and
- waste management and recycling.

4.167 The business unit is required to prepare an annual business plan which is approved by its Board of Management and the council. The plan sets out the unit's role, objectives and activities for the coming year and detailed budgets. The business unit does not prepare a longer-term strategic plan for approval by its Board of Management or council.

4.168 Council has elected to include unaudited information on the operation of the business unit within its annual report. That information includes the business unit's mission, aims and objectives, Board of Management structure and financial performance. The business unit also provides its Board of Management and the council with regular reports, including annual plans, budgets, and monthly and quarterly performance reports.

Risk management

4.169 While the council has a number of insurance arrangements and other policies in place which address certain risks, both the council and the business unit have not formally documented a risk management strategy. Further, while the council's existing risk management arrangements do not specifically address the business unit, the unit does undertake a risk-based analysis of each tender it prepares.

4.170 While the council has an internal auditor, to date there have been no internal audit reviews undertaken into the activities of the business unit, nor have any external parties been engaged to review the activities of the unit on behalf of the Council. Reviews of the financial regularity, legislative compliance, risk management, efficiency, effectiveness and economy of the business unit's operations should be of assistance to the unit's Board of Management and the council.

Case study B

4.171 The council established this in-house business unit in order to maintain local employment and create additional income for the council. In common with case study A, this business unit is overseen by a special committee of council, acting as a Board of Management with certain delegated powers from council.

4.172 The mission of the Board of Management is to "... *promote and market the business to create and take advantage of business opportunities that will enhance the position of the Business Unit as a provider of a range of quality infrastructure maintenance and construction services*".

4.173 This business unit competes for in-house work and has not sought to establish its own corporate identity. The services provided by the business unit include:

- road maintenance and construction;

- bridge and land fill maintenance;
- plant maintenance;
- maintenance of parks, gardens and public conveniences; and
- quarry management.

4.174 The business unit has a significant turnover, which represents 43 per cent of its parent council's 2000-01 turnover, and **15 per cent of the unit's turnover is from external clients**. In relation to the unit's work for external bodies, the council provides certain guarantees relating to the timeliness and quality of such works.

4.175 The business unit, which operates on a full cost recovery basis, reported a profit for the 2000-01 financial year, based on unaudited management accounts. These accounts do not separately disclose the financial result arising from work undertaken for external clients. In addition, the business unit does not separately account for any assets or liabilities it controls or creates.

Corporate governance

4.176 The business unit's Board of Management meets monthly to oversee the development of the unit and comprises 2 councillors, the Chief Executive Officer of the council, 2 other senior council officers, a nominated staff representative and an independent person appointed by council. The independent person has been appointed to add an external business focus to the operations of the unit.

4.177 The structure of the Board of Management is strongly representative of council and in light of the unit's significant commercial focus the Board of Management may need to consider if it has a commensurate level of business skills and experience.

4.178 The business unit provides its Board of Management with monthly activity and financial reports, and budget and performance reports. The unit also prepares an annual business plan (which includes a component with a longer-term view) and an annual report but does not prepare a longer-term strategic plan. Limited information from the unit's annual report to its Board of Management is incorporated into the council's annual report.

Risk management

4.179 While the council has developed risk management policies from a whole-of-organisation perspective, they do not specifically address the activities of the business unit. Council is currently developing a risk register across the organisation with an intention to formally document a risk management strategy for the business unit and council as a whole.

4.180 While the Council has an internal audit function, which has identified risks associated with the operations of the business unit, there have been no reviews of the unit's activity.

Case study C

4.181 The council maintains 5 business units, only one of which is overseen by a Special Committee of council. The business units use some of council's non-current assets to undertake their activities and one business unit is generating revenue to fund council's previous acquisition of a building and land for its activities. Council does not provide any guarantees for the business units' works contracts.

4.182 The services provided by the business units include:

- operation of a tourism complex;
- road construction and maintenance;
- parks and gardens maintenance;
- fire hazard maintenance; and
- management of caravan park facilities, saleyard facilities and quarry facilities.

4.183 Overall, the business units' turnover for the 2000-01 financial year represented 29 per cent of their parent council's turnover, while **37.5 per cent of business units' turnover is generated externally**. Three of the business units provide all their services to external clients, while the other 2 have a mix of internal and external clients. The business units operate on a full cost recovery basis and reported surpluses for 2000-01, however, the management accounts were not subject to review by the council's internal auditors and one of the business units did not separately disclose the operating result of its external operations.

Corporate governance

4.184 The Council's business units do not prepare separate business or annual plans, nor do they have their own mission statements. However, as previously indicated, one business unit is overseen by a Special Committee of Council which provides direction and sets objectives for the unit. That Committee is comprised of 12 people including one councillor and other members of the community appointed on a merit basis. The existing community members possess a variety of relevant skills, including legal, accounting and commercial skills.

4.185 The business units prepare monthly reports which include both data on operational and financial performance as compared with budget for submission to the council's Chief Executive Officer. In addition, the Special Committee of Council meets monthly and reviews the financial and performance reports of one of the business units, which are then submitted to council.

4.186 The business unit overseen by the Special Committee of Council also presents an annual report to council.

4.187 The activities of the business units are deemed to be integral to the activities of the council and separate information on their operations are not included in the council's annual report.

Risk management

4.188 Council has a number of risk management policies and strategies in place which do not specifically address the activities associated with the operation of the various business units.

4.189 While the council has an internal audit function, to date there has not been any internal audit reviews into the business unit's activities.

Case study D

4.190 The council has created an in-house business unit for the maintenance and construction of roads, drains and footpaths. **The business unit has a significant externally generated turnover, which represented 15 per cent of council's 2000-01 turnover.** The business unit operates on a full cost recovery basis and reported a surplus for 2000-01 for its external clients, however, the management accounts were not subject to review by the council's internal auditors.

Corporate governance

4.191 The business unit operates as an internal department within the council and, therefore, does not have its own corporate identity. The unit also does not have a mission statement or prepare an annual business plan.

4.192 The business unit is governed by a Special Committee of Council, which acts as a governing board and has certain delegated powers from council. The Committee which meets monthly, is comprised of councillors and executive management of council. The introduction of independent members could strengthen the commercial and business expertise of this Committee.

4.193 The business unit is subject to the same financial and performance-based controls, as are all other council programs, including monthly reports, to council and annual and mid-year budgets. The unit provides monthly financial reports to its governing board, which compares its performance against its budget.

Risk management

4.194 While council has implemented risk management policies, it has not prepared a risk management strategy which identifies, documents and assesses risks for the council or more specifically its business unit activities. However, council using its internal auditors does undertake an evaluation of risks and the correctness of calculations made for each tender prepared by the business unit. The Council's audit committee also reviews the operations of the business unit by monitoring financial and budget information.

Overall conclusion

4.195 Councils could improve corporate governance arrangements over the operations of their business units by:

- **ensuring councils prepare risk management strategies, which include specific reference to risks arising from business units, and longer-term strategic business plans for these units (that is, over periods greater than one year);**
- **utilising internal audit to review business unit operations with such reviews covering financial regularity, legislative compliance, risk management, efficiency, effectiveness and economy of the operation of business units;**
- **ensuring all business units have a clear mission supported by a separate annual business plan together with longer-term strategic planning;**
- **ensuring that all business units' operations are monitored by a Board of Management or equivalent committee structure with an appropriate mix of municipal and commercial/entrepreneurial expertise; and**
- **adopting a segment reporting regime within council annual financial reports, for internal business units that provide significant services to external clients, which sets out the units' revenue, expenditure, assets and liabilities, together with information on the financial performance of internal and external work undertaken by business units.**

RESPONSE provided by Executive Director Local Government Division, Department of Infrastructure

The Department supports the general thrust of these recommendations, and will continue to work with the sector to improve corporate governance arrangements.

PROPERTY MANAGEMENT PRACTICES AT LATROBE CITY COUNCIL

4.196 The Latrobe City Council (the Council) was formed on 29 July 1994 as a result of the merger of the former Cities of Moe, Morwell and Traralgon, and the former Shire of Traralgon. The amalgamation process left the Council with a property portfolio that included multiple buildings that had previously been utilised for similar purposes, such as municipal chambers, customer service centres, and depots. A challenge for the Council was to effectively manage the portfolio and to identify and sell those properties that were no longer required in the context of the Council's objectives and service delivery obligations to its community.

4.197 It is clearly desirable for councils to have in place documented property management strategies to facilitate the effective management of their property portfolios in the best interests of ratepayers. **The audit review disclosed that the Council has not established or approved a property management strategy or supporting policies and procedures.**

4.198 We recommend that the Council and others facing similar circumstances establish a documented property management strategy which:

- identifies in broad terms the nature and extent of the property portfolio;
- outlines the current and planned usage of specific properties, including planned actions for properties considered surplus to requirements;
- reflects consideration of both current and projected community needs;
- addresses financial issues associated with the management of the portfolio including on-going insurance, maintenance and capital upgrade and replacement costs;
- is supported by detailed policies and procedures addressing:
 - property management and operational issues such as access arrangements, safety, security, heritage considerations, energy usage, cleaning and maintenance;
 - property acquisition and disposal processes which address issues such as obtaining valuations, negotiation and approval guidelines, tendering requirements and handling of actual or potential conflict of interest issues; and
 - requirements to ensure compliance with relevant provisions in the *Local Government Act 1989* and other legislation.

4.199 The audit included a review of documentation relating to the sale by the Council of 3 properties that had been identified as surplus to requirements to determine whether the Council had complied with relevant provisions of the *Local Government Act 1989*. **We found that while the Council complied with legislative requirements in the sale of 2 of these properties, it did not meet all statutory obligations in respect of the sale of the third property.** Further comment on the disposal of this latter property is provided below.

Sale of former Moe City Offices

4.200 Under Section 189 of the *Local Government Act* 1989, a council is required to give at least 4 weeks public notice of its intention to sell or exchange land.

4.201 The Council advertised its intention to sell the former Moe City Offices property located at 46-48 Albert Street, Moe by way of public notice in a local newspaper in August 1996. After seeking expressions of interest for the purchase of the property, on 19 May 1997, the Council authorised its Chief Executive Officer to enter into negotiations with prospective purchasers. A decision was subsequently reached to sell the property to a local company.

4.202 In September 1997, the Council obtained an independent valuation of \$600 000 for the former Moe City Office property. This compared to the Council's municipal valuation of the property for rating purposes of \$750 000.

4.203 Following protracted negotiations between the Council and the company, a number of agreements were executed by the parties in August and December 1998 to give effect to the sale of the property for a total consideration of \$575 000 (made up of \$300 000 in cash and \$275 000 in "in-kind" commitments over 10 years). The primary features of these agreements were:

- A cash payment by the company of \$300 000 for the purchase of the former Moe City Offices;
- The company providing the Council with access (through a lease agreement) to the company's premises in Newborough for a 10 year period for an up-front payment by the Council to the company of \$25 000 (the estimated value of the area acquired for the 10 year period was \$200 000);
- The Council agreed to reduce the sale price of the property by:
 - \$50 000 in return for a written commitment by the company to construct a nursing mothers facility within the former Moe City Offices and ensure its public availability for a period of 10 years; and
 - a further \$50 000 in lieu of providing a development and relocation incentive to the company; and
- A commitment by the company to ensure the provision of certain medical services within the local area.

4.204 The council has subsequently sub-leased 85 per cent of the premises leased from the company to another entity for a nominal rental of \$1 per year and the remaining 15 per cent of the premises back to the company for an annual rental of \$2 145 over a term of 10 years (\$21 450 for the total period of the lease).

4.205 Our review of the sale arrangement revealed that:

- Under State legislation, stamp duty for land transactions is payable on the higher of the unencumbered market value of the property or the consideration for the sale (which includes the monetary consideration and the value of non-monetary consideration). In relation to the sale of the former Moe City Offices property, the Transfer of Land document forwarded to the Land Titles Office and the State Revenue Office stated that the consideration for the sale of the property was \$300 000. This document was signed and sealed by the Council and the company. Given that the consideration for the sale as determined by the parties was \$575 000 and its market value was \$600 000, the company's liability for stamp duty was understated. The Council has advised that the State Revenue Office is in the process of recovering the full amount of stamp duty payable on the transaction, with this amount calculated by reference to the market value of the property; and
- The *Local Government Act 1989* requires a council to have the land valued by a registered valuer not more than 6 months prior to the sale or exchange of the land. The Council contravened this requirement, as the contract of sale for the former Moe City Offices was not entered into until 11 months after the date of valuation.

4.206 The Council should review, and if necessary amend, its processes to ensure that it fully complies with all legislative requirements relating to land sale transactions.

RESPONSE provided by Chief Executive Officer, Latrobe City Council

Whilst Council might not have any current property management strategies, policies or procedures, the large majority of assets sold since amalgamation were the result of a detailed audit of Council-owned properties which identified surplus properties. The majority were sold over a three-year timeframe, mainly during the period of Commissioner-governed Council. Since this time, there has until recently, been minimal sales of Council's assets.

Council accepts that its valuation was 5 months older than required under the Act, however, it suggests that this was a minor oversight resulting from the time taken to finalise the protracted negotiations with the purchaser. Council has sold in excess of 50 (Council-owned) properties since 1994, and is extremely confident that it has complied with the Local Government Act in all other instances.

In relation to the Stamp Duty issue, there was no intention by Council, nor any benefit derived, in the understating of the sale price. It is noted that this matter has now been addressed by the State Revenue Office.

Council stands by its position that the sale to the company was to the benefit of the community. The building was vacant and in a high profile position in the CBD of Moe. Council's decision to sell the property has been vindicated by the growth of the business environment to the point where two further significant vacant CBD properties are now occupied by the company.

RESPONSE provided by Chief Executive Officer, Latrobe City Council - continued

Council assures the Auditor-General that its processes for land sale transactions are closely monitored and compliance with legislative requirements is strictly enforced. It is noted that minor oversights on Council's behalf in respect to the sale of the former City of Moe offices occurred, however, Council believes that this is an isolated incident in over 50 sales of property.

Part 5

Innovation, Industry and Regional Development

- National synchrotron facility _____ 155

NATIONAL SYNCHROTRON FACILITY

5.1 In June 2001, the Victorian Government announced that it would establish a national synchrotron facility adjacent to the Monash University Science Technology Research and Industry Precinct.

5.2 Victoria is home to 40 per cent of Australia's stock-exchange-listed companies dedicated to biotechnology enterprises. These companies, together with listed companies operating in closely related areas of bioscience, have a combined market value exceeding \$7.5 billion.

5.3 Biotechnology is heavily dependent on the scientific research base for its flow of new ideas. A major challenge facing the scientific research community is to capture the financial and other benefits that may flow from that research effort.

Biotechnology Strategic Plan

5.4 In June 2001, the Victorian Government released its *Biotechnology Strategic Plan* which aims to raise Victoria's profile internationally, so as to be recognised among the world leaders for biotechnology research and commercial development within 5 years. The plan commits the Government to making a significant investment in biotechnology of \$320 million over the next 4 years. The government's role is seen to be that of a catalyst for investment by industry and the education and research communities.

5.5 The plan recognises that one of Victoria's greatest strengths in biotechnology capability is the co-location of key research and education organisations, hospitals and industry in a number of precincts of research and educational excellence. Precincts generally provide centres for collaboration and shared infrastructure opportunities, and can become focal points for the exchange of ideas.

5.6 Table 5A shows 7 key Victorian biotechnology research precincts involving universities, research institutes, hospitals and companies. Their role encompasses pure research as well as transferring the results into clinics and the marketplace.

**TABLE 5A
BIOTECHNOLOGY RESEARCH, EDUCATION AND INDUSTRY PRECINCTS IN VICTORIA**

<i>Precinct</i>	<i>Location</i>	<i>Purpose</i>
Parkville Precinct	Parkville, and includes Melbourne City, Carlton, Fitzroy and East Melbourne. It is also the site of the Bio21 development	The major centre in Australia for medical and bioscientific research, education, clinical practice, production of pharmaceuticals and biotechnology products and for clinical trials
Alfred Medical Research and Education Precinct	Prahran	A purpose-designed centre of research and education excellence
Monash Health Research Precinct	Clayton	A focus for biomedical and other biotechnology research
Werribee precinct	Werribee	Principally focused on animal and food research
Bundoora precinct	Bundoora	2 major technology parks operated by LaTrobe and RMIT Universities
Austin Biomedical Alliance Precinct	Heidelberg - Located at the Austin & Repatriation Medical Centre	Aims to achieve better health outcomes through national and international collaboration
Monash University Science Technology Research and Industry Precinct	Clayton	A multi-disciplinary focus for the University, business and industry to work together forming one of Australia's largest aggregation of researchers

Source: Department of Innovation, Industry and Regional Development.

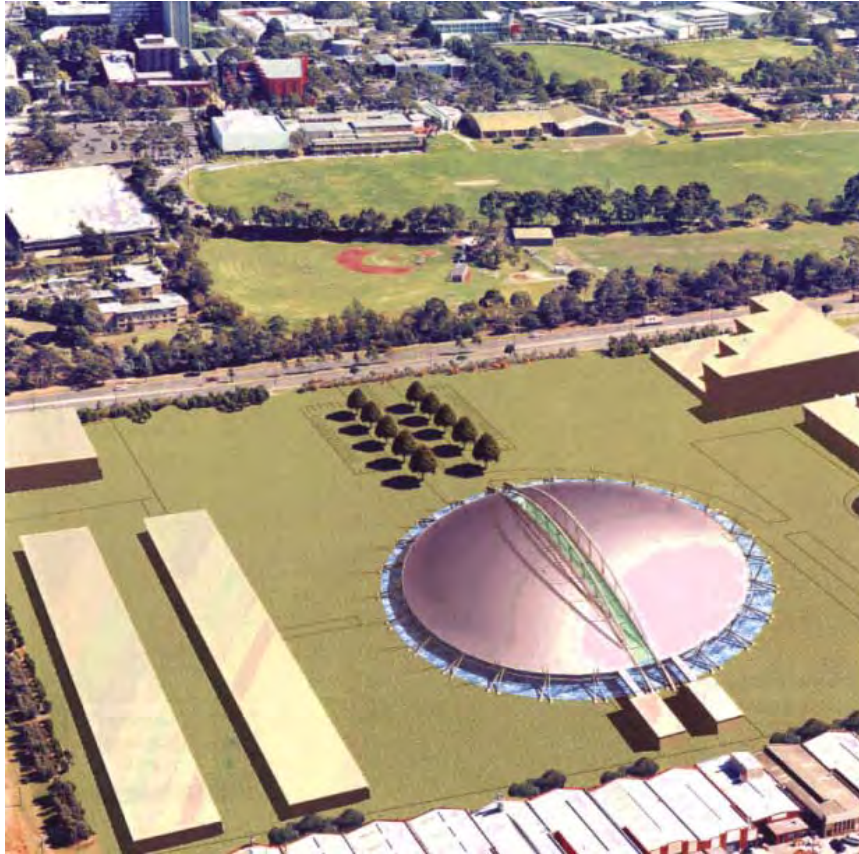
5.7 The location of significant infrastructure with advanced biotechnological research and industrial capabilities, such as a synchrotron, near such precincts has the potential to strengthen collaborative research and the commercialisation of Australian research output.

Nature and purpose of a synchrotron

5.8 A synchrotron is basically a microscope tens of millions of times more powerful than the best conventional microscope. In a synchrotron, charged particles (electrons) are accelerated to nearly the speed of light and are then forced into a circular path by magnets (with the circle being the size of a football field). A beam from the charged particles is then directed down beamlines to work stations where researchers conduct their experiments. Physically, there are four main components to a synchrotron:

- a linear accelerator which produces the beam of high-energy electrons;
- a booster which increases the energy of the electrons each time they go around;
- a storage ring around which the electrons circulate with the beam being steered and focused by powerful magnets; and
- beamlines and work or end stations where the research is conducted.

5.9 The facility produces fine intense beams of light which scientists can use to analyse molecules, biological samples and materials with significantly greater accuracy and precision than is possible on any other machine.



Conceptual drawing of a synchrotron.

Synchrotron history in Australia

5.10 Table 5B outlines the key events in the development of a national synchrotron facility in Australia.

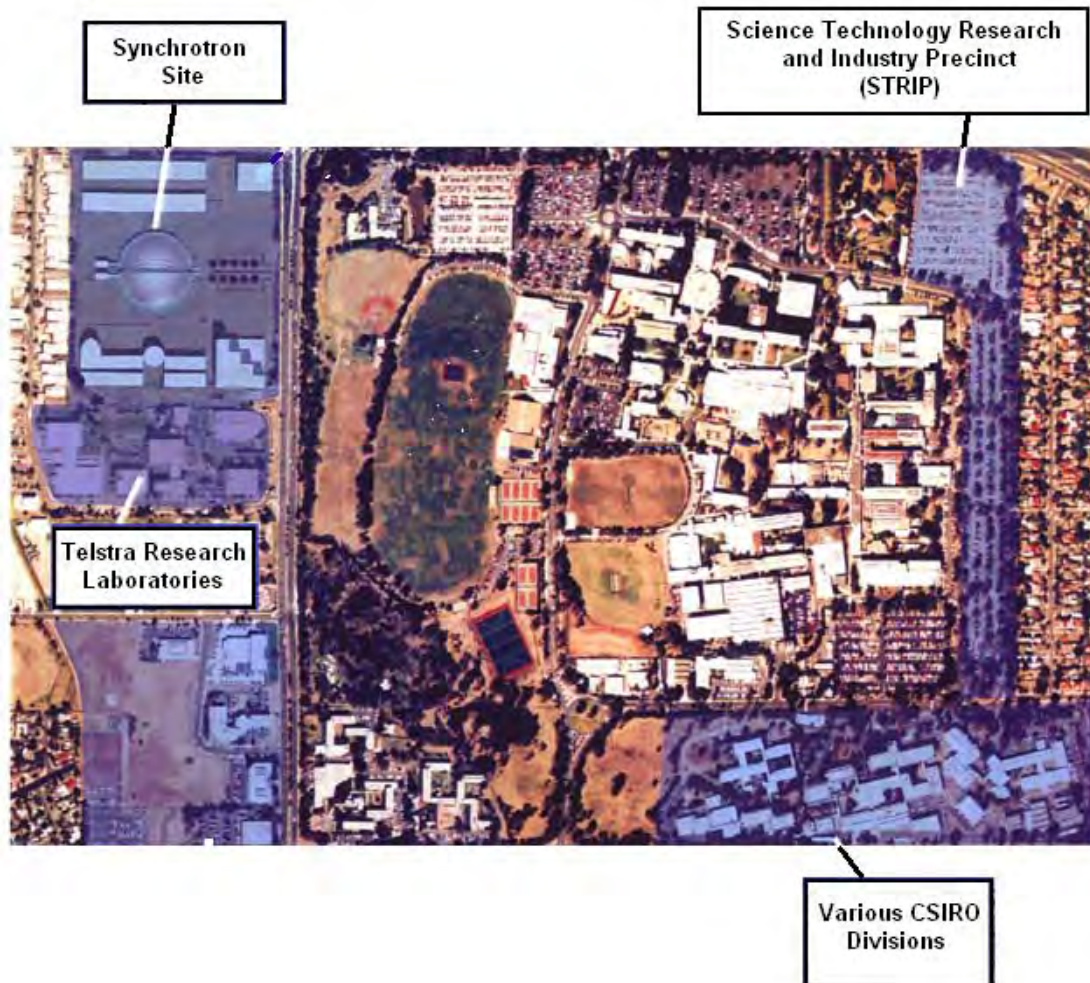
**TABLE 5B
NATIONAL SYNCHROTRON FACILITY DEVELOPMENT**

1989	Australian Academy of Science prepares the first proposal for a national facility.
1995	Establishment of the Australian Synchrotron Research Program (ASRP) with a requirement to complete a feasibility study for an Australian facility.
1997	Industrial Synchrotron Roundtable (ISR) established in Victoria.
1998	Preliminary Feasibility Study concludes there was a strong case for an Australian facility.
1998	Overseas mission completed with members from the ASRP and the ISR. Joint report supported the need for an Australian facility and provided design specifications.
1999	Two national economic benefit studies indicated that national economic benefits significantly exceed costs.
2000	National Synchrotron Steering Group (NSSG), consisting of representatives from the Victorian, NSW and Queensland State Governments, CSIRO and ANSTO, formed to examine the proposal to build a synchrotron.
2000	NSSG endorses a detailed feasibility study and strategic business plan, completed by a firm of Chartered Accountants, which provides the basis for the establishment of an Australian synchrotron facility and the criteria for the selection of a preferred location.
2001	In May 2001, the Victorian Government and Monash University submitted a proposal to the Commonwealth Government under its Major National Research Facilities Program (MNRF) for the construction and operation of a National Synchrotron Facility ("the facility") at the Monash precinct on a site adjacent to Monash University.
2001	In June 2001, subsequent to a joint submission by the Department of Innovation, Industry and Regional Development and the Department of Premier and Cabinet, the Victorian Government withdrew from the MNRF process and announced that it would establish a national synchrotron facility at Monash University and will provide up to \$100 million for the synchrotron, with the balance from other project partners, such as research institutions and the private sector.

5.11 Our examination of documentation relating to the Victorian Government's decision in June 2001 showed that the business case underpinning the decision to establish a national synchrotron facility in Victoria remained unchanged from that presented by the State Government and Monash University to the Commonwealth Government in May 2001.

5.12 It is anticipated that Monash University will lease to the State Government the land upon which the synchrotron is to be built. This and other arrangements are to be incorporated in a Memorandum of Understanding between the University and the Government which was being prepared at the date of preparation of this Report. As at 31 December 2001, the land was independently valued at \$15.1 million.

5.13 The preparation of the business plan and other necessary requirements to undertake the construction and operation of the facility were also in progress.



Aerial shot of Monash STRIP and Synchrotron site.

Risk identification and analysis

5.14 The business case underpinning the State Government of Victoria and Monash University proposal was outlined in 3 reports, namely:

- An *Economic Impact Study of the Proposed National Synchrotron Light Source*, September 1999, by consultants commissioned by the Industrial Synchrotron Roundtable (“the impact study”);
- A *Feasibility Study and Strategic Business Plan for a National Synchrotron Facility*, October 2000, by consultants commissioned by the National Synchrotron Steering Group (“the feasibility study”); and
- A *Victorian National Synchrotron Facility Model* (“the model”), prepared by consultants, which outlined the financial forecasts supporting the State Government of Victoria and Monash University proposal to the Commonwealth Government in May 2001.

Economic Impact Study of the Proposed National Synchrotron Light Source

5.15 This study found that the potential economic benefits of a synchrotron would be significant, and that the majority of the induced investment would result from the research and development, and industrial cluster developments which would follow the establishment of the facility. Table 5C details the estimated potential economic activity to be generated from the facility.

**TABLE 5C
POTENTIAL ECONOMIC IMPACT OVER 25 YEARS
FROM THE NATIONAL SYNCHROTRON PROJECT**

<i>Source</i>	<i>\$ million</i>	<i>Jobs</i>
Construction and Operation	687	441
Induced Investments	6 600	2 150
Industry Development	27 100	3 500

Source: An Economic Impact Study of the Proposed National Synchrotron Light Source, September 1999.

Feasibility study and strategic business plan for a national synchrotron facility

5.16 The feasibility study included an analysis of lessons from overseas experience in the construction, financing and operations of synchrotrons considered relevant in the Australian context. The analysis included beamline utilisation and demand, industry trends and the business environment, and risk identification and management.

Beamline utilisation and demand

5.17 The feasibility study found that existing facilities located throughout the world were not able to satisfy existing demand. It is expected that demand will continue to exceed supply, even after the planned new facilities become available.

5.18 Utilisation is to be dominated by local users rather than international users. Local users are expected to be primarily academic and research institutions, with minor direct industry use. Collaborative research, where research institutions combine with each other or industry will be an important usage vehicle.

Industry trends and the business environment

5.19 Similar facilities to those proposed at the Monash precinct are not facing technological threat in the short to medium term. All facilities are continually investing in the development of their existing storage ring to improve performance.

5.20 The private sector has peripheral involvement in the establishment, operation or funding of similar facilities and there should be minimal reliance on the private sector as an investment or revenue source for any facility. The private sector has also not, as yet, adequately entered the market for the provision of full management services to a synchrotron facility and it is important that any external organisation used to manage the facility has the appropriate expertise to undertake the required tasks.

5.21 The high growth areas in synchrotron application (e.g. protein crystallography) apply to industries:

- which are important to the Australian economy (e.g. chemical, pharmaceutical, agricultural and mining sectors);
- in which Australia already has an international reputation in supply and in research; and/or
- which have been identified as the high growth industries of the future.

5.22 For the bio-technology and pharmaceutical industries, which have been targeted as important for the future of Victoria and Australia, access to a synchrotron facility to assist research and development is regarded as a necessity. The synchrotron is a core research tool for competitive participation in these industries.

5.23 Based on demand and utilisation forecasts, the feasibility study concluded that:

- supply would be the primary constraint rather than demand (with supply being constrained by the ability to design and construct new beamlines); and
- the excess of demand over supply is significant (particularly in the early years), indicating a high “margin of safety”.

Risk identification and management

5.24 Synchrotrons are regarded as core research infrastructure which require continual, significant capital expenditure to maintain technological relevance. Internationally, the initial capital costs of the storage ring, core facilities and initial beamlines are usually borne by government and regarded as a sunk cost. Additional beamlines are funded either by external consortiums (incorporating public and private sector parties) or by government.

5.25 Once established, storage ring operating costs are reasonably consistent and predominantly fixed. The operating costs of such facilities are almost completely funded by government with the level of external revenue generated being minimal. A number of new facilities outside Australia nearing completion have found that the initial expected level of commercial use (and revenue) will not be achieved.

5.26 Synchrotron facilities are not regarded as commercial activities and commercial pricing principles are not applied. Where users are charged, prices are normally based on recovery of operating costs and on-going capital costs.

5.27 The consultants considered the feasibility of having extensive private sector involvement in the financing and operation of the Facility, and concluded that international experience suggested the 'cost' of substantial private sector involvement in ownership, construction and operation, if possible, may exceed the benefits. However, they also stated that care must be taken in using overseas experience as a firm guide, as a well-managed approach under Australian conditions may encourage the private sector to bring innovative solutions to the facility project. The consultants recommended that the Government:

- proceed on the assumption the facility costs (capital and operational) will require direct government funding;
- should "test the market", via an Expression of Interest process, to determine the extent of private sector interest in constructing and/or operating different components of the Facility project; and
- develop benchmarks with which to evaluate proposals so as to effectively reduce the reliance on government funding contributions and risk exposure.

5.28 The consultants considered that the following risks were significant:

- The lack of sufficient funds being committed to the facility over the medium to long term. As the facility will not be able to rely on substantial levels of user revenue, a funding shortfall could bring the whole operation to a halt;
- Significant inflationary pressure over the longer term; and
- Substantial funding shortfalls if relying only on user revenue. The Facility project will require a cash reserve/overdraft facility to draw upon when facing short term funding shortfalls.

Audit comment

5.29 As Government will be the main provider of funds for the construction and operation of the facility, it is essential that there is adequate consideration of the lessons learned from overseas experience and, in particular, comprehensive financial risk management at all stages of the project.

5.30 Proper budgeting is essential to the mitigation of financial risk and will need to incorporate changes in research technologies, and the changing needs of users and strategic growth industries in order to ensure the longevity of the facility.

Victorian National Synchrotron Facility Model

Financial forecasts

5.31 As part of its submission to the Commonwealth Government under the MNRF process, consultants were engaged by the Victorian Government to develop indicative forecasts, as outlined in Table 5D, of cash flows associated with capital costs, operating expenses and revenue to support the feasibility of the Victorian proposal.

**TABLE 5D
FORECASTS OF CASH FLOWS ASSOCIATED WITH THE FACILITY'S CAPITAL COSTS,
OPERATING EXPENSES AND REVENUE, MAY 2001**

<i>Item</i>	<i>Phase</i>	<i>Expected timeframe</i>	<i>Number of years</i>	<i>\$million (a)</i>
Initial construction	Construction	2002 to 2007	6	157
Capital upgrades	Operation	2008 to 2015	8	76
Total capital costs			14	233
Operating costs	Operation	2008 to 2016	9	135
Total capital and operating costs				368
Storage ring and Beamline user revenue	Last construction year and operation (b)	2007 to 2016	10	207
Difference between forecast revenue and total costs		2002 to 2016	15	161

(a) Net Present Value (NPV) using 2001 as the base year.

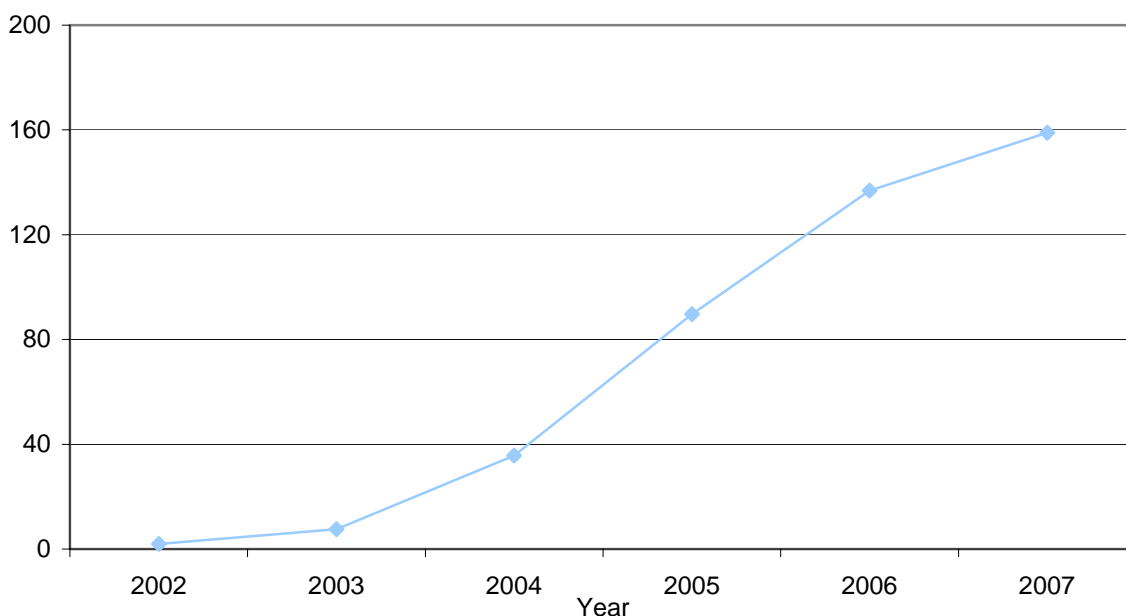
(b) While the Facility has an expected life of 25 years, the beamlines have an expected life of 10 years.

5.32 As at the date of preparation of this report, the Victorian Government has announced it would provide up to \$100 million for the national synchrotron facility. This announced commitment together with the data outlined in the above table and the following chart, indicate a number of potential financial exposures to the State as discussed below:

Shortfall between construction costs and committed State funds

5.33 Chart 5E outlines the expected timelines for the initial capital expenditure associated with the facility.

CHART 5E
FORECAST CUMULATIVE CAPITAL CONSTRUCTION EXPENDITURE
 (\$million)

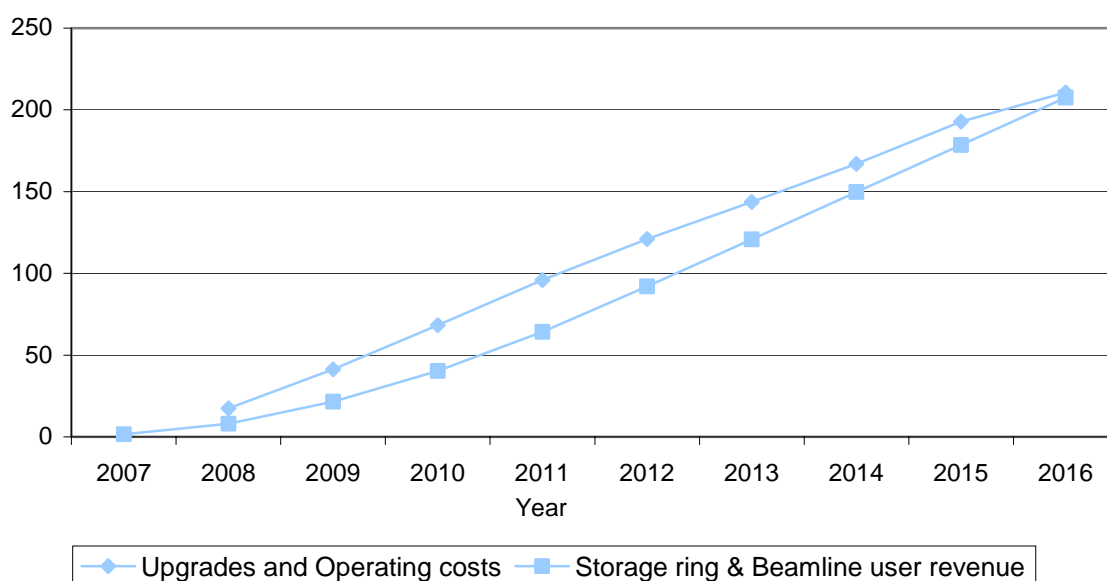


5.34 If the \$100 million committed by the Victorian Government is fully applied to the initial construction of the facility, as at the date of preparation of this report, there remains a \$57 million funding shortfall for the capital construction costs.

Unrealised user revenue risk and annual funding shortfall

5.35 Chart 5F outlines the expected shortfall between expected revenues and costs, other than the initial construction costs, over the period 2007 to 2016.

CHART 5F
FORECAST CUMULATIVE POST CONSTRUCTION EXPENDITURE AND REVENUE
 (\$million)



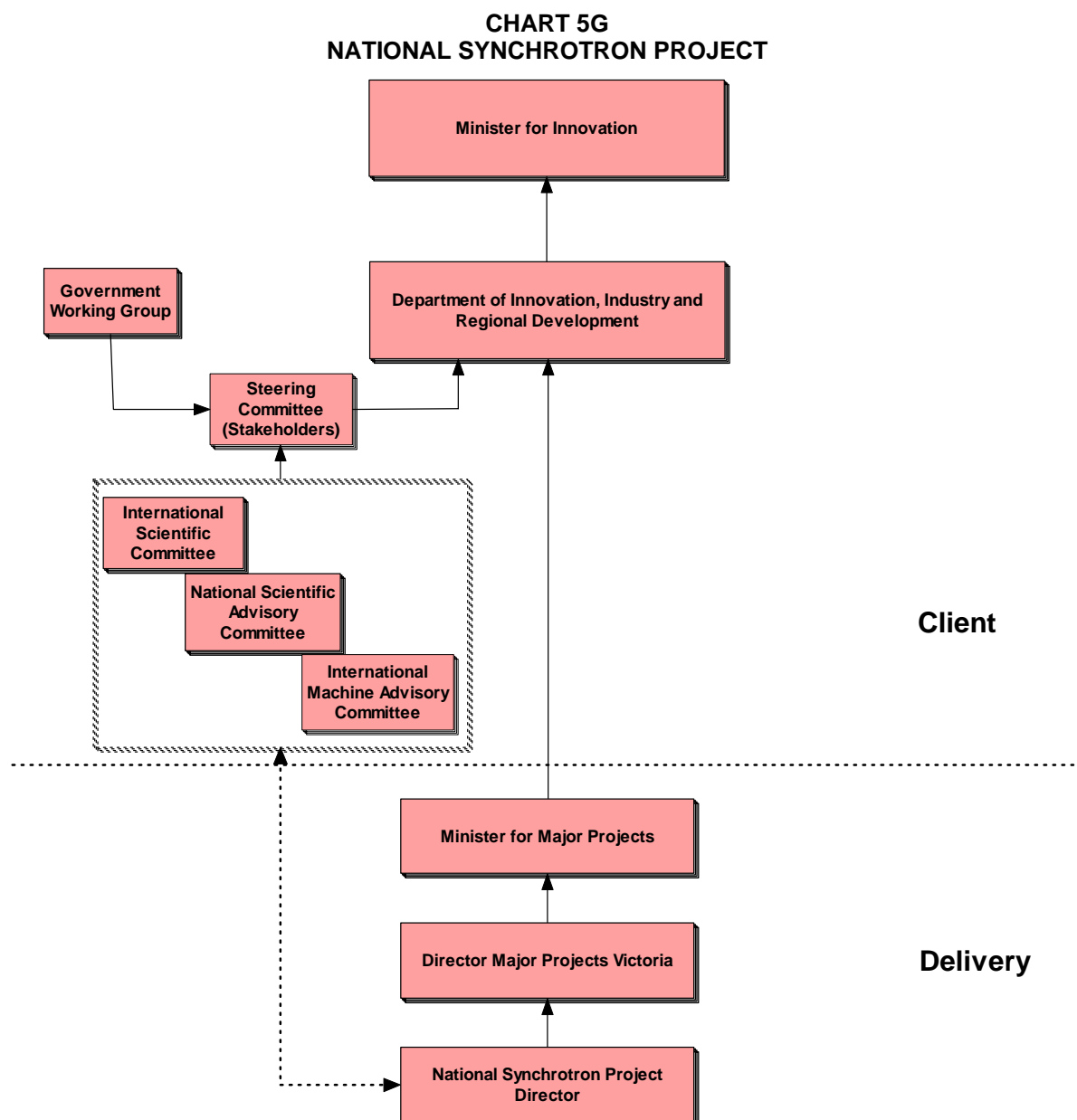
5.36 Cumulative expenditure over the period 2007 to 2016 on necessary capital upgrades (\$76 million) and operating costs (\$135 million) which total \$211 million, are expected to be substantially recovered by forecast cumulative user revenue of \$207 million. However, the State is exposed to financial risk to the extent to which these long term forecasts are not achieved.

5.37 As the major users of the facility are likely to be research institutions which in the main are universities and organisations which are Commonwealth Government funded, it will be critical that Commonwealth Government and other major research institutional support is secured and that collaborative links with all major facility participants are encouraged and developed.

5.38 At the date of preparation of this report, the collaborative structures and business planning processes to progress the facility project were being developed by the Department of Innovation, Industry and Regional Development.

Management and accountability structures

5.39 Chart 5G outlines the key stakeholders which will progress the development of the facility.



5.40 The Department of Innovation, Industry and Regional Development has recently issued a tender for the engagement of consultants to provide financial and related advisory services for the facility project, including:

- review and update the detailed financial model for the project to enable the whole of life project costs to be confirmed, including both capital and projected operating costs;
- undertake a demand analysis for the synchrotron facility and potential financial opportunities associated with its usage;
- review of potential funding options including governments, public and private research organisations, and private sector profit organisations;
- cost the material risks (commercial, legal and logistical) associated with project delivery and operations;

- examine the options for private sector participation in the delivery of the project to completion of commissioning and in the ongoing provision of services to the facility;
- identify the key commercial terms and assess the risk profile for each project delivery option to optimise the potential benefit arising from competitive bidding processes for its construction and operation;
- identify the appropriate governance structure (i.e. company, joint venture etc) for achieving the project objectives; and
- prepare a business plan for the facility.

5.41 The majority of these tasks are expected to be completed in the first part of 2002 and will inform key decisions on structuring and implementing the Facility project.

RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development

A comprehensive risk management program is being developed by Major Projects Victoria, the Department of Innovation, Industry and Regional Development, and the Department of Treasury and Finance, with the support of specialist advisers.

Significant emphasis is being placed on documenting the lessons learned from previous projects in a technical design and operational sense and ensuring that the lessons learned are put into practice as the project develops.

The estimated cost of capital upgrades of \$76 million over the period 2008-15 as prepared by PricewaterhouseCoopers, relates for the major part to the incorporation of estimated additional beamlines which may be added by the synchrotron management on a user required basis after 2007.

The remainder of the capital upgrades will relate to planned major shutdowns. This is a normal process in a facility of this type and the expenditure is actually part of the on-going cost of operations.

Macquarie Bank has been asked to advise the project on funding options from all potential sources. In addition, as the Australian Synchrotron is a national project, the involvement of the Commonwealth and other State governments in the project will be sought.

Part 6

Justice

- Victims Referral and Assistance Service _____ 171
- Victoria Police: “*New Century, New Force*”
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VICTIMS REFERRAL AND ASSISTANCE SERVICE

6.1 Prior to 1994, there were a number of entities providing general and specific assistance to victims of crime. These entities included State and local governments, public sector agencies such as Victoria Police, hospitals and community health centres, and other entities such as charitable organisations and unions. At that time, the State Government was concerned that the un-coordinated provision of victim services and lack of a central referral service was impacting on the effectiveness of these services.

6.2 As a consequence, in February 1994, the Victims Taskforce of the Victorian Community Council Against Violence (VCCAV) received a request from the Attorney General and the Minister for Police, Emergency Services and Corrective Services to undertake an inquiry into the services provided for victims of crime. The inquiry was requested to consider and report on:

- the existing funding arrangements for victims of crime;
- the extent to which the existing services met the needs and rights of victims, and any changes that may be required to ensure victims' needs and rights are addressed; and
- priorities for future services aimed at supporting victims of crime.

6.3 The inquiry found that:

- services for victims of crime had developed in an ad-hoc manner in responding to specific needs that had occurred over time, and there were major gaps and overlaps in service delivery;
- there was a lack of knowledge among professionals and victim support agencies about the services available for and required by victims; and
- there was a lack of co-ordination between central and local services throughout Victoria.

6.4 The inquiry identified a need for an integrated assistance regime and recommended that a strategic approach be developed for the provision of services for victims of crime, based on the guiding principles of victim needs and rights, rehabilitation, and community responsibility.

6.5 In response to the inquiry, the **Victims Referral and Assistance Service (VRAS)** was established within the Department of Justice in July 1997 to provide a single referral and advice service for victims of crime. The three main functions of VRAS are to:

- refer victims to appropriate support agencies, through the operation of a Victims Helpline staffed by trained professional advisors;
- administer the Victims Counselling Scheme (VCS), which enables victims to access immediate short-term counselling; and
- administer the Victims Assistance Program (VAP), which provides victims with access to support workers in regional and rural Victoria.

6.6 VRAS also conducts a range of public education exercises and professional training programs. The most extensive of these training programs is undertaken in conjunction with Victoria Police to enable police officers to provide victims with information on support services available to them and their entitlements.

The Victims Helpline

6.7 The Victims Helpline often represents the first point of contact for the victim with a government agency. The Helpline has two basic functions, the first of which is to gather enough information regarding the incident to enable an initial assessment of the individual's needs to be made. Secondly, the Helpline provides victims of crime with information on services available to them and the actions they can take to manage the effects of a crime. On contacting the Helpline, each caller's personal details, needs and circumstances are individually assessed and documented on the VRAS Case Management System by Helpline staff.

6.8 This centralised referral service is designed to help users by minimising the number of contacts a victim makes with third parties prior to receiving assistance. When an individual has suffered as a result of a crime, outlining the details of the crime to anyone, and particularly a stranger, is often very traumatic. Establishing a primary point of contact, from which a variety of services can be accessed minimises the impact of this process on the victim.

6.9 Approximately 12 per cent of callers to the Helpline are from multi-cultural backgrounds, and Helpline staff speak a range of languages to accommodate those callers who are not fluent in English. An interpreter service is also available when required.

6.10 Information on service providers is available to Helpline staff through a specifically designed database (Infocom), which contains detail on over 14 000 government and community agencies, and approved counsellors. Once the Helpline staff establish the details of the crime, a discussion is held with the caller to determine the type of service most likely to be of benefit to them. Details of the appropriate service providers is then forwarded to the caller.

6.11 VRAS staff have indicated that based on their experience most callers are satisfied with the referral service provided and require no further support. However, in some cases additional assistance such as follow-up calls, referrals to other support agencies, and home visits are provided.

Victims Counselling Scheme

6.12 Individuals are referred to the Victims Counselling Scheme (VCS) by Helpline staff, who are responsible for determining eligibility for counselling services. This centralised process is designed to prevent individuals from accessing more counselling sessions than they are entitled to receive and to assist with monitoring of usage. In order for a Helpline caller to access counselling, the operator must be satisfied that:

- the client has been a victim of a violent crime in Victoria;
- the need for counselling is a direct result of that crime;
- the client is not eligible for counselling under any other scheme, such as those provided by the Victorian Workcover Authority and the Transport Accident Commission;
- there are no major drug, alcohol or psychiatric issues that first require addressing;
- the client believes counselling is necessary; and
- there are no viable alternatives available to assist the client.

6.13 VCS is based on a model of 'early intervention'. This model aims to provide counselling to victims as soon as the crime occurs so as to prevent the development of more complex psychological disorders, thus enabling victims to recover quickly. In providing counselling, VRAS aims to provide a service which:

- is available in all geographic areas and can be accessed within 48 hours in urgent cases;
- offers a wide range of professionally qualified therapists to meet individual needs and preferences;
- fills the gaps in services provided by other specialist support agencies that do not offer counselling or similar services by qualified therapists; and
- addresses the needs of people from diverse language and cultural backgrounds.

6.14 All counselling supplied under VCS is provided by private practitioners, who are appropriately qualified and approved by VRAS. All approved counsellors are required to satisfy VRAS selection criteria, thereby ensuring that victims receive a high standard of counselling related to accreditation, experience and fitness to practice.

6.15 There are currently 3 categories of VRAS approved counsellors:

- **registered psychologists (approximately 1 200);**
- **social workers (approximately 200); and**
- **National Association of Loss and Grief (NALAG) counsellors (approximately 65).**

6.16 Approval, accreditation, monitoring and evaluation of counsellors' performance is undertaken by an internal accreditation committee. Internal and external complaints mechanisms, such as those maintained by the relevant professional organisations which counsellors are required to be members of, are also used to identify non-performing counsellors.

6.17 A pre-determined fee is paid to counsellors by VRAS, for counselling sessions provided by them, on submission of a Counselling Claim Form. These forms are pre-validated by VRAS and presented to the counsellor by the client at each counselling session. Counsellors then submit these forms to VRAS for payment. Once the forms are approved, payments are made and the details of the counselling provided are recorded on the VRAS Case Management System.

Victims Assistance Program

6.18 The Victims Assistance Program (VAP) comprises a number of regional 'networks' that utilise community agencies in regional areas to provide services to victims of crime on a case management basis. The services are designed to complement those offered by other victim support agencies and include the provision of specific information to victims, advocacy services, assistance with completing forms, and practical support (such as home visits, court support, and transport). During the 2000-01 financial year, VAP assisted around 6 000 victims.

6.19 **There are currently 9 VAP agencies operating in 20 locations throughout Victoria.** These agencies are engaged under 3 year Funding and Service Agreements entered into with the Department of Justice. The Agreements set out service specifications, the basis on which funding is to be provided, and the prescribed formats and timelines for reporting to VRAS. In addition to paid professional workers, VAP agencies are assisted by a number of volunteers, who also help victims to reintegrate into the community.

6.20 Specialist projects are also undertaken as part of the VAP by a range of agencies including Centres for Sexual Assault (CASAs), migrant resource centres, and community health centres. These projects represent one-off research or community education projects that meet specific identified needs or address gaps in existing service provision. Research topics covered have included multicultural access, stalking, sexual assault, child witnesses to domestic violence, victims with intellectual disabilities, and working with older citizens.

6.21 The amount of funding allocated to the VAP has remained constant at around \$2 million each year since 1997. However, increasing community awareness of, and demand for, regional VAP services has required a higher proportion of these funds to be allocated to information, referral and support services, resulting in less funding being available for research projects. **As a consequence, the amount of funding allocated to specialist VAP research projects has declined from \$676 000 in 1997-98 to \$155 000 in 1999-2000, and it is unlikely that any further projects will be funded by VRAS.**

Other providers of services for victims

6.22 A number of other government agencies also provide specific services for victims of crime in Victoria. These include the:

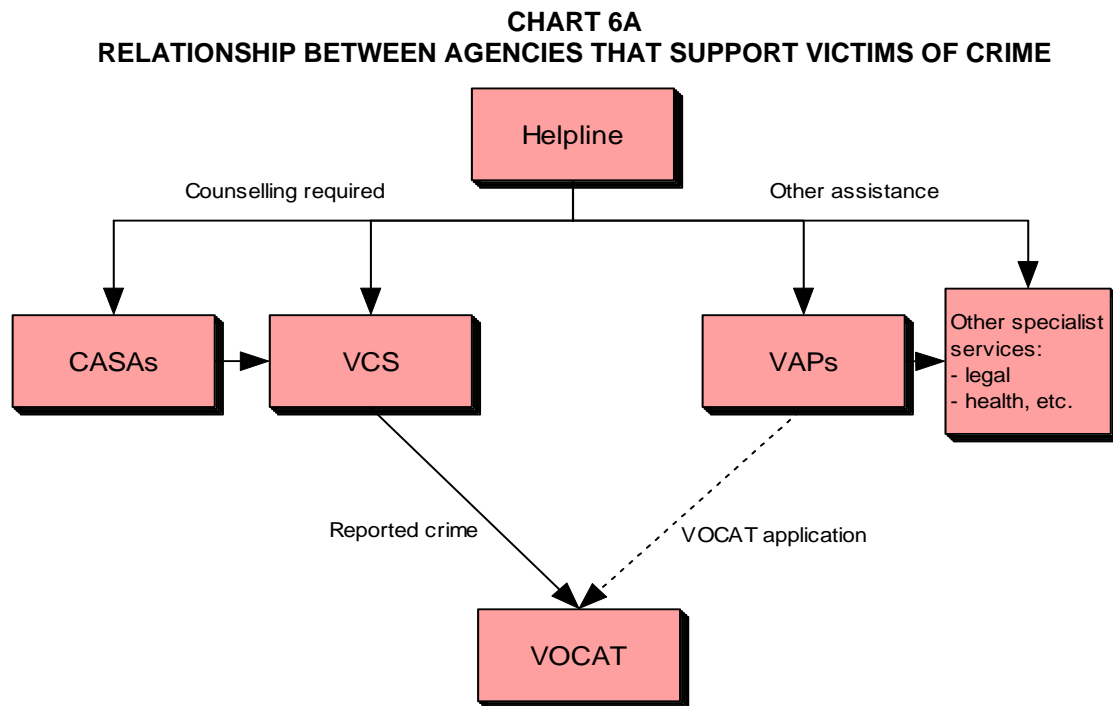
- Department of Human Services, which provides a range of support and advocacy services to victims of sexual assault and domestic violence through its Centres for Sexual Assault (CASAs) and Domestic Violence Services, respectively. Victoria Police are required by standard operating procedure to take victims of sexual assault to a CASA within 2 hours of the crime being reported;
- Victims of Crime Assistance Tribunal (VOCAT), which operates out of a number of Magistrates Courts in Victoria, and provides financial assistance and compensation to victims of crime, family members and witnesses;
- Victoria Police Victims Liaison Unit, which provides crisis assistance to families of homicide victims and some victims of other violent crimes;
- Community Health Centres, which provide some counselling services that may be of assistance to victims; and
- Victorian Workcover Authority (in relation to violent crime that occurs within the workplace), the Transport Accident Commission (in relation to families of culpable driving victims) and the Department of Education (in relation to violent bullying and assaults within the school premises). These agencies provide a full range of support services, including some limited individual counselling.

6.23 Where victims of crime approach these agencies and they are unable to meet the individual's needs, the victim may be referred to VRAS. Conversely, as the VRAS Helpline is open to any caller, victims can be referred to the above agencies by VRAS where they are eligible for the services provided by the agencies.

6.24 A significant proportion of the referrals received by VRAS from other agencies are for clients requiring access to VCS. The majority of these referrals are from community agencies including CASAs, which often have waiting lists for counselling services and do not provide psychological counselling, and from Domestic Violence Services, which do not provide any counselling services.

6.25 Where victims require counselling in addition to that provided by VCS, they are able to apply to VOCAT for assistance. However, to pursue a claim for counselling through VOCAT, the victim must have reported the crime to police and possess the necessary supporting documentation, including medical and psychological assessments.

6.26 The relationship between the functions of agencies that support victims of crime is shown in Chart 6A below.



Source: VRAS.

6.27 Substantial delays in the provision of assistance to victims are often encountered at some VOCAT locations, due to the infrequency of VOCAT hearings in certain courts. The frequency of VOCAT hearings ranges from daily to once a fortnight.

6.28 In October 2001, a survey of VAP workers was undertaken by a working party, comprising staff from VRAS and regional VAP networks, to examine the operation of VOCAT and to identify impediments faced by victims when accessing entitlements. The survey found that the average time for a final determination to be reached on an application for assistance was around 3 months. However, in some court locations, this was significantly longer. For instance, in Sunshine and Werribee the timeframe was between 6 to 8 months, and in Ballarat a 12 month timeframe was not uncommon.

Financial management of VRAS

6.29 As VRAS is part of the Department of Justice, it relies on funding provided by that Department. In its first year of operation (1997-98), VRAS received \$8.67 million (\$2 million of this amount was not on-going funding), which was allocated between each of its major functions as follows:

- Victims Counselling Scheme (VCS) - \$5 million;
- Victims Assistance Program (VAP) - \$2 million; and
- Helpline and VRAS other operational expenses - \$1.67 million.

6.30 When VCS was initially established, eligibility was restricted to victims of reported crimes. However, counselling was subsequently extended to victims of unreported crimes in mid-1998. This change was designed to prevent victims of sexual assault and domestic violence, who have a history of not reporting these crimes, from being disadvantaged.

6.31 VRAS estimated that in its first year of operations (1997-98), it would be required to fund 10 000 counselling claims (50 000 sessions) in relation to victims of reported crimes. This projection was based on all primary, secondary and related victims of violent crime against persons, and victims of domestic violence, stalking or assault who had applied for an Intervention Order, being entitled to 5 sessions of counselling. The number of Helpline calls estimated for that year was 25 000.

6.32 However, due to the lack of community awareness of the services offered by VRAS (in particular VCS), demand was significantly less than anticipated. Only 660 counselling claims were paid and 11 200 calls received by the Helpline during 1997-98. As a consequence, the projected number of counselling claims was reduced to 5 000 for 1998-99.

6.33 In order to increase community awareness of the services provided by VRAS, it undertook a number of promotional and community education activities during 1998-99. These activities were very successful in increasing the demand for services, resulting in 5 160 counselling claims paid and 35 800 Helpline calls received during the year.

6.34 Other factors that contributed to the rise in the number of counselling claims paid during 1998-99 were:

- An increase, in July 1998, in the number of counselling sessions available for each victim from 5 to 10. Under this arrangement, victims who required more than 5 sessions could contact the VRAS Helpline and request an additional 5 sessions. This was designed to provide victims with immediate access to additional counselling without having to apply to VOCAT and encounter delays; and
- For victims of unreported crime, the absence of a specified time limit between the crime occurring and the provision of counselling. The delay in accessing counselling compounded the psychological and emotional issues faced by those individuals. As a result, VRAS was providing extensive counselling to victims of unreported crimes which had occurred many years earlier.

6.35 In recognition of the increase in demand for services, in 1999-2000 the projected number of counselling claims was increased to 8 000. This was later revised upwards to 10 000, as it became apparent that demand for counselling under VCS would be significantly higher than originally anticipated. The original funding allocation to VRAS was not increased in line with the projected increase in demand for these services.

6.36 However, in November 1999, the Department agreed to provide additional funding of \$2.2 million, of which \$1.9 million was sourced from a Treasurer's Advance and \$300 000 redirected from other programs within the Department.

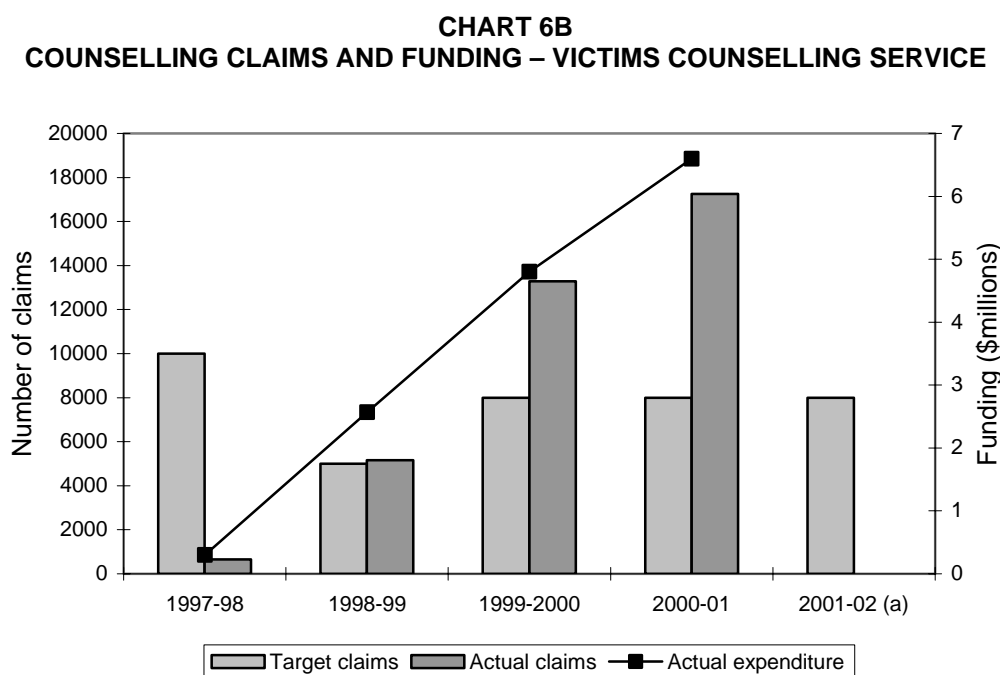
6.37 During 1999-2000, VRAS also introduced a number of measures to reduce its operating costs, including:

- using casual staff on the Helpline, and casual and part-time staff for basic administrative tasks and claims processing;
- discontinuing assistance provided to victims of domestic violence at the Melbourne Magistrates Court;
- discontinuing all promotional work;
- halving the number of community education activities undertaken from 1 000 to 500;
- reducing the number of specialist VAP research projects by over 75 per cent; and
- reducing the number and variety of specialist and multi-cultural publications, such as community language publications.

6.38 During 1999-2000, the projected number of counselling claims and the number of Helpline calls were both exceeded. A total of 13 300 counselling claims were made and 56 500 calls were received, which was approximately 65 per cent and 100 per cent over target respectively.

6.39 VRAS continued to have problems in working within its budget allocation during 2000-01, reflecting the difficulties it faced in managing demand without the Department changing the eligibility criteria. In that financial year, VRAS was initially allocated \$2.8 million to fund 8 000 counselling claims, however it projected that at least 20 000 victims would access VCS.

6.40 Chart 6B below shows the target and actual number of counselling claims paid by VRAS for each year of its operation, and the amount of funding received.



6.41 The actual experience in 2000-01 was that demand for counselling services continued to escalate and as a result, it became apparent that even after the provision of additional funding, VRAS would be unable to meet the demand for counselling services. It also became apparent that the demand would need to be more actively managed by the Department.

6.42 This was seen to be especially necessary given the introduction, in September 2000 of amendments to the *Victims of Crime Assistance Act 1996*, which provided for the reintroduction of compensation for pain and suffering resulting from an act of violence. It was expected that these amendments would have the effect of increasing the number of victims seeking counselling in order to demonstrate psychological injury and establish eligibility for the maximum amount of financial assistance under the Act. Following the legislation becoming effective, in January 2001, the VRAS Helpline received a significant increase in the number of calls seeking counselling assistance.

Demand management strategies

6.43 In October 2000, VRAS introduced a number of strategies to reduce the demand for counselling services focusing on requiring Helpline staff and VAP workers to ensure that all other available options for counselling were utilised before referring a victim to VCS. As indicated previously, prior to introducing these strategies it was predicted that the number of claims was likely to be at least 20 000. The demand management strategies were effective in reducing the number of referrals by 35 per cent, from 1 770 in October 2000 to 1 160 in January 2001.

6.44 In February 2001, the existing eligibility criteria for VCS was amended and the following measures implemented to restrict the number of counselling sessions provided:

- A weekly quota of 120 referrals was introduced for accessing VCS. Where less than 120 referrals were made at the end of each week, access to counselling was made available to cases considered to be particularly difficult with no alternative source of assistance, as determined by a review panel;
- The number of counselling sessions available to new clients was decreased from 10 to 5, which was the original limit when the VCS was first introduced;
- All sexual assault cases were referred to CASAs; and
- Domestic violence cases were generally referred to VOCAT through a specially established protocol (the Domestic Violence Protocol), which gave priority to these applications and was designed to expedite the approval by VOCAT of counselling.

6.45 As applications invariably exceeded the 120 weekly quota, general guidance was formulated to assist Helpline staff in determining which victims should be referred to VCS for counselling, based on particular needs and circumstances. **However, to ensure that the weekly quota of referrals was not exceeded, the selection process required staff to make decisions on a case-by-case basis, which may have resulted in inconsistencies in the type of victims referred to VCS for counselling.**

6.46 Furthermore, the high demand from existing clients wishing to access a further 5 sessions of counselling only allowed VRAS to refer a small number of new clients to counselling in the months following the introduction of the changes. As a consequence, the impact of the reduction in the number of counselling sessions available to new clients, from 10 to 5, was not felt until the 2001-02 financial year when the obligation to honour pre-existing entitlements to 10 sessions of counselling had been reduced.

6.47 It was not until early May 2001 that VAP's were forwarded information regarding the amended eligibility criteria for access to counselling services. In addition, the Department indicated that a series of meetings were also held around this time with a number of stakeholders to discuss the circumstances impacting on the VRAS budget.

6.48 The Domestic Violence Protocol was not continued beyond July 2001. Only 20 applications for assistance under this protocol were received and approved by Magistrates during the 4 month period, despite over 1 000 referrals being made by VRAS.

6.49 In context of the above difficulties, a new eligibility criteria for VCS was developed by VRAS in July 2001 and approved by the Department in October 2001.

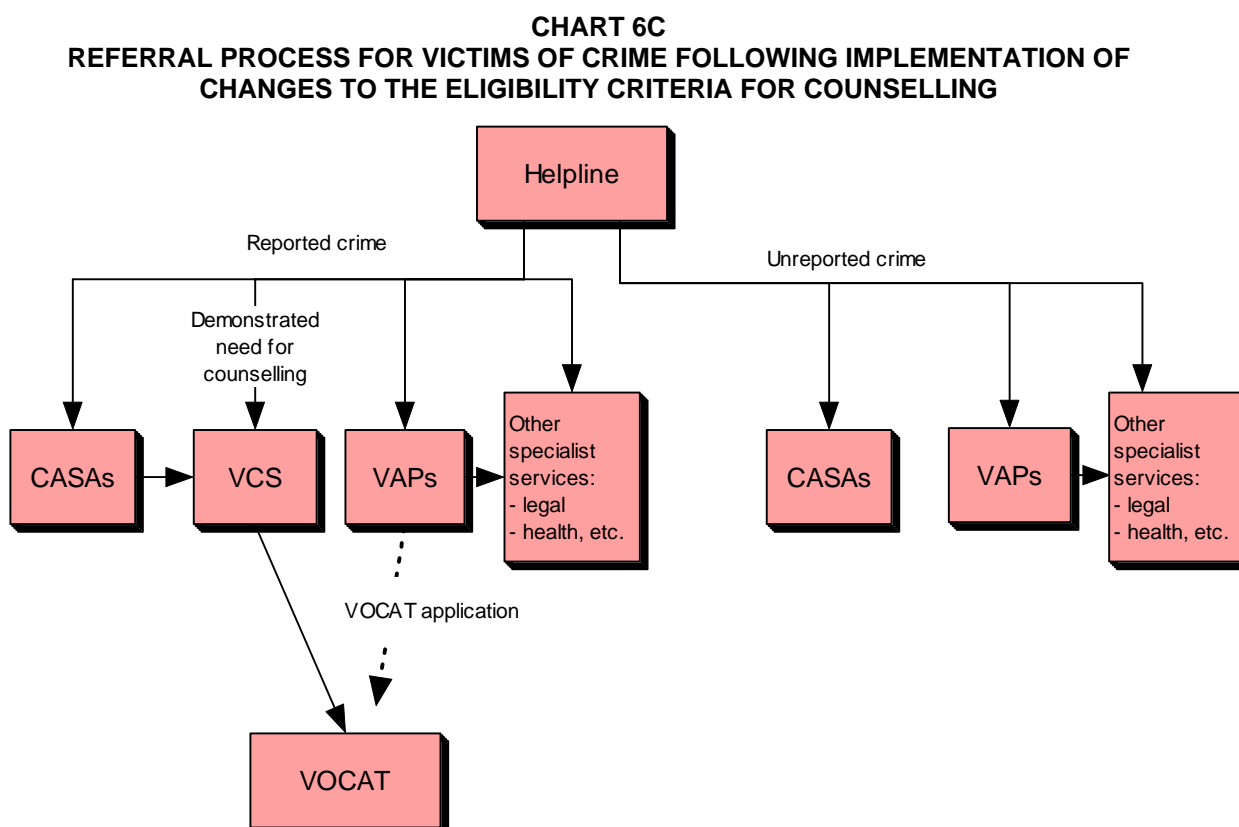
Introduction of new eligibility criteria

6.50 Under the new eligibility criteria, approved in October 2001, the following victims may be considered for counselling:

- primary and related victims of violent crimes against the person that have both occurred and been reported within the past 12 months; and
- primary victims of domestic violence who have been granted an Intervention Order within the past 12 months.

6.51 The new criteria also requires victims to demonstrate the need for counselling in order to be referred to VCS, and retains the quota of 120 referrals per week and the limit of 5 counselling sessions per victim.

6.52 Chart 6C below outlines the referral process for victims of crime following the implementation of the new eligibility criteria for counselling under VRAS.



Source: VRAS.

6.53 The new eligibility criteria, which restricted counselling to reported crime, was successful in reducing the demand for counselling, resulting in the number of counselling claims paid being reduced to a level below that set in the VRAS budget.

6.54 In response to this situation, VRAS in March 2002 proposed to introduce a degree of flexibility in the provision of counselling sessions. This proposal involves allowing certain victims to access additional counselling sessions, where VRAS considered that they needed more than 5 sessions and they could not access further sessions through VOCAT. As at the date of preparation of this report, this proposal was still under consideration by the Department.

6.55 Based on current VRAS projections, the expected surplus in funding for 2001-02 represents approximately 11 per cent of the total counselling budget or around 3 000 potentially additional counselling sessions.

Evaluation of VCS service delivery

6.56 In 1998, VRAS commissioned a major independent evaluation of its services. The evaluation included a client satisfaction survey which found that 97 per cent of clients were satisfied with its counselling services and 99 per cent were satisfied with the Helpline.

6.57 However, changes to the eligibility criteria for VCS during 2001, while being necessary to ensure that VCS operated within its budget, have effectively excluded access to counselling for victims of unreported crimes, victims who delay reporting the crime, and witnesses of violent crime (including children who witness domestic violence).

6.58 The two largest groups of clients previously utilising VCS were victims of domestic violence and victims of sexual assault. According to VRAS, these victims comprised over half of all VCS clients prior to the introduction of the eligibility restrictions, and very few of these cases were reported to police.

6.59 This restriction on the access of these groups to VRAS counselling is even more critical given that there are generally few alternatives for these victims. Most funded Domestic Violence Services provide generalist support, practical needs, education and advocacy, but not counselling. While CASAs are available for victims of sexual assault, there are often waiting lists for these services. Furthermore, as CASAs prioritise victims of recent sexual assaults, they are unable to service adult victims of childhood sexual assault without lengthy waiting periods. VRAS has indicated that these adult victims of childhood sexual assault accounted for around 10 per cent of all VCS claims paid in 1999-2000.

6.60 Based on advice provided by VRAS, the reduction in the number of counselling sessions that victims are provided under VCS, from 10 to 5, has also resulted in significant negative feedback from victims, counselling providers, and referral agencies.

6.61 VRAS indicated to audit that it has received an average of around 15 to 20 complaints per week about the inadequacy of the number of counselling sessions. In addition, many Approved Counsellors have expressed their increasing reluctance to participate in providing only 5 counselling sessions to traumatised victims, which are not deemed sufficient.

6.62 A study undertaken in early 2001, by a clinical psychologist in Geelong, to assess the effectiveness of clinical psychological interventions for crime victims counselled in private practice, supports the need for more than 5 sessions of counselling to be readily available to victims. The study found that 90 per cent of victims in the sample required more than 5 one-hour counselling sessions. In particular, the study found that 11 per cent of victims were seen by psychologists for no more than 5 sessions, 44 per cent of victims were seen for 6 to 9 sessions, 29 per cent were seen for 10 or 11 sessions, and 16 per cent were seen for 14 to 19 sessions. These results were based on approximately two thirds of the victims in the sample presenting themselves for counselling within a year of the crime occurring.

6.63 Research undertaken in 1997 by the University of Washington and Harborview Centre for Sexual Assault and Traumatic Stress in the USA, on behalf of the Washington State Crime Victims Compensation Program, also supports the provision of more than 5 sessions of counselling to victims of crime. Based on this research, a Mental Health Treatment Guidelines Taskforce considered that no diagnosis should be made until after 6 sessions of counselling as most victims *“...who seek mental health services do so on a relatively short-term basis to help them through the first phase of coping. For this reason... the taskforce recommends that during the first six counselling sessions, the current safety of the child or adult crime victim should be the paramount concern, as well as assessing any medical, family or employment problems the client may be concerned about”*.

Use of private providers compared with in-house counsellors

6.64 VRAS currently pays Approved Psychologists an amount of \$104.40 for counselling sessions of an hour or more in duration.

6.65 The Australian Psychological Society estimates that it would cost between \$98 and \$110 per hour to provide in-house counselling using a qualified psychologists (grade 3, with at least 2 years experience), after taking into account salary on-costs, administrative and overhead costs, and annual leave and sick leave entitlements, and conference attendance and professional development. This is based on a psychologist seeing an average of 4.5 clients per day.

6.66 **The above information indicates that there is minimal cost differential between the use of in-house providers for counselling services and those counselling services provided by private practitioners based on current rates paid.** However, the use of private providers:

- offers victims the ability to choose a counsellor that is most appropriate to their needs (cultural, language, gender, age or therapy preference); and
- there are no delays in accessing counselling, which is often an inevitable consequence of in-house counselling.

6.67 We are of the view that the financial difficulties encountered by VRAS primarily resulted from the increase in demand for counselling services not being adequately managed by the Department, rather than from the cost associated with the use of private providers.

Comparison with counselling services provided in other States

6.68 The nature and structure of victim support services varies considerably in each Australian jurisdiction as the provision of these services has developed, and is delivered, at a State rather than Federal level. However, the emphasis on most services is on referral, information provision, crisis intervention, telephone and short-term counselling and support options for victims.

6.69 The New South Wales and the Australian Capital Territory governments both operate counselling schemes involving the use of private providers, while in Western Australia professional counsellors are employed full-time by the government to provide counselling services to victims. In Queensland and South Australia victim services, including counselling, are offered by not-for-profit non-government victim support organisations that receive government funding. In Tasmania, victim support services are tendered out to community organisations by the government.

6.70 The counselling scheme in operation in NSW is provided through the Victims Compensation Tribunal. Victims are required to apply to the Tribunal for an initial entitlement of 2 hours of counselling, which is provided by an Approved Counsellor who during this time will make an assessment as to whether further counselling will be beneficial to the victim.

6.71 Applications are generally processed within 48 hours of receipt by the Tribunal and the counselling scheme is available to all primary victims and witnesses of an act of violence, immediate family of homicide victims, and people injured while trying to prevent an act of violence, arrest someone committing an act of violence, or rescue someone from an act of violence.

6.72 The total number of counselling sessions provided to victims under the NSW counselling scheme is significantly less than under VCS, however on average, victims receive twice as many sessions.

6.73 The NSW Attorney-General's Department 2000-01 Annual Report states that approximately 20 000 counselling hours were approved for victims of crime in NSW during the year, with around \$1.6 million paid to counsellors to provide this service. In comparison, almost 60 000 sessions were provided under VCS at a cost of \$4.8 million in 1999-2000, prior to the introduction of the recent operational changes.

6.74 According to VRAS, victims receive an average of 4 counselling sessions, while under the NSW scheme victims require an average of 8 counselling sessions. This appears to indicate that victims require more extensive counselling under the ‘assessment’ based model (used for the provision of counselling services in NSW) than they would receive where counselling is used as a preventative measure. (An ‘assessment’ based model is more restrictive as it requires victims to exhibit symptoms of trauma in order to receive counselling).

6.75 Based on the information gathered by audit, access to counselling services in Victoria, prior to the introduction of changes to the eligibility criteria, compared favourably with that offered in New South Wales which also engages private practitioners.

Meeting future demand

6.76 The majority of jurisdictions in Australia have identified inadequate resources and funding as a major issue in service provision to victims of crime, with demand for services exceeding the level of service able to be supplied, and lengthy waiting times for services.

6.77 In Victoria, the collection of individual organisations providing services to victims of crime has largely developed in an adhoc manner in response to the specific needs of individuals, rather than in response to a strategic assessment of the problem and a systematic determination of an appropriate level of service provision.

6.78 As indicated earlier in this report, VRAS funding was originally set at around \$8.7 million per annum and then reduced to around \$7 million per annum to take account of one-off funding provided in its first year of operation. VRAS funding then stayed at this level for the next 4 years, despite a substantial increase in demand for its services, and without any real assessment or understanding of the number of people impacted by crime needing counselling, the impact of crime on these individuals, what their specific needs were, impacts of different forms of counselling and other assistance, and the type and quantity of services that should be provided to these individuals.

6.79 The Review of Services to Victims of Crime (which is commented upon later in this report) has recommended the establishment of a Victims of Crime Consultative Committee to, among other things, assess the future demand for services to victims of crime.

6.80 In our opinion, further analysis is required to determine the amount and mix of victim support services that are needed, including:

- Who should be eligible for assistance. For example should only primary victims of crime be eligible for assistance or should this be extended to secondary victims of crime;
- Should assistance be restricted to reported crime or also include unreported crime;
- Should there be an eligibility period;
- What services should be available to victims; and
- In respect of counselling services, what type of counselling is appropriate and what is an appropriate number of counselling sessions.

6.81 We acknowledge that some of these decisions have been made as part of the management of VRAS. However, the decisions were in response to budget priorities rather than based on identified needs.

Review of services to victims of crime

6.82 In March 2001, the Government announced a review into the provision of services for victims of crime. The Review's findings were published in February 2002.

6.83 The Review was conducted by a working party made up of representatives of the Department of Justice, Department of Human Services and the community. The terms of reference of the Review, which were similar to the 1994 VCCAV inquiry, were to:

- identify the government funded agencies that have a role in the provision of services to victims of crime, the cost of these services, and the funding sources for each service;
- evaluate the efficiency of delivery of services provided by government funded agencies;
- identify any duplication, gap or inter-dependencies in service delivery;
- identify and analyse future demand levels on agencies by victims of crime, and demand management strategies; and
- identify the changes required to service delivery so as to maximise the Government's achievement of its policy objectives for victims of crime, and to ensure the most efficient and coordinated delivery of support services.

6.84 The Review found that while there is a wide range of services available for victims of crime in Victoria, service delivery is fragmented and poorly co-ordinated, resulting in inconsistent service standards and a lack of:

- standard referral protocols between service providers, and varying approaches to the accreditation of service providers (especially in relation to counselling services);
- co-ordinated research into the most effective responses to meeting the needs of victims; and

- evaluation of the effectiveness of the current range of services and accountability for ensuring the best outcomes for clients.

6.85 The Review recommended the development and implementation of a State-wide strategy to coordinate and integrate services to victims of crime, along with the establishment of:

- Victorian Victims Support Agency (VSA), to manage a State-wide victims Helpline and be responsible for ensuring the integration, co-ordination and quality assurance of government services to victims of crime; and
- Victorian Victims of Crime Consultative Committee (VCCC), to advise the Victorian Victims Support Agency on such matters as future demand for services to victims of crime, improvements to service delivery, service standards and protocol, and research programs and strategies.

6.86 The Review proposed that the resource management and on-going operations of the VSA be the responsibility of the Department of Human Services, with that Department also undertaking planning and implementation of the policies of VSA at a 'local' level.

6.87 In relation to the provision of services to victims of crime, the Review recommended that:

- A mix of State-wide and locally based service providers be responsible for service delivery. These include community health centres, mental health networks, CASAs, Domestic Violence Services, VAPs and the Supported Accommodation Assistance Program (SAAP);
- The Department of Human Services be responsible for supervision and quality assurance of service delivery, including the co-ordination of services through 'local service provider' networks;
- A State-wide 24 hour Helpline be established to support victims of crime, and Helpline staff refer victims seeking counselling to 'local service providers';
- Local service providers be funded to employ and contract accredited counsellors, particularly in rural and regional Victoria;
- Counselling be delivered with priority accorded to clients where effective outcomes are likely to be achieved by short-term counselling;
- Victims of Crime Assistance Tribunal (VOCAT) continue to provide counselling services to all victims, and victims requiring long-term counselling be referred to VOCAT by local service providers; and
- VOCAT authorise counselling on the basis of research evidence of the counselling needs of victims of particular types of crime, and a tiered system be introduced for the provision of counselling services through VOCAT, whereby levels of assistance are graded and linked to appropriate eligibility criteria.

6.88 The Review also recommended that an eligibility criteria be developed for the provision of counselling services to victims of:

- reported crime occurring in Victoria within the previous 12 months; and
- specified categories of violence and assault, including victims of domestic violence, sexual assault and child physical and sexual abuse, whether reported as crimes or not, provided there are reasonable grounds for believing that the incident has occurred.

6.89 At the date of preparation of this report, the Government was still considering the recommendations emanating from the Review. Given that various business issues are emerging within VRAS, including issues associated with information systems and service provider arrangements, it will be important that future directions of victims of crime assistance are clarified.

RESPONSE provided by Secretary, Department of Justice

General observations

The report, in a succinct way, summarises the functions and operations of the Victims Referral and Assistance Service (VRAS). However, throughout the report distinction is made between VRAS and “the Department”. VRAS is a Division within the Department of Justice headed by a Director who is responsible to the Attorney-General and the Secretary for the efficient and effective operation of VRAS.

At the outset of the establishment of VRAS there was a realisation that the potential demand for its services from victims of crime could far exceed its allocated budget. As the report correctly states, the initial take up of victim counselling services was slow, so decisions were made to liberalise eligibility criteria. Then after a successful media campaign, including extensive television advertising, demand rose steadily which soon required ongoing management. This was a primary responsibility of the Director of VRAS. Initially excesses in demand were managed through a process of budget supplementation but this was seen as largely a short term strategy and a longer term demand management strategy needed to be put in place, much as it is in many sectors of Government where community demands for services need to be contained within available budget allocations.

When it was apparent that VRAS was having difficulty developing an effective demand management strategy, resources were made available to the Director to help her develop such a strategy. A strategy was subsequently developed and endorsed by the Attorney-General.

It needs to be stated that the issue of victims support offers real challenges to Governments. Invariably victims of crime, accidents, floods, bush fires, etc far exceed the level of Government funding available to provide adequate support. Decisions need to be made as to how available Government funds need to be prioritised to target those most in need. This is what occurred with the evolution of the victims counselling service.

RESPONSE provided by Secretary, Department of Justice - continued

It also needs to be stated that the current Labor Government's policy platform has focussed on reintroducing compensation for pain and suffering for victims of violent crime supported by a substantial budgetary allocation for this purpose. While not reducing the budget allocation to VRAS, it is clear that the Government's priority is toward a strategy that includes both compensation and the provision of support services to victims of crime. As well, the Government commissioned a review of victim services, which is referred to in the last section of your report. The purpose was to review services across Government and to determine the most effective way to provide services in the future. The Review of Services to Victims of Crime is currently being considered by Government.

Specific responses**Victims Assistance Program**

You note that VAP funded research is likely to not be funded in 1999-2000, however no reference is made to the Department's Research Strategy and the availability of other Departmental funds for research which embraces all functional areas of the Department, including victim support services.

Other providers of services for victims

There is no clear basis for the statements that there were substantial delays in the provision of assistance to victims at some VOCAT locations which it is assumed refer to applications for counselling assistance. The survey conducted by VRAS through VAP workers appears to be based on the experience of VAP workers and not data from the Magistrates' Court. The survey is in draft form.

The Magistrates' Court advises it generally provides interim determinations for items such as the payment of fees or counselling within three months. Final determination on any particular case will depend on the complexity of the case e.g. whether injuries have stabilised.

Financial management of VRAS

I refer to my comments under the General Observations section. Following the success of the public advertising campaign a review of demand levels was undertaken by VRAS in 2000. The Departmental Executive worked with VRAS to develop a submission for a Treasurer's Advance. The submission was lodged in November 2000 and the Treasurer's Advance was approved in January 2001. In developing the submission VRAS advised that with further demand strategies it should hold demand to 15,000 referrals. There was recognition that if demand continued to grow then the eligibility criteria would need to be tightened.

In February/March 2001 it became apparent that VRAS was unable to manage within its budget and required assistance from the Departmental Executive. The assistance involved providing a staff member to assist VRAS in organising and presenting its data so that a clear picture of the demand pressures, the options for managing them and the end of year outcome could be established. Meetings were established with the Department of Human Services and the Magistrates' Court to investigate and establish other means of assisting victims. The changes to the eligibility criteria developed were based on fallback options presented to the Departmental Executive by VRAS in late 2000 when the submission for the Treasurer's Advance was being developed.

RESPONSE provided by Secretary, Department of Justice - continued

Demand management strategies

VRAS as the manager of the services to victims had responsibility for communicating changes to the eligibility criteria to stakeholders such as the VAPs.

VRAS was requested by the Departmental Executive on 20 March 2001 to develop communication strategies on the impact of the demand management strategies. VRAS subsequently wrote to the VAPs on the 3 April 2001 outlining steps being taken to manage VRAS demand pressures. The Acting Director of VRAS signed a further letter to the VAPs in early May 2001. Meetings were also held with stakeholders including CASA's, Domestic Violence Agencies and the VAP's to discuss the circumstances impacting on VRAS' budget. The Acting Director provided staff with guidelines for answering commonly asked questions.

Introduction of new eligibility criteria

The expected surplus in funding for 2001-02 can be carried forward to 2002/03. This funding, together with additional funding of \$1m will result in a counselling budget of \$4.1m in 2002/03.

Evaluation of VCS service delivery

The majority of the victims currently accessing counselling will have access to additional counselling from VOCAT. VRAS and the VAPs need to be working with victims to ensure they understand the eligibility criteria from accessing additional counselling sessions from VOCAT. The Review of Services to Victims of Crime has made recommendations that if implemented will improve access to VOCAT.

Use of private providers compared with in-house counsellors

VRAS is responsible for developing and advising on eligibility criteria and managing demand. When it became apparent in February/March 2001 that VRAS was unable to manage within budget, the Departmental Executive took a more active involvement in the management of demand.

Comparison with counselling services provided in other States

Based on the information provided above it appears that Victoria still provides a service that is at least comparable with New South Wales.

Meeting future demands

The Review of Victims of Crime establishes the structure and operational framework for the analysis recommended by audit in this part of the report. However, it is important that the Audit recognises that Departments work within finite budgets that are set in the context of competing priorities. Thus it is difficult to comprehend Audit's statement ... "However, the decisions were in response to budget priorities rather than based on identified needs". The Government must manage against a finite budget and cannot possibly respond to all identified needs against all sectors of Government.

Review of services to victims of crime

The Department is aware of the critical nature of victims services. The Review provides the Government with an opportunity to significantly improve the delivery of services to victims of crime.

VICTORIA POLICE: “NEW CENTURY, NEW FORCE” RECRUITMENT INITIATIVE

6.90 Victoria Police was formally established on 3 January 1853, with a staff of 875 men to serve Victoria’s population of 168 000 residents. Today Victoria Police employs more than 12 000 people, consisting of sworn police, public servants, reservists and protective services officers to serve Victoria’s population of around 4.9 million.

6.91 Most staff directly involved in delivering police services are sworn police officers. These officers exercise police powers, including the power to arrest, summons, caution, detain, fingerprint and search. However, a trend in recent years in most Australian police forces has been to increase the use of un-sworn employees (or contracted external providers) in some police activities.

6.92 In October 1999, one of the biggest ever police recruitment initiatives known as “*New Century, New Force*” was launched in Victoria. This initiative aimed to attract more than 2 500 new recruits over three years and to produce a net increase of 800 police officers by 2003. The employment of additional staff was intended to reduce the incidence of crime, improve community safety and to increase local police visibility and presence.

6.93 It was originally intended that the 800 additional police would comprise 650 new recruits and the redeployment of 150 sworn officers, performing non-operational duties, back into operational police roles. However, it was subsequently agreed that the 800 additional police be sourced through recruitment, as Victoria Police considered it not to be practicable to release 150 police back into operational duties.

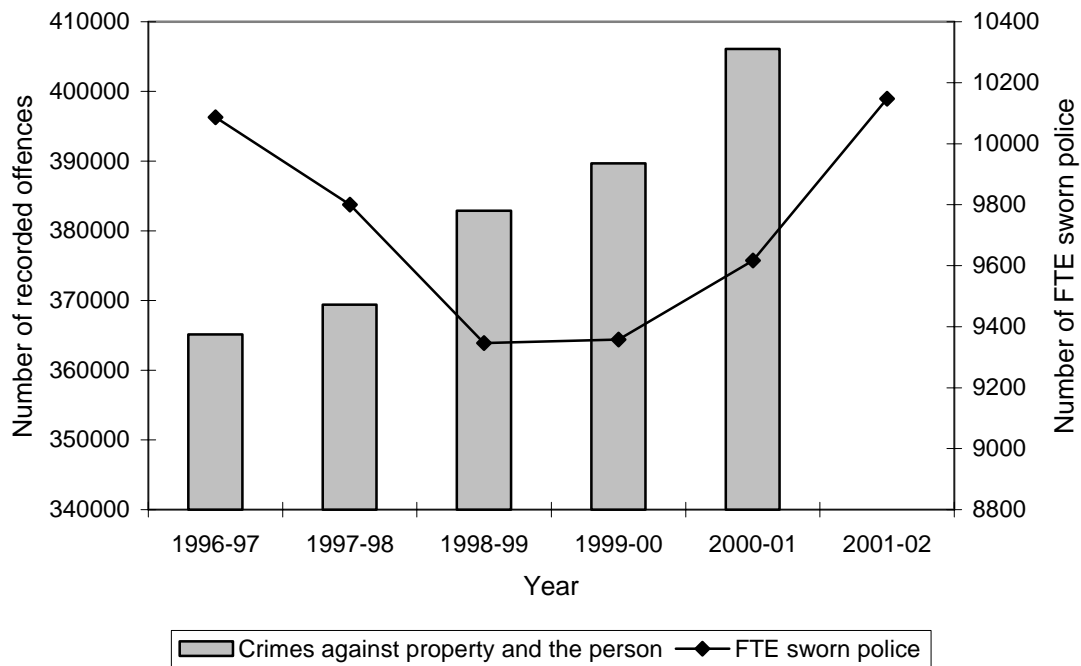
6.94 As a result of this initiative to engage 800 additional police, the State Government anticipated that by 2003, there would be 10 300 police officers (including police recruits) deployed across the State. The total cost of this initiative is estimated to be \$162 million over five years, commencing in 1999-2000. This amount includes \$2.85 million of advertising expenditure to attract recruits. The on-going cost of the initiative will be in the order of \$47 million per annum.

6.95 In order to put the current recruitment initiative into perspective, it is important to appreciate the movements in police numbers over the last 8 years. Police resourcing became a significant issue in the mid 1990s when, as a result of the State Government’s 1996 Enterprise Bargaining Process, the annual employee entitlement costs of Victoria Police increased by \$63 million.

6.96 At that time, the State Government’s Budget and Expenditure Review Committee considered that the higher operational costs incurred by Victoria Police as a result of the enterprise bargaining agreement was unsustainable over the longer term. Consequently, Victoria Police agreed to a managed staff attrition program to reduce its operating costs.

6.97 This program involved reducing police recruitment to an average of around 150 recruits per year and using the natural staff attrition rate, which was around 430 per year to reduce overall police numbers. The impact of the planned staff reductions on the number of sworn police officers is shown in Chart 6D.

**CHART 6D
NUMBER OF FTE SWORN POLICE (ACTUAL),
AND NUMBER OF RECORDED CRIMES**



Source: Victoria Police.

6.98 From the chart it can be seen that in 1996-97 the number of sworn staff employed by Victoria Police was 10 086 FTE (full time equivalent). By 1998-99 staff numbers had fallen to 9 347 FTE, a reduction of around 7 per cent. The chart also shows that the October 1999 recruitment initiative has returned the number of sworn police officers in Victoria to the level it was in 1996-97.

Ministerial Review

6.99 To facilitate the implementation of the Government’s policy commitments in relation to Victoria Police, in April 2000 the Minister for Police and Emergency Services established an administrative review to examine Victoria Police staff resourcing, human resource planning and operational independence (the Ministerial Review).

6.100 The Ministerial Review was assisted by a consultative committee comprising members of Victoria Police Command, the Police Association, the Community, the Public Sector Union, and the Department of Justice. The major aims of the Ministerial Review were to:

- consider and recommend appropriate protocols between the Government and Victoria Police, to better establish the operational independence of the Force;
- assess Victoria Police human resource planning, to ensure it facilitates the achievement of government policy objectives, in particular:
 - employment of the 800 additional police and their deployment for effective anti-crime duties;
 - creating a police force that is representative of the community it serves; and
 - establishing a two year Diploma of Policing (now known as the Diploma of Public Safety (Policing)) as a prerequisite for entry to the Victoria Police Academy.
- examine and make any appropriate recommendations on Victoria Police succession planning for the next ten years; and
- review the career path opportunities for officers at patrol level, and recommend an approach to enhance such opportunities and maximise the retention of police officers in front-line policing.

6.101 The key recommendations of the Ministerial Review, which was finalised in March 2001, focused on the need for Victoria Police to:

- better manage attrition to ensure that the planned recruitment targets are met;
- implement strategies and processes to ensure the effective allocation of police recruits;
- improve techniques for monitoring the progress in achieving cultural and community representation in the Force;
- develop credible measures for evaluating the anti-crime effectiveness of the additional police; and
- identify police resourcing requirements and assess whether provision of the additional police should be continued, supplemented or adjusted.

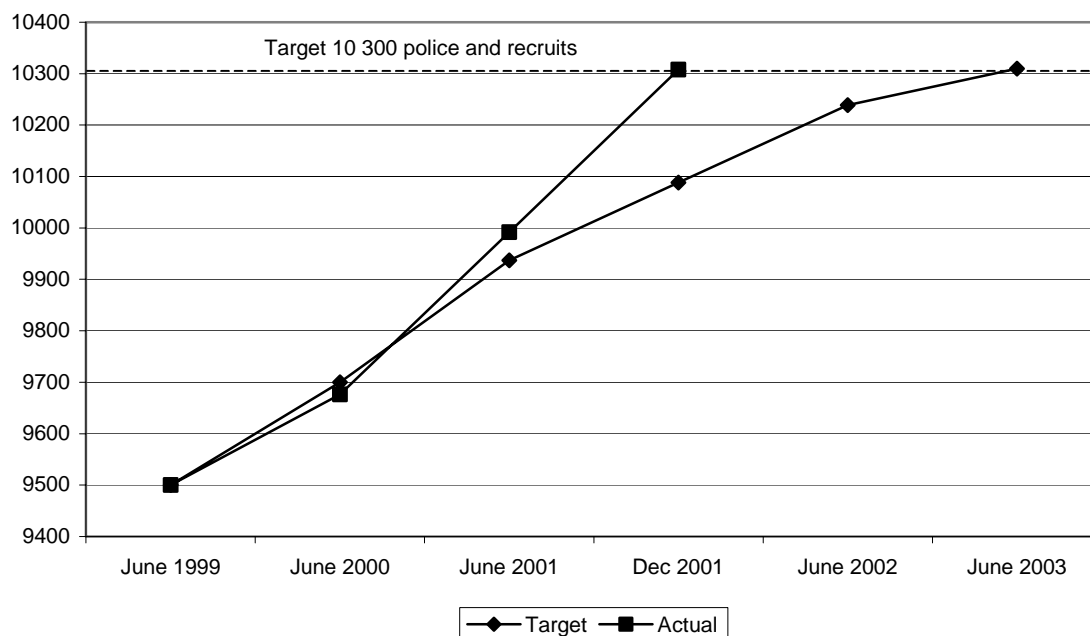
Progress in achieving the increase in police numbers

6.102 In order for the State Government to be confident that the Victoria Police had achieved the proposed 800 increase in staff, it was first necessary to reach agreement with Victoria Police regarding the base level of police staff engaged prior to the commencement of the initiative. Therefore it was agreed that, under the recruitment initiative, the total number of full time equivalent (FTE) police and recruits in training was to increase from a base of 9 500 at 30 June 1999, to 10 300 by 30 June 2003. In terms of operational police (excluding recruits) the number of police is to increase from 9 347 FTE at 30 June 1999 to 10 147 FTE as at 30 June 2003.

6.103 To ensure the recruitment initiative remained on target, Victoria Police established detailed recruitment schedules outlining the number of recruits required for each of the four years of the initiative. These schedules were developed following consideration of factors such as the funding available to the Force, trends in police and recruit attrition rates, capacity to train recruits and the likely conversion of staff from full-time to part-time employment. The schedules are constantly monitored and adjusted by Victoria Police to take into account changes in the above-mentioned factors.

6.104 Chart 6E discloses the targeted and actual increase in police resources (police and recruits).

CHART 6E
TARGETTED AND ACTUAL INCREASE IN POLICE AND RECRUITS, JUNE 1999 TO JUNE 2003

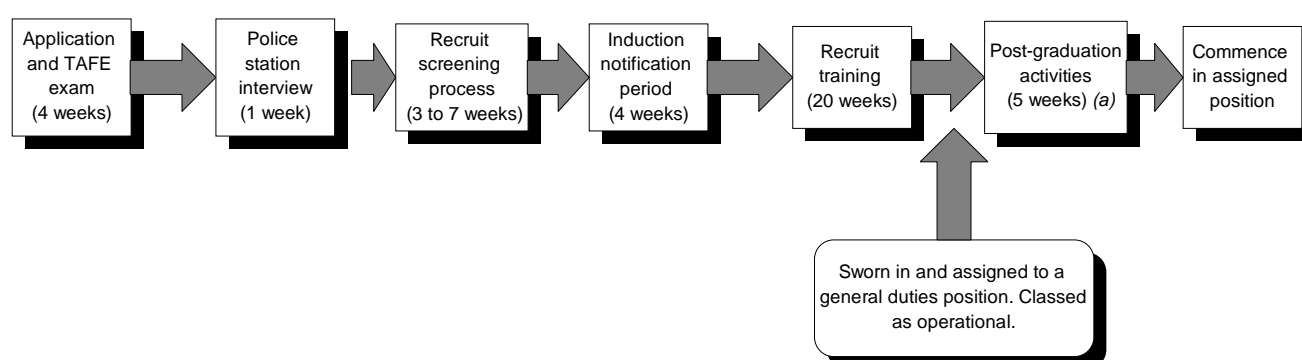


Source: Victoria Police.

6.105 As can be seen from the above Chart, while Victoria Police achieved its recruitment target 2 years earlier than planned, in the first year of the recruitment initiative, it fell short of its projected staffing levels. Reasons provided by Victoria Police for the shortfall were an unexpected increase in the level of attrition from 4.82 per cent in 1998-99 to 6.23 per cent in 1999-2000, and the time required to translate the decision to recruit additional staff and the actual increase of police on the street (known as the pipeline process).

6.106 As illustrated by Chart 6F, at least 32 weeks elapses between an individual's decision to apply to join the Force and their operational deployment.

**CHART 6F
PROCESS FROM APPLICATION TO POLICE ASSIGNMENT**



(a) From December 2001, constables are deployed to City Patrol for 1 week and the Traffic Alcohol Section for 4 weeks. Prior to that date, probationary constables spent 4 weeks in City Patrol, 4 weeks in the Traffic Alcohol Section, and took 4 weeks annual leave.

Source: Victoria Police.

6.107 Due to the restricted intake of recruits in the years prior to the recruitment initiative, the pool of available candidates available to Victoria Police in 1999-2000 was very limited. Establishing an adequate pool of appropriate candidates to meet the required increase in recruits took time, which in turn delayed the employment of additional police in the first year of the recruitment process.

6.108 In response to the small net increase in police numbers in the first year of the initiative, Victoria Police adjusted upwards its recruitment targets for subsequent years and launched (in February 2001) a \$2.85 million advertising campaign that included television, cinema, radio and print advertisements across the State to attract more recruits. At the date of preparation of this report, around \$1.9 million of the \$2.85 million set aside for this advertising campaign had been expended.



"New Century. New Force" Television recruitment drive.

6.109 By 30 June 2001 the advertising campaign had resulted in approximately 40 000 inquiries from the public, regarding the recruitment initiatives, and a significant increase in the number of applications to join the police force. This campaign proved to be very successful and, as a result, by 30 June 2001 Victoria Police was 55 police and recruits ahead of its original target.

6.110 Chart 1.2 shows that by December 2001, Victoria Police had reached its overall target of 10 300 police and recruits. However, at that time, Victoria Police was still 212 police short of achieving the planned increase of 800 operational police (excluding recruits). This target was subsequently reached on 12 April 2002, when the graduation of additional recruits from the Police Academy increased the number of operational police to 10 149.

6.111 Audit acknowledges the significant achievement of Victoria Police in achieving the target of 800 additional operational police 14 months ahead of schedule. Victoria Police is currently in the process of reviewing attrition rates and revising its recruitment program in order to maintain current police numbers through to June 2003.

Selection process for new recruits

6.112 Victoria Police staff selection process for new recruits involves the following 6 phases:

- education entrance examination, consisting of spelling and vocabulary, arithmetic, English language, writing, and reasoning ability components;
- initial screening, consisting of a preliminary interview with a Senior Sergeant to assess communication skills, knowledge of police duties, motivation, level of interest, maturity, commitment, presentation, and ethical conduct;

- agility co-ordination tests, including flexibility and fitness, and psychological screening, assessed by the Police Psychology Unit;
- medical examination;
- selection panel interview with members of Victoria Police; and
- orientation.

6.113 The 6 phases of the selection process are completed in the sequence as outlined above, with candidates unable to progress to the next stage of the process without successful completion of the previous stage.

6.114 Each applicant who satisfies all phases of the selection process is allocated a selection score, which represents the combination of their score for the education entrance exams (excluding the writing task) and their score for the selection panel interview. Applicants, whose overall score is 60 or higher, are placed on a list that ranks applicant scores from highest to lowest. The applicant with the highest score is allocated to the next available position as a police recruit.

Training and induction of new recruits

6.115 As a registered training organisation, Victoria Police provides all police specific training post recruitment. New recruits undergo a 20 week training program at the Police Academy in Glen Waverley.

6.116 Recruits contribute towards the cost of accommodation, meals and other expenses, paying a fortnightly fee of \$410 while at the Academy. This levy is made up of \$170 for catering, \$212 for accommodation, and \$28 for Academy expenses.

6.117 As stated in the Ministerial Review of Victoria Police staff resources, Victoria Police has estimated that it costs approximately \$16 800 to train a new recruit over the 20 week period at the Academy. This cost includes recruit salaries, on-costs and direct operating costs such as supplies, utilities and uniforms, but excludes the cost of instructors and supervisors, administration support, and the depreciation of facilities.

6.118 Once graduated, recruits are appointed as probationary constables for a period of 2 years before being confirmed as constables. In order to become confirmed as a Constable, probationary constables are required to:

- satisfactorily undertake a range of police duties at different locations as part of on-the-job training;
- complete a further three 1 week training sessions at the Police Academy; and
- complete the Diploma of Public Safety (Policing). This course replaced the Diploma of Policing in 2001, and was developed through the Public Safety Industry Training Board.



Graduation ceremony at Glen Waverley Police Academy.

Composition of staff within the Force to represent the community it serves

6.119 One of the State Government’s policy objectives is to have the composition of the Victoria Police Force, representative of the community it serves. This objective is outlined in the document *No More Excuses on Crime* which contains the following statements:

- “a modern, proactive police force needs to be representative of the community it polices”; and
- “police recruitment processes [will be reviewed] with a view to increasing the age and the educational requirements of new recruits... increasing the number of tertiary-educated police officers, the number of female police officers as well as police officers from ethnic backgrounds.”

6.120 If the composition of the Force is to change to any significant degree, it must occur through police recruitment, and therefore the current recruitment initiative provides Victoria Police with an excellent opportunity to start to address any identified imbalances.

6.121 In 1998, as part of a review of its human resource management practices, Victoria Police undertook a review of its equity policies and practices. That review included a culture and climate survey, which involved sending a questionnaire to 4 000 sworn employees and requesting them to respond to questions on a broad range of topics including the culture and climate within Victoria Police and a number of equity related issues. Overall, the findings of the survey indicated that the Victoria Police culture reflected the general cultural characteristics found in para-military and policing organisations.

6.122 The Review also noted that Victoria Police had adopted a harm avoidance strategy to satisfy its Equal Employment Opportunity requirements and that there had been little focus on addressing why inequities existed, or affirmative messages and initiatives to pro-actively seek to increase the number of members from under-represented groups. **In light of the review findings, police command resolved to initiate strategies to move Victoria Police from its position at the time, to that of a leader in the area of equity and diversity.**

6.123 Following the review of its equity policies and practices, Victoria Police developed its five-year workforce Equity and Diversity Strategy (the Strategy), which was officially launched in February 1999. One of the 4 major aims of the Strategy was to “*take steps to overcome past and continuing disadvantage of these groups that are underrepresented in Victoria Police including women, Aboriginals and Torres Strait Islanders, people from non-English speaking backgrounds and people with a disability.*”

Addressing the gender imbalance

6.124 Under the heading of Affirmative Action, the Equity and Diversity Strategy included the following strategies:

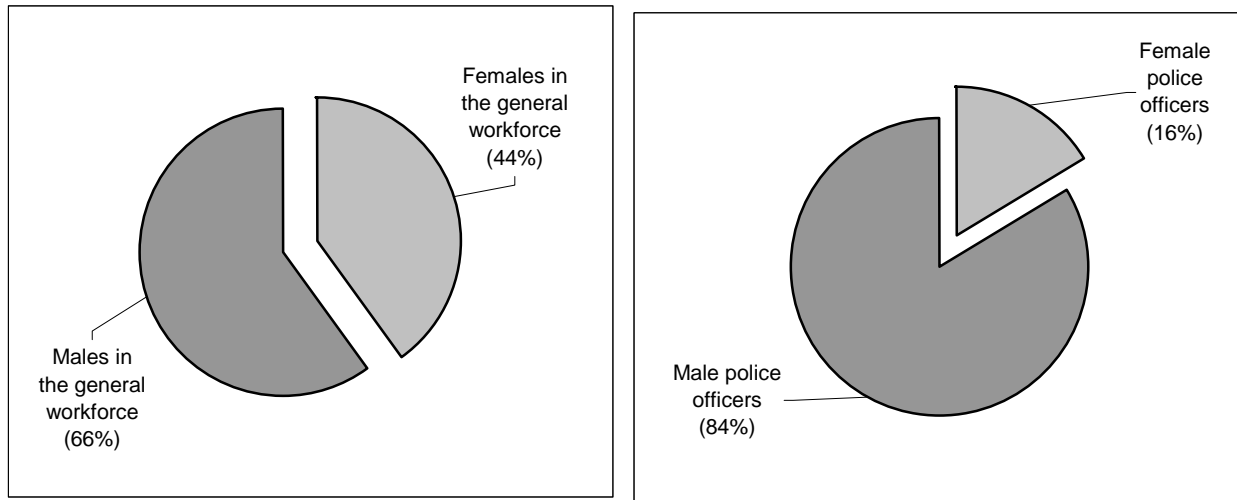
- ensure recruitment practices increase the gender and diversity balance of Victoria Police;
- establish employment targets for each under-represented group at each occupational category and at each level; and
- increase the number of sworn female police officers by 10 per cent over the next 10 years.

6.125 Many of the proposed actions developed in the Equity and Diversity Strategy were incorporated into the Office of Women’s Policy 2000-2003 *Valuing Victoria’s Women: Forward Plan*, which was launched in July 2000. The Forward plan includes a performance measure to increase the number of women police employed by Victoria Police and the number of women recruits.

6.126 In Victoria females comprise 51 per cent of the population, 44 per cent of the general workforce and 59 per cent of the public sector workforce. Women within Victoria Police represent only 23 per cent of the total staff and 16.4 per cent of the sworn staff. **If the percentage of women in the general workforce is used as the appropriate benchmark, the overall representation of women in the Force is about half of that in the general workforce and the percentage of sworn police officers that are women is about a third of the percentage of women in the general workforce.**

6.127 The gender composition of the general workforce and that of the Victorian police force are outlined in Chart 6G.

CHART 6G
GENDER COMPOSITION OF THE GENERAL WORKFORCE AND VICTORIAN POLICE FORCE
(per cent)



Source: Victoria Police.

6.128 In attempting to address the gender imbalance Victoria Police has chosen to increase the pool of females applying for employment into the Force, rather than actively lowering the entry standards for females or otherwise giving them preferential treatment.

6.129 The only exception has been certain changes to Victoria Police's physical fitness test, which have led to a greater number of women passing. This test involved completing a number of activities, including two laps of a 400 metre running track, an obstacle course (with a wall climb and a bag dragging exercise) and simulation of pulling a trigger action of a firearm, within a set period of time. Recent changes by Victoria Police to the physical fitness test for all applicants included:

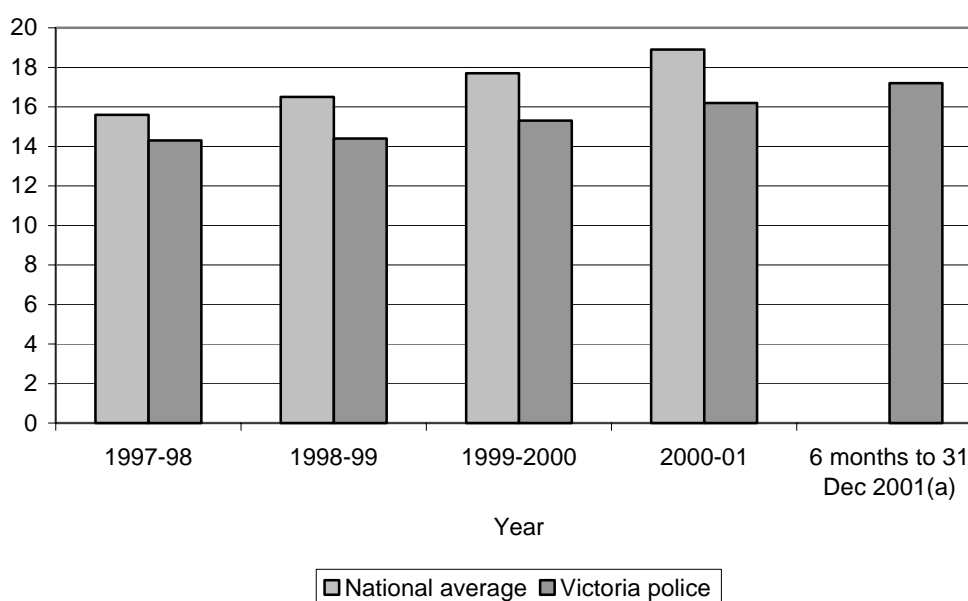
- reducing the height of the wall in the wall climb exercise and then later removing this exercise altogether;
- removing the bag dragging exercise; and
- increasing the time limit allowed for the completion of the test from 6 minutes to 6 minutes and 30 seconds for all applicants.

6.130 The major mechanism used as part of the overall recruitment campaign to increase the representation of women in the Force was a number of advertisements directly targeted at women. Victoria Police is continuing to target women in its ongoing marketing campaigns.

6.131 The Victoria Police advertising campaign has been effective in attracting more female applicants and in turn successful in increasing the percentage of female recruits from 26.7 per cent at 30 June 2000 to 31.9 per cent at 31 December 2001. Given that around 23 per cent of all Victoria Police personnel (sworn, unsworn and recruits) are women and the average percentage of women recruits over the past 3 years has been around 29 per cent, Victoria Police has achieved a moderate increase in the representation of women in the Force.

6.132 Another benchmark, which can be used to determine an appropriate representation of women in the Victoria Police force is the representation of women in interstate police forces. In Chart 6H, the percentage of female police and recruits in the Victorian Police force is compared with the national average.

CHART 6H
FEMALE STAFF (POLICE AND RECRUITS) IN VICTORIA POLICE COMPARED WITH THE NATIONAL AVERAGE
(per cent)



(a) National average not available for this period.

Source: Victoria Police and the Australian Institute of Criminology (police statistics).

6.133 From the chart it can be seen that in 2000-01, 16.4 per cent of Victoria Police sworn staff and recruits were female, which was below the national average of 19 per cent.

6.134 In June 1998, prior to the implementation of the Strategy and the recruitment initiative, the percentage of women in the Victoria Police Force was around 14 per cent, which was just below the national average. Although the percentage of sworn female staff in the Force has consistently increased over the subsequent 4 years to 16.4 per cent in 2000-01, the national average has increased at a faster rate, reaching 19 per cent at the end of the same period.

6.135 An analysis of the national data indicates that New South Wales has been the most successful of the interstate police forces in addressing its gender imbalance, with the composition of women in their sworn workforce increasing from 16.8 per cent to 21.3 per cent between 30 June 1998 and 30 June 2001. At 30 June 2001, with the exception of Western Australia, Victoria had the lowest per cent of female sworn police and recruits.

6.136 **Although Victoria Police is making progress in addressing the gender imbalance through its recruiting initiatives, most other states have been more effective.** Victoria Police has indicated that its strategy is to reduce biases and other impediments that adversely impact on the recruitment and promotion of women, rather than just increase the representation of women in the Force.

Increasing the range of police officers from different ethnic backgrounds

6.137 As indicated earlier in this report, one of the Government's police recruitment objectives is to increase the number of police from ethnic backgrounds to make the force more representative of the community.

6.138 The Victoria Police Equity and Diversity Strategy includes the following approach:

- develop and implement a strategy for attracting, recruiting and retaining personnel from non-English speaking backgrounds;
- undertake a multicultural audit to ascertain the cultural, racial, religious and linguistic backgrounds of sworn and unsworn members; and
- establish employment targets for each under-represented group at each occupational category and each staff level.

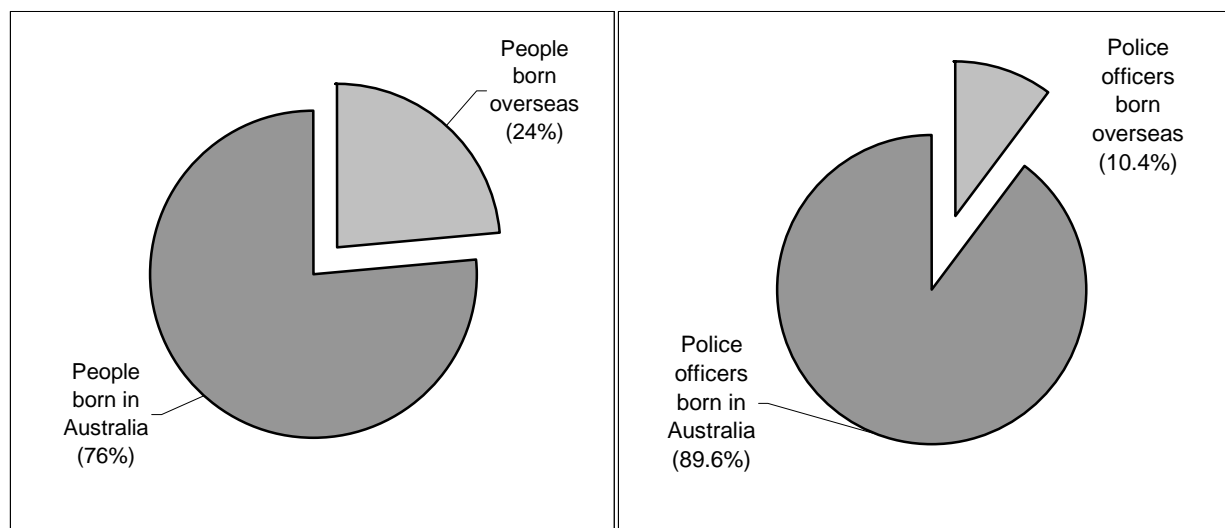
6.139 In July 2001, a 'multicultural audit' was conducted to gather information on the ethnic backgrounds of Victoria Police employees. This audit formed part of a broader census of all public sector employees undertaken by the Office of Public Employment. Around 50 per cent of sworn employees and 60 per cent of unsworn employees responded to the census.

6.140 Up until July 2001, the only information collected by Victoria Police on the ethnic background of police officers was the number of staff born overseas. Audit was advised that Victoria Police intends to use the information obtained from the census to develop appropriate strategies to encourage and attract people from non-English speaking backgrounds to join the police force.

6.141 According to the census, of the sworn employees that responded, less than 1 per cent were born in non-English speaking regions, which forms only a small proportion of the 10.4 per cent of sworn employees that indicated they were born overseas.

6.142 Chart 6I which follows compares the percentage of people born overseas living in the Victorian community with the percentage of people born overseas working in the Victoria Police Force.

CHART 6I
PEOPLE BORN OVERSEAS IN THE VICTORIAN COMMUNITY AND IN THE VICTORIAN
POLICE FORCE
(per cent)



Source: Victoria Police and the Australian Bureau of Statistics.

6.143 The current representation of people born overseas in the Victoria Police Force (at around 10 per cent) is less than half the percentage of people born overseas in the Victorian community. Based on this indicator, Victoria Police has a significant challenge in moving the ethnic diversity of the Force to reflect that of the community.

6.144 As with Victoria Police's treatment of its gender imbalance, a significant focus of the recruitment campaign has been the direction of marketing at the broader ethnic sections of the community, through the ethnic press and by using strategies that aim to break down cultural barriers. As indicated above, it is difficult to gauge the success of this strategy, due to the limited nature of statistics on the ethnic composition of the Victorian police force before 2000. The information currently available indicates that from 2000 to 2001 the number of new recruits born outside Australia increased only marginally, from 9.8 per cent to 10.2 per cent.

6.145 The Victoria Police Equity and Diversity Strategy, although identifying an objective to increase the ethnic diversity of the police force, has not set a specific target for the percentage of staff from non-English speaking backgrounds.

6.146 A Victoria Police review, undertaken in 1998 and titled Review of Victoria Police Equity Policies and Practices, included the comment that: "*Whilst there is general resistance to the concept of preference for under-represented groups to redress inequalities in quotas, it is imperative that the Force establish appropriate information bases to identify such inequities, undertake research to ascertain the causes and develop strategies to redress the significant difference between the general Victorian population and the composition of the Victoria Police Force.*"

6.147 The Victoria Police strategy of not introducing an affirmative action program or setting quotas or targets has support from the National Police Ethnic Advisory Bureau (NPEAB). NPEAB indicated to the Ministerial Review that “*affirmative action or the use of quotas are not solutions for increasing recruitment from ethnic communities, as such special treatment leads to the marginalisation of the ethnic communities and that overseas evidence clearly suggests the divisive nature of such approaches. They seriously undermine morale and cohesion of the workforce. However, in the development and assessment of entrance criteria due recognition of culturally determined behaviours should be made*”.

6.148 Even if it is assumed that introducing an affirmative action program or setting quotas or targets is not the best way of increasing the number of police officers from ethnic backgrounds, Victoria Police still needs to determine why ethnic groups are under represented in the Force and establish strategies to address this situation.

6.149 In September 2000, the NPEAB convened a national working party, comprising sworn and unsworn personnel from jurisdictions around Australia, to develop a strategic framework for maximising the value of diversity and providing appropriate policing services in a multicultural environment (the National Recruitment and Retention Strategic Framework for Culturally Competent Police Organisations).

6.150 The strategic framework formulated by the working party is aimed at reducing unnecessary barriers to entry for people from diverse backgrounds and provides a range of approaches for developing ‘culturally competent’ organisations. As part of the process of developing the strategic framework, a range of factors affecting recruitment and retention from culturally and linguistically diverse communities were identified. These factors included:

- perceptions of policing;
- cultural bias;
- lack of peer support;
- lack of role models;
- lack of specific language and cultural support;
- racism; and
- alienation from the community.

6.151 Victoria Police has advised that it had agreed in principle to adopt the strategies contained in the strategic framework, and that most of these strategies have since been implemented.

Selection of recruits to support Local Priority Policing

6.152 Another major initiative of Victoria Police is its Local Priority Policing (LPP) initiative, launched in November 1999, which aims to facilitate a co-ordinated response to community safety issues by involving a range of government, non-government and community agencies and organisations in shaping police service priorities.

6.153 Our Office's May 2001 performance audit report *Implementing Local Priority Policing in Victoria* (the report) found that the introduction of LPP has had the greatest impact at the District Inspector level, and that policing activities and responsibilities have generally remained unchanged for ranks below Senior Sergeant. However, the report indicated that the introduction of LPP would result in a greater involvement of front line police in education, provision of advice and community consultation. This changing police role would require these staff to possess strong leadership, communication, interpersonal and problem solving skills, as well as a knowledge and understanding of:

- other government service providers (where to direct queries and obtain advice);
- community safety issues, particularly at a local level;
- crime prevention; and
- multi-cultural issues and the concerns of relevant community organisations.

6.154 The report identified a number of shortcomings in the staff recruitment processes of Victoria Police, including the:

- limited number of LPP competencies;
- comparatively small number of crime scenario questions which are directly applicable to the LPP context;
- absence of any reference in the recruitment documentation to LPP principles and philosophy; and
- lack of a formal process to assess the knowledge of operational police on selection panels in relation to LPP.

6.155 In response to the report, Victoria Police indicated that one of its major initiatives, to address the problems identified by audit, was its Review of the Minimum Standards for Recruiting (RMSR). The RMSR was designed to identify the inherent requirements of the position of constable, through ascertaining what tasks are performed by constables and what attributes they require to perform these tasks competently.

6.156 Once the attributes required of "general duties" constables were established, Victoria Police intended to use the attribute profile developed to comprehensively review the minimum physical, medical, skills and personal qualities attributes required for the position of constable. Victoria Police also indicated that the RMSR will examine all steps in the recruitment process and acknowledged that LPP requirements would be a major focus of the review, particularly relating to the personal qualities and attributes of applicants.

6.157 Although the RMSR started in December 2000, audit was advised by Victoria Police that the review had not progressed due to funding constraints and was currently being amalgamated with another project aimed at reviewing options for the training of recruits. At the date of preparation of this report, a revised project brief for the combined project had not been finalised.

6.158 If the LPP initiative is to be effective, it is essential that in selecting new recruits for the Force, consideration is given to employing people with the skills and abilities to enable them to undertake policing under the LPP model. **With the current recruitment initiative now likely to be complete before the staff attributes for LPP policing are established, Victoria Police has missed an opportunity to ensure that recruits employed under the current recruitment drive have the appropriate skills and knowledge required by LPP.**

Increasing the number of disabled staff

6.159 One of the proposed actions outlined in the Victoria Police Equity and Diversity Strategy was to develop and implement a strategy for recruiting and retaining employees with a disability.

6.160 According to the July 2001 census, of the Victoria Police employees that responded, 4.7 per cent of unsworn employees and 5.7 per cent of sworn employees indicated that they had a disability that affected the way that they carried out their work. In both instances, this is higher than the 3.1 per cent of public sector employees that indicated that they had a disability.

6.161 Based on this information, Victoria Police compares well with the rest of the public sector in relation to the employment of individuals with a disability.

Age and educational qualifications of recruits

6.162 As indicated earlier, the State Government has an objective to increase the maturity and life skills of police recruits as well as the standard of their educational qualifications. Since the launch of the recruitment campaign there has been an increase in the appointment of mature aged applicants, who are able to provide valuable work/life experiences to the police force. In particular:

- the average age of recruits has increased from 27.1 years as at 30 June 2000 to 28.4 years at 31 December 2001;
- a third of all applicants are over 30 years of age; and
- there have been 3 successful applicants over 50 years of age.

6.163 The Victoria Police recruitment initiative is also attracting a large number of applicants with higher educational qualifications, as indicated by 37 per cent of applicants possessing a tertiary or postgraduate qualification. **However, the educational standards of applicants selected as recruits is falling, rather than rising, with 20.5 per cent of recruits having higher educational qualifications in 2000, compared with 15.4 per cent in 2001.**

6.164 Discussions with staff from Victoria Police indicate that in selecting applicants, the Force has found that the better police officers have been drawn from the recruits with greater maturity and more life skills, who tend to have a lower level of education than the younger applicants.

Impact of the recruitment initiative on the standard of recruits employed and the operations of Victoria Police

6.165 The recruitment drive will involve the employment of about 2 300 new recruits over a 3 year period, representing in excess of 20 per cent of the total workforce. This significant increase in staff over a relatively short time period presents certain challenges for Victoria Police in maintaining appropriate quality standards for recruits and places demands on the Police Academy and the training personnel involved in the recruitment process. The additional 800 police will also place greater demands on the administration and support staff assisting with police work.

Impact of the initiative on the standard of recruits employed

6.166 As indicated earlier in this report, the Victoria Police selection processes involves 6 phases following which each applicant is allocated a selection score.

6.167 Prior to the commencement of the recruitment initiative, applicants generally required an average overall score in the mid to high 70's to be accepted into the police force. **The increased demand for recruits under the initiative over a relatively short time frame led to a reduction in the entrance score for recruits.**

6.168 In 1998, prior to the commencement of the recruitment initiative, only one applicant with a score lower than 70 was accepted as a recruit. However, in 2000 a total of 85 applicants with a score lower than 70 were accepted as recruits, with the lowest score being 64.

Impact of the initiative on training, staff and facilities

6.169 The Academy has a sleeping capacity for around 340 people. With restrictions on the level of recruitment in the late 1990s, the sleeping capacity of the Academy was significantly under-utilised during that period. However, the increase in the number of recruits, resulting from the recruitment initiative, has resulted in the Academy reaching full capacity.

6.170 As a consequence of this, and the fact that the recruitment initiative has lead to a significant change in the demographics of applicants, with many more recruits being of mature age and having family commitments, it has been necessary for Victoria Police to abolish the obligation for recruits to live at the Academy. In cases where demand for accommodation exceeds supply, a decision as to who will be accommodated is made by the Victoria Police Training Department based on an assessment of recruits' individual needs, with those recruits from country areas given priority.

6.171 On entering the Academy, recruits are allocated into squads. These squads can incorporate up to 30 recruits, however the average number in each squad is around 27 to allow space for those recruits that are required to repeat any aspects of their training.

6.172 According to Victoria Police, training of new recruits at the Academy has been delivered primarily with existing resources, with trainers working in other areas of the Training Department being assigned to recruit training for peak demand periods. Productivity and efficiency gains have also been achieved as a result of changes to the delivery of training processes. These have included staff taking on additional work and the deployment of staff on 'return to work' programs into recruit training co-ordination roles.

6.173 As previously mentioned in this report, as a registered training organisation, Victoria Police provides all police specific training post recruitment. Approximately 80 per cent of this training is made up of supervisory, middle management, executive, traffic, crime, and operational tactics training – with recruit training making up the remaining 20 per cent. The provision of recruit training is however given priority at the Academy.

6.174 Given that the annual number of police recruits receiving training at the Police Academy for the period from 1999-2000 to 2001-02 was approximately 8 times the number of recruits trained in 1997-98, the capacity to undertake other training and hold meetings and conferences at the Academy has been significantly reduced. As result, Victoria Police has been required to find alternative external venues for these purposes.

6.175 The increase in recruitment has also impacted on the activities undertaken by probationary constables immediately after graduating from the Academy. Prior to December 2001, before commencing in their assigned positions probationary constables were deployed for 4 weeks to the City Patrol Group to gain experience in directing traffic and carrying-out foot patrols, and 4 weeks to the Traffic Alcohol Section to undertake such activities as the manning of 'booze buses'.

6.176 However, as a consequence of the additional squads graduating from the Academy, the number of weeks required to be spent by probationary constables in City Patrol has been reduced from 4 weeks to 1 week. Furthermore, there have been instances where it has not been possible to accommodate all squads of probationary constables in the Traffic Alcohol Section, thereby resulting in some probationary constables not having the opportunity to experience this activity.

Impact of the initiative on Force operation

6.177 With the recruitment initiative resulting in a 10 per cent increase in operational staff, some increase in non-operational staff was likely. Victoria Police considers that the increase in police numbers will require a number of additional supervisory and administrative positions in order to ensure that time allocated to operational duties by newly recruited staff is maximised and optimal operational effectiveness is achieved. In particular, Victoria Police consider there is a need for an additional:

- 54 Sergeant positions to maintain the ratio of Sergeants to Constables and allow for appropriate supervision of new recruits; and
- 127.5 FTE unsworn administrative support positions.

6.178 In 2001, Victoria Police applied to the Government for additional resources to fund the cost of the additional police. In its application, Victoria Police proposed that the above-mentioned administrative positions be newly created, and 54 of the additional 800 police positions be converted from Constable to Sergeant rank and progressively filled as the number of police increased. Victoria Police estimated that these additional positions would cost \$4.2 million in 2001-02 and \$6.4 million in subsequent years. The Victoria Police did not receive the related funding at that time but the issue is still under active consideration.

6.179 Victoria Police has indicated that it is unable to fund the new positions within its existing resources. Without the additional staff requested, Victoria Police consider that police officers are likely to be required to allocate more time to administrative tasks at the expense of operational duties. Victoria Police further indicated that this will particularly be the case in rural and regional Victoria, where 60 per cent of the additional administrative and supervisory positions were to have been located.

Effectiveness of the 800 additional recruits

6.180 Victoria Police has indicated that it intends to allocate 752 (94 per cent) of the additional police to police stations in high priority areas to undertake crime prevention and investigation, and the remaining 48 (6 per cent) to its Transit and Force Response Units.

6.181 This allocation is based on an analysis, undertaken in August 1999, which indicated that of the total number of Constables and Senior Constables undertaking general duties in the General Policing Department and the Transit and Force Response Units at that time, 94 per cent were located in General Policing and 6 per cent were located in the Transit and Force Response Units. The respective departments are responsible for the prioritisation and placement of the additional police within those departments.

6.182 As indicated earlier in this report, the recruitment drive was intended to:

- reduce the incidence of crime;
- improve community safety; and
- increase the level of police visibility and presence.

Reduction in the incidence of crime

6.183 As indicated in a Ministerial Statement by the Minister for Police and Emergency Services on 16 December 1999, the State Government considered that by increasing police numbers, the level of crime in the community could be reduced. Specifically, the Minister stated that “*Dramatically boosting police numbers is an important step the Bracks Government is taking to fight crime and restore confidence in our Force.*”

6.184 Based on the above statement, one measure of the effectiveness of the Victoria Police recruitment program is its impact on crime in the State. The Ministerial Review indicated that Victoria Police had not established any measures to assess the anti-crime effectiveness of the 800 additional police employed for anti-crime duties. The Review also recommended that Victoria Police develop *“processes to establish frontline anti-crime priorities, and measure the anti-crime effectiveness of the additional police in reducing and solving crime.”*

6.185 In the absence of any evaluation by Victoria Police of the effectiveness of the police force in reducing crime, audit has graphed the movement in police numbers against the incidence of recorded crime in the State (See Chart 6D). In undertaking this analysis audit recognises that the new recruits have only been engaged for a relatively short period of time and as a result it may be a little early to assess their overall effectiveness in reducing crime.

6.186 The level of crime in the community is impacted by a multitude of factors, including opportunity, the level of poverty in the community, drug addiction, education, breakdown in the family unit and the size of the police force. The Government has in place a number of strategies to reduce the level of crime in the community including its Drug Strategy and Prisoner Rehabilitation Strategy.

6.187 The Government through its police recruitment initiative has also clearly indicated that it considers that the size of the police force, and in particular the level of police presence in the community, is a major deterrent to crime. This belief is reflected in the major objective of the recruitment strategy, which is to increase the police presence in the community in order to reduce the level of crime in Victoria.

6.188 From Chart 6D, it can be seen that as police numbers were reducing, the level of crime was increasing. Audit acknowledges that recorded crime only represents a portion of the total crime in the community and that the crime statistics recorded in Victoria may not be determined on the same basis as that used by other Australian jurisdictions. Despite the likelihood of recorded crime statistics under representing the real level of crime, the information is still useful in providing an indication of the trends in crime over time.

6.189 Over the 4 year period up to 1999-2000 when police numbers were falling and then stabilised, the incidence of recorded crime had increased from 365 000 recorded offences to 390 000, representing an increase of 6.9 per cent. Over the same period, Victoria’s population increased by 3.5 per cent. The reduction in police numbers over this period may have been one of the factors that contributed to the increase in recorded crime.

6.190 In 2000-01 there has been a further 4 per cent increase in recorded crime from the previous year. This was also the first year in which the recruitment initiative started to take effect. It is reasonable to expect the additional police resources are unlikely to have an immediate impact on crime. However, such an assessment needs to be undertaken by Victoria Police at some time in the future.

6.191 In this respect, audit supports the recommendation of the Ministerial Review that Victoria Police establish procedures to evaluate the effectiveness of the additional 800 police in reducing crime and report this information back to the Government.

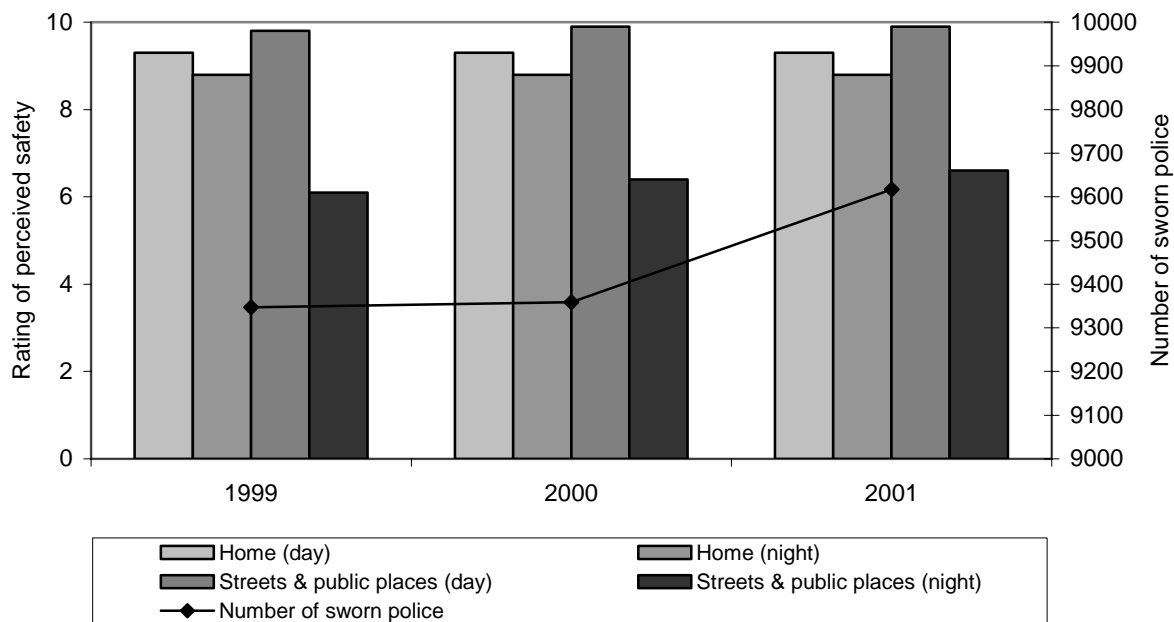
6.192 Another broad indicator, which can be used to assess the adequacy of police resources, is the relationship between police numbers and the size of the population. The Report on Government Services prepared by the Steering Committee for the Review of Commonwealth/State Service Provision provides information across Australia on the number of police staff per 100 000 population. That report indicates that in 1996-97 Victoria's 219 police per 100 000 population was comparable to the national rate of 217 police per 100 000 population. However, by 2000-01 Victoria's rate had fallen by 10.5 per cent to 196 police per 100 000 population, while the national average remained relatively static. **As a consequence, at 30 June 2001 Victoria had around 9 per cent less police staff per 100 000 population than the national average.**

6.193 In respect of un-sworn police staff, Victoria had 46 staff per 100 000 population in 1996-97 compared to the national average of 61 staff per 100 000 population. In 2000-01, the number of un-sworn staff had risen marginally to 47 staff per 100 000 population compared with the national average of 62 staff per 100 000 population.

Improved community safety

6.194 Another major aim of increasing police numbers was to improve community safety. As Victoria Police has also not attempted to measure the effect of the 800 police on community safety, audit has graphed the movement in police numbers against the perception of safety within the community as illustrated in Chart 6J.

**CHART 6J
COMMUNITY PERCEPTIONS OF SAFETY**



Source: Crime Prevention Victoria, Local Safety Survey 2001, Safety Ratings.

6.195 The measures of community safety used in the chart are based on a survey of the general public, which requested people to rate their perceived level of safety in a number of different circumstances. Safety was assessed in the home at night and during the day, and in the streets and public places at night and during the day.

6.196 The perceptions of the community, like crime statistics, are influenced by a number of factors, which in respect of perceived safety include the reporting of crime in the media, personal experience of crime, published crime statistics and the visibility of police in the community. However, the Government through a number of ministerial announcements has clearly linked community safety with the resources available to the police force.

6.197 From the above chart, it can be seen that there is little change in the community’s perception of safety between 1999 and 2001. Again it is likely to be too early to determine whether the increase in police numbers has had an impact on the community’s perception of safety.

Increase in the level of police visibility and presence

6.198 By targeting their recruitment initiative at frontline police officers, Victoria Police has ensured that its new recruits will increase the police visibility and presence in the community.

6.199 In developing a Minimum Service Delivery Model, as outlined later in this report, Victoria Police has established a staff availability formula, which outlines the days available to members and probationary officers in their first year of service for operational police duties. From the formula it can be seen that a constable, after taking into account mainly sick and recreation leave, court appearances, and training has 181 days per year (69 per cent) of a possible 261 days, to undertake operational police duties.

6.200 For a first year probationary constable, after deducting a further 57 days for training and other non-operational activities, there are only 124 days per year (48 per cent) available for operational police duty. **Based on this information, just under half of a recruit's available time will involve their visibility and presence in the community in their first year.**

6.201 However, changes introduced in December 2001 to activities undertaken by probationary constables immediately after their graduation (as mentioned in prior sections of this report) have resulted in probationary constables being available for operational deployment at police stations sooner than was previously the case. In particular, the 12 week timeframe which existed from the time of graduation to the time of commencement at a police station has been reduced to between 1 and 5 weeks (depending on whether probationary constables undertake activities in the Traffic Alcohol Section) through the decrease in time required to be spent in City Patrol from 4 weeks to 1 week and the removal of a requirement to take 4 weeks annual leave before being deployed to a police station.

Effectiveness of training

6.202 In order for the additional 800 staff to be effective, Victoria Police needs to have chosen the right people and provided them with appropriate training and development.

6.203 In respect of the recruitment training processes, audit was advised that Victoria Police has established a number of mechanisms to assess the provision of training at the Academy. These include feedback from staff, recruits, and the families of the recruits, exam pass rates, and exit interviews with recruits who have resigned.

6.204 When audit requested information to support how effective Victoria Police considered its training activities to be, staff indicated that it was difficult to assess the overall effectiveness of the recruitment and training program as the above-mentioned information and results were not compiled and analysed for this specific purpose.

6.205 According to Victoria Police, this information is not critical because recruits who fail to complete any aspect of their training at the Academy to a satisfactory level are able to repeat the relevant aspect(s) until the required competency level is reached or alternatively, are consulted to determine whether they wish to pursue a career with the Force. Furthermore, the effectiveness of training is ultimately reflected in the number of recruits attaining their Diploma of Public Safety (Policing).

6.206 We believe the collection and analysis of data such as pass rates, survey results and exit interviews would provide useful information to better enable the Force to assess the effectiveness of its recruitment training.

6.207 Recruits are subject to periodic performance assessments during their 2 year period as probationary constables, leading to the attainment of their Diploma of Public Safety (Policing). Those probationary constables not meeting the required level of performance are placed on improvement plans. However, Victoria Police advised that details of the number of probationary constables placed on improvement plans are not compiled and analysed.

6.208 We believe the compilation of details of the number of probationary constables placed on improvement plans, and comparison of this information to an established benchmark determined before the commencement of the recruitment initiative, would provide a useful indication of the overall effectiveness of training and competence of recruits.

6.209 As most constables employed under the recruitment initiative had not completed their probationary period at the date of preparation of this report, it was too early to determine the effectiveness of Victoria Police recruitment training in preparing probationary constables for completing their diplomas and developing as effective police officers.

Recruit attrition rates

6.210 Another broad indicator of the success of the recruitment initiative is recruit attrition rates. In the selection and training process, if a recruit or the force realises that the recruit is not suited to or does not possess the required skills and abilities to become a police officer, they may resign or be terminated by the force. Therefore a low recruit turnover rate is one indicator of the success of the Victoria Police selection and training processes.

6.211 As at 31 December 2001, 111 recruits had resigned from the training program at the Academy since the commencement of the recruitment initiative in July 1999. This is reflected in Table 6K below, which shows the annual recruit attrition rate over the past 5 years compared with the total number of recruits.

TABLE 6K
ANNUAL RECRUIT ATTRITION RATES COMPARED WITH TOTAL RECRUITMENT

	1996-97	1997-98	1998-99	1999-00	2000-01	1/7/2001 to 31/12/2001
Annual recruit attrition (number)	42	10	10	34	45	32
Total recruitment (number)	158	103	205	790	832	501
Recruit attrition rate (per cent)	26.6	9.7	4.8	4.3	5.4	6.4

Source: Victoria Police.

6.212 As can be seen from the above Table, the recruit attrition rate has increased from 4.3 per cent to 6.4 per cent since the introduction of the recruitment initiative. However, Victoria Police has advised that the average recruit attrition rate over the past 19 years is around 12.4 per cent.

6.213 The overall attrition rate of Victoria Police staff averaged around 5 per cent between 1996-97 and 2000-01. Given that it would be reasonable to expect that the attrition rate for recruits would be higher than that for other staff, an attrition rate for recruits of between 4.3 per cent and 6.4 per cent during the recruitment initiative appears to be reasonable. Therefore, an analysis of these attrition rates does not indicate that the Victoria Police selection and recruitment training processes are deficient.

6.214 As the attrition rates have shown a steady increase over the last 3 years, it is recommended that Victoria Police continue to monitor these rates, to identify any problems with its selection and recruitment processes.

Recruitment and retention working party

6.215 A joint working party on recruitment and retention, which includes members from the Police Association and Ministerial representatives, is also currently exploring means by which the recruitment of high calibre candidates for sworn police work can be achieved, and sworn staff retained.

6.216 The main focus of the working party has been on:

- monitoring the implementation and progress of the recruit advertising and marketing campaign;
- examining pay progression for retention purposes;
- reviewing the recommendations from a 3 year staff stress and morale study;
- reviewing the recruitment of former Victoria Police Force members;
- reviewing entry numbers and standards;
- implementing a mentoring program; and
- reviewing any recruit training issues.

Financial impact of the initiative

6.217 Victoria Police has advised that the increase in police numbers will require funding of \$158.76 million over a five year period from 1999-00 to 2003-04, with on-going funding of \$47.25 million per annum after that period.

6.218 This funding is to cover:

- salaries and associated costs;
- vehicle expenses;
- uniforms;
- information technology;
- training; and
- other miscellaneous operating costs.

6.219 The costing of the initiative, outlined above, was based on the 1998 Certified Agreement signed between Victoria Police and its staff. In 2001, the State Government negotiated a new agreement with police staff known as the *Victoria Police 2001 Certified Agreement*. This Agreement provides for pay increases for all sworn staff with the aim of achieving pay parity with the New South Wales police force. Pay increases are progressively implemented each year under the Agreement, with the first pay rise taking effect on 1 August 2001.

6.220 Victoria Police have advised that supplementary funding of around \$610 million will be required over the 5 year period of the Agreement (from 2001-02 to 2005-06) to meet the increase in salaries and associated costs, with on-going funding of \$212 million per annum required after that period.

6.221 New recruits are only eligible to receive pay increases, outlined in the Agreement, once they are sworn in as probationary Constables. As a consequence, the salary paid to recruits while in training at the Academy is not impacted by the Agreement. From 1 August 2001, probationary Constables receive a starting salary of \$38 148 (up from \$35 328), increasing to \$44 875 by December 2005. Probationary Constables can expect to become Constables after 2 years, with the starting salary for a Constable commencing at \$41 286 from 1 August 2001 and increasing to \$46 567 by December 2005. In addition, Constables receive annual incremental salary increases as they progress through the different levels of this rank.

6.222 The new Agreement will increase probationary Constable salaries and associated costs by around 9.5 per cent in 2001-02, 6.0 per cent in 2002-03, 4.4 per cent in 2003-04, 4.4 per cent in 2004-05 and 6 per cent in 2005-06. However, it is difficult to accurately quantify the overall financial impact on the salaries and associated costs of the 800 additional police due to their staggered commencement dates and the progressive salary increases that they will receive.

Human resource planning and allocation of additional police

6.223 Victoria Police has identified its corporate objectives, strategies and actions needed to achieve their objectives as part of its corporate planning process. In order for these strategies and actions to be achieved, appropriate resources need to be identified and assigned. The human resources managed by Victoria Police represents its most important asset and its biggest operating cost.

6.224 Effective human resource management is about ensuring the right people are in the right place at the right time and at the right cost. Human resource management involves:

- developing appropriate employment policies for recruitment, training, development and promotion, which will facilitate the organisation's human resource needs;
- establishing mechanisms to determine the human resources required in order for the organisation to achieve its objectives and goals; and
- outlining current and future human resource requirements in a human resource plan.

6.225 In order to prepare a human resource plan, an organisation must first:

- determine the resources needed to achieve the organisations objectives and goals (information which would be useful for this process at Victoria Police is population demographics, workloads, crime statistics and supervision requirements);
- identify the current supply of labour and the profile of the workforce, which includes information such as the age, gender, skills, competencies, work location and position held by staff; and
- estimate future attrition rates.

6.226 This plan must be adaptable enough to adjust to and reflect the changing priorities of the Victoria Police.

6.227 The Government sets desired outcomes for the provision of government goods and services. The State budgetary process then allocates Government resources to the provision of these government goods and services after a consideration of competing State-wide needs. As part of this process, government agencies including Victoria Police make annual applications to the Government for funding, which will enable those agencies to provide the outputs designed to achieve the desired government outcomes.

6.228 Therefore, as part of this process, it would have been reasonable to expect that the number of additional police engaged by Victoria Police under this initiative would have been determined through its human resource planning process, similar to that described above. However, the primary purpose for engaging the additional police was to bring the police numbers back up to their 1996-97 levels, which the Government believed reflected community expectations, rather than based on the number of police required to provide the outcomes required by the Government.

6.229 In the past Victoria Police's systems and processes were based on position establishments. These establishments were designed to ensure sufficient police numbers to meet workloads and community expectation. In 1998 Victoria Police moved from an establishment management focus to a budgetary management focus where Departments were effectively responsible for ensuring expenditure did not exceed budget parameters, but still achieving Government outcomes. Consequently this shift in focus initiated work reform strategies to contain expenditure and advance strategies to outsource non-core activities, civilianise positions, develop mobility policies and restructure Departments.

6.230 Resource needs are now determined by Victoria Police through a number of processes. At the global level, the resources available to Victoria Police is determined by the State budgetary process, where resources are allocated between competing needs based on State-wide priorities.

6.231 Once overall resources are determined, these resources are allocated to police functions through a series of internal processes. The major mechanism employed by Victoria Police to undertake this task is its Resource Allocation Model. The first part of this model relates to General Policing (which constitutes approximately 75 per cent of the Victoria Police workforce), where the minimum staff requirements to operate police stations and other areas involved in general policing is determined, using the Victoria Police Minimum Service Delivery Standards Model.

6.232 The second part of this model involves Victoria Police allocating staff to address corporate strategies, emerging crime trends, changing community needs and demands for service.

6.233 Other processes in place to allocate resources include:

- internal scrutiny of vacant positions to ensure those positions continue to represent priority roles;
- a Corporate Management Group that analyses and allocates budget and resources across all departments of Victoria Police to achieve the Government's outcomes; and
- periodic internal reviews of departments within Victoria Police, which includes an assessment of their resourcing requirements.

6.234 Audit was able to sight a copy of the General Policing workforce plan and the deployment plan for the additional 800 sworn police. **However, when audit requested a copy of Victoria Police's overall human resource plan, we were informed that although the resourcing required for each area of Victoria Police's activities had been carefully determined via the above documented processes, there was no consolidated information that outlined Victoria Police's overall resource needs and allocated them to police functions and activities.**

6.235 Victoria Police advised audit that it had previously developed a detailed draft Workforce Plan (late 1996), which was intended to take a strategic approach to determining human resource needs into the future. The plan was subsequently overtaken by the implementation of a managed attrition program which was designed to align the Force staffing levels with the available budget set by Government. The strategic approach was replaced with a broad departmental budget allocation process in concert with the above mentioned resource allocation model, which was introduced within the general policing department to determine operational policing resourcing priorities.

6.236 In summary, our review of Victoria Police human resource management processes indicates that police resourcing was more likely to be driven by budgetary constraints and political imperatives, than by a systematic and structured planning process linked to its corporate plan.

6.237 In its submission to the Ministerial Review of Victoria Police administrative arrangements, the Police Association proposed that as a pre-requisite to the deployment of the 800 additional police, a State-wide benchmarking exercise of Victoria Police's police numbers be undertaken. In response to this proposition, the Ministerial Review suggested that:

- staff allocation across the organisation be investigated and recommendations made on areas perceived to be under or over resourced; and
- police resourcing requirements be identified within approved budget allocations.

6.238 Victoria Police have advised that this recommendation will be addressed under the *2001 Certified Agreement*, which was introduced in December 2001 and requires Victoria Police and the Police Association to establish a joint working party to develop, within 12 months, a criteria for the allocation of police resources. The process is to include methods of determining the level of personnel required based on criteria such as:

- urban, regional, rural and seasonal population demographics;
- workloads;
- supervision and management requirements; and
- staff profiles, particularly the number of probationary Constables and their ratio to confirmed police.

6.239 The *2001 Certified Agreement* also provides that the working party further consult on the levels of administrative support staff.

6.240 Victoria Police is also reviewing their budget output groups, which forms the basis of the Government's funding of police operations. As part of this process, it is intended that the Force would move from an output funding basis to an outcome funding basis.

RESPONSE provided by the Commissioner of Police

Human resource planning

There is an implication that Victoria Police does not have a systematic and planned approach to determining human resourcing needs. This is contrary to the acknowledgment by your office that Victoria Police has a resource allocation model currently operating in the General Policing Department (GPD); such area comprising 75% of the Victoria Police resources. Your office has also acknowledged other processes in place that are utilised to both determine and validate allocation of resources to other areas of Victoria Police. I consider that our current resource allocation process is both valid and effective when determining community needs and expectations.

RESPONSE provided by the Commissioner of Police - continued

General comment

Whilst the Report acknowledges that the recruitment objective of 800 additional operational police being attained on the 12 April 2002, approximately 14 months ahead of schedule, as a significant achievement for Victoria Police; I believe that it is also indicative of the close working relationship being forged between Government and Victoria Police. It is also a reflection of the commitment that both the Government and Victoria Police have to the creation of a modern, pro-active police service that is representative of the community it serves.

REGISTRY OF BIRTHS, DEATHS AND MARRIAGES

6.241 The Registry of Births, Deaths and Marriages, pursuant to the *Births, Deaths and Marriages Registration Act 1996*, is responsible for:

- registration of births, deaths, marriages and changes of names in Victoria;
- maintaining registers for recording and preserving information about births, deaths, marriages, changes of names and adoptions in perpetuity;
- providing access to information in the registers where appropriate to members of the public and government or private agencies;
- issuing of certified and uncertified information from the registers; and
- collection and dissemination of statistical information.

6.242 For many years, certificates issued by the Registry have been used as a means of establishing identity.

6.243 The Registry maintains approximately 13 million records accumulated over the last 160 years. Approximately 7 million of these records are maintained in the form of images.

6.244 During the 2000-01 financial year, the Registry managed around 127 000 registrations, as outlined in Table 6L, and issued approximately 330 000 certificates.

**TABLE 6L
REGISTRATIONS MANAGED BY
THE REGISTRY DURING THE
2000-01 FINANCIAL YEAR**

<i>Type</i>	<i>Number</i>
Birth	59 700
Death	32 100
Marriage	26 400
Name change	8 800
Total	127 000

6.245 Approximately 28 per cent of all applications for certificates during 2000-01 were made over the counter at the Registry's Collins Street offices, 51 per cent were received through the mail, 12 per cent were received by facsimile and 9 per cent via the internet. In the current financial year up to March 2002, internet applications increased from 9 per cent to 13 per cent and are expected to increase further.

6.246 The Registry is also developing systems to enable on-line registrations from selected bodies and the public. Currently, approximately 24 per cent of funeral directors are able to send in details electronically to the Registry while work is continuing on the creation of a similar facility for hospitals.

6.247 The Registry's annual operating costs for 2000-01 were approximately \$5.4 million.

6.248 The objective of this review was to assess the adequacy of the Registry's controls over the release of information and documents held by the Registry.

Identity fraud

6.249 Identity fraud occurs when someone wrongfully obtains and uses another person's identity in a way that involves fraud or deception, or creates a false identity, usually for economic gain. An example of identity fraud is where a person is able to assume another person's identity in order to access their bank accounts or apply for a loan in that other person's name. Documents used to commit identity fraud include false or stolen birth certificates, drivers' licenses or credit cards.

6.250 While there is limited empirical evidence of the extent of identity fraud in Australia, it was noted that:

- A September 2001 Commonwealth Attorney-General's Department report commented that:
 - Identity-related fraud is estimated to cost Australians more than \$4 billion annually;
 - Centrelink had detected \$12 million of fraud involving false identity in 1999; and
 - approximately 25 per cent of all fraud reported to the Australian Federal Police involved false identities;
- A 1999 pilot review by a major bank found that 13 per cent of birth certificates tendered to the bank as proof of identity were fraudulent. The review was carried out using the certificate validation service provided by the New South Wales Registry of Births, Deaths and Marriages and involved 35 of the bank's branches over a period of approximately 4 weeks; and
- Representatives of the Australian Passport Office reported at the August 2001 conference of the Australasian Council of Births, Deaths and Marriages Registrars that over 70 per cent of false applications for passports during 2000-01 involved counterfeit birth certificates.

6.251 Consequently, the above information suggests that identity fraud may exist at a significant level within Victoria.

6.252 The Registry retains details of any reports of identity fraud it receives and any requests for verification of Registry certificates which indicate fraudulent activity. These reports are made by bodies such as the Australian Federal Police, Centrelink and banks, and instances were noted by audit where the Registry had referred these reports on to the relevant law enforcement agencies. We would have expected that the Registry would systematically and regularly aggregated and analysed this data as a major input into the development of prevention strategies and as a basis for taking other required actions. The only aggregated information on instances of identity fraud we sighted was that provided by the Registry to the annual conference of the Australasia Council of Births, Deaths and Marriages Registrars. **However, the Registry has not formally tracked, investigated and reported on all instances of actual or suspected fraud as a further means of combating identity fraud.**

Birth certificates as a primary identity document

6.253 Under the *Financial Transaction Reports Act* 1988 there are 3 primary identification documents for the purposes of becoming a signatory to an account, such as a bank account. The primary identification documents are birth certificates, citizenship certificates and passports. Each of these documents account for 70 points out of the required 100 points to establish identity under that Act. There are also several secondary identification documents including drivers' licenses and credit cards. These identification documents account for 40 points of the required 100 points referred to above.

6.254 Birth certificates can be used to establish identity for the purposes of gaining one of the other 2 primary identification documents, that is passports, and some secondary identification documents, such as drivers' licenses and credit cards. Consequently, fraudulently prepared or obtained birth certificates can be central to instances of identity fraud as they act as primary identification documents in their own right and can be used to acquire other key identification documents. Further, the increased access to affordable and sophisticated home publishing information technology has facilitated the fraudulent preparation of false identity documentation, including birth certificates.

6.255 A 1999 survey by the Australian Bankers' Association of its member banks established that birth certificates, or identity documentation which can be obtained using birth certificates, represents a substantial percentage of identity documentation presented to banks. The findings of the survey relating to the frequency of presentation of identification documents are set out in Table 6M.

TABLE 6M
AUSTRALIAN BANKERS' ASSOCIATION,
1999 SURVEY
(per cent)

<i>Identification document</i>	<i>Frequency of presentation</i>
Drivers' licenses	32
Passports	22
Credit/debit cards	23
Medicare cards	15
Birth certificates	8

6.256 Consequently, the Victorian Registry of Births, Deaths and Marriages, as the sole issuer of birth certificates within Victoria, has a responsibility to implement controls that minimise the risk of fraudulent activities involving certificates issued by the Registry, or purported to have been issued by the Registry. In this regard, we note that the Registry has taken some steps to minimise the incidence of people falsely obtaining and/or falsifying Registry certificates, including birth certificates, through:

- ongoing review of its access policy which limits access to Registry certificates and information;
- adoption of paper with security features for its various certificates; and
- a proposal to join the New South Wales's Registry's on-line certificate validation service for government bodies and financial institutions.

6.257 Comment on each of the Registry's key initiatives follows together with other opportunities we have identified to reduce the risk of identity fraud.

Access policy

6.258 The *Births, Deaths and Marriages Registration Act 1996* states that "... *the Registrar must, as far as practicable, protect the persons to whom the entries in the Register relate from unjustified intrusion on their privacy*".

6.259 Similarly, the *Information Privacy Act 2000* states that public sector organisations must not act, or engage in practices that contravene the Information Privacy Principles. These principles relate to the collection, storage, management, use, disclosure or transfer of personal information held by public sector organisations.

6.260 The Registry's Access Policy was revised in January 2002 following a preliminary review of the *Information Privacy Act 2000* in order to achieve a greater consistency with Registry access policies that apply in other Australian jurisdictions. The main change to the Registry's Access Policy has been to impose limitations on access for death certificates, which were previously open to any member of the public without restriction, and to further limit access to birth and marriage certificates. In addition, the Registry's systems automatically insert the word "Deceased" on birth certificates that are issued subsequent to the Registry having recorded the death of that person.

6.261 Table 6N provides a summary of the current access policy operated by the Registry.

TABLE 6N
ACCESS POLICY (a)

<i>Record</i>	<i>Access by</i>	<i>Limitations on access</i>
BIRTHS (b)	Public	Limited to the registered person. However, parents have access until the registered person is 18 years of age.
	Agencies	Limited to law enforcement agencies, government or non-government welfare agencies and the Family Court of Australia.
	Others	Limited to consular office or foreign legation, implied agents (solicitors, conveyancer) and other agents (with Power of Attorney), executors and administrators.
	Historical	Unlimited access by the public to records aged in excess of 75 years.
MARRIAGES	Public	Limited to the parties to the marriage (bride and bridegroom).
	Agencies	Law enforcement agencies, government or non-government welfare agencies, medical organisations and government bodies.
	Others	Consular, implied agents (solicitors, conveyancer), other agents (with Power of Attorney), executors and administrators.
	Historical	Unlimited access by the public to records aged in excess of 60 years.
DEATHS	Public	Limited to family members (parent, spouse, brother, sister, child, grandchild, other relatives, guardian and ex-partners).
	Agencies	Law enforcement agencies, government or non-government welfare agencies, beneficiaries of superannuation/insurance trust funds or companies.
	Others	Limited to consular office or foreign legation, implied agents (solicitors, conveyancer), other agents (with Power of Attorney), executors and administrators.
	Historical	Unlimited access by the public after 10 years.

(a) Full details of the Registry's access policy is contained on the Registry's website, which can be accessed via www.justice.vic.gov.au

(b) The Registry's systems automatically insert the word "Deceased" on birth certificates that are issued subsequent to the Registry having recorded the death of that person.

6.262 The Registrar has sought advice from the Victorian Government Solicitor as to whether the Registry's access policy is consistent with the Information Privacy Principles. Advice from the Victorian Government Solicitor indicates that the Registry needs to ensure that:

- only information relevant to administering the *Births, Deaths and Marriages Registration Act 1996* is collected;
- the Registrar must protect the interests of the individual; and
- information is only released where applicants have adequate reasons for wanting the information.

6.263 The Victorian Government Solicitor has also advised, pursuant to the *Births, Deaths and Marriages Registration Act 1996*, that the Registrar must have regard to:

- the relationship (if any) between the applicant and the person to whom the information relates;

- the age and contents of the entry;
- the nature of the applicant's interest;
- the sensitivity of the information;
- the use to be made of the information; and
- other relevant factors.

6.264 We acknowledge that the Registry is continuing to review its access policy in light of the *Information Privacy Act 2000* and legal advice provided by the Victoria Government Solicitor.

Observations concerning the Registry's access procedures

6.265 Applications for registration and issue of certificates can be made in person "over the counter", by mail or facsimile, or over the internet using the prescribed form. The prescribed form seeks a minimum level of "shared secret authentication" information, such as the date and place of birth and mother's maiden name as a means of verifying that the application for a certificate is from an eligible source.

6.266 Registry staff are required to follow-up any applications for a certificate where there are possible inaccuracies, insufficient authentication information or information of a suspicious nature. Further, Registry staff have discretionary powers to seek proof of identity of the person making the application.

6.267 In contrast, the New South Wales Registry's privacy and access policy states that:

- certificates are not to be released unless the applicant's entitlement is established and proof of identity provided; and
- where applications for information/certificate are made by a third party, proof of identity of both the parties is required.

6.268 Our review of the access policy of Registry offices in other Australian States indicated that, with the exception of Victoria and Western Australia, all States follow a model similar to the New South Wales Registry requiring proof of identity prior to the issue of certificates. **The adoption of a proof of identity requirement as part of the Victorian Registry's access policy would increase controls over the release of information and certificates.**

6.269 Based on the practice of other jurisdictions, a proof of identity policy could involve requiring production of similar identification documentation as required by the *Financial Transaction Reports Act 1988* to open a bank account. In addition, if copies of identity documents were to be accepted as part of a proof of identity policy, the reliability of any such copies would be enhanced if they were required to be independently certified as a true copy.

6.270 We noted that it will be more difficult to determine proof of identity where requests for information or certificates are accepted by fax or over the internet. In this regard, the New South Wales Registry does not accept applications electronically. However, the use of credit cards to pay for certificates could of itself act as one means of proof of identity.

6.271 The Victorian Registry's Three Year Strategic Plan for 2001-04 indicated that the Registry would investigate and make recommendations for a "Proof of Identity" policy by March 2002, however, this process has been delayed due to the ongoing consideration of the impact of the *Information Privacy Act 2000* on the Registry's policies and procedures. Early resolution of this policy is important to ensure that the Registry meets its privacy obligations under its own Act and the *Information Privacy Act 2000*.

6.272 With respect to the existing information access procedures, we note that the Registry does not maintain a regular internal audit or other internal control regime, such as random independent checks of processed applications for certificates, to ensure that its staff fully comply with the Registry's access policies. Implementation of such a regime would further enhance controls over the issue of certificates.

Security paper

6.273 Registry offices across Australia, other than Queensland, have adopted a new standardised security paper for their certificates that may make the production of fraudulent certificates more difficult. This security paper has enhanced security features such as micro-printing on the borders, thermo-chromatic ink patch, security screen and watermarks.

6.274 New security paper was introduced in Victoria in April 2001. The Victorian Registry has issued information kits to users of its certificates, such as banks and the Australian Passport Office, to inform them about the new security features that are now present in new certificates issued by the Registry.

6.275 However, as certificates issued by the Registry do not have an expiry date several different versions of valid certificates remain in circulation. Consequently, the full benefit of this important initiative will not be felt until the Registry declares that older certificates are no longer valid. This issue may be further compounded once the existing stocks of security paper, which has a centenary logo, is exhausted and is replaced with a different logo, therefore increasing the number of valid certificates with a different appearance.

Validation service

6.276 During January 2000, the New South Wales Registry of Births, Deaths and Marriages announced the introduction of a birth certificate validation service in an attempt to combat identity fraud. This announcement followed successful trials of the service with the New South Wales Roads and Traffic Authority and a major bank. Subscribers to the Service, which include government bodies and financial institutions, can confirm on-line the validity of birth certificates presented to them.

6.277 This New South Wales initiative was made with the intention of expanding the Service across all Australian States. The Victorian Registry, in its 2000-01 action plan, had originally proposed to link selected stakeholders to the certificate validation service by March 2001. **However, at the time of this audit, the Registry had not joined the on-line validation service despite having revised its target commencement date from March 2001 to February 2002.** It is important that the Registry joins this service, or creates an equivalent service on a timely basis as a further means of combating identity fraud. Nevertheless, we acknowledge that the Victorian Registry maintains an informal arrangement with the Australian Passport Office whereby that Office emails details of birth certificates requiring verification to the Victorian Registry.

RESPONSE provided by the Acting Secretary, Department of Justice

Identity Fraud

The Registry investigates all known instances of fraud and where necessary implements improvement strategies at the time. The Registry prepares a "Fraudulent Activity Report" annually for the Australasian Registrars' Conference. The NSW Registry collects reported instances of fraud on behalf of all Registries and prepares the annual report.

It is at the Australasian Registrars' Conference that delegates work to identify systemic issues involving fraud, they develop and implement fraud minimisation strategies to protect the integrity of certificates as valid methods of identification.

The Registry will commence reporting on instances of reported fraud on a monthly basis from June 2002.

Proof of Identity

The Registry proposes to introduce the Proof of Identity policy in three stages, the Customer Contact area will implement the policy on 1st September 2002. The more complex areas of postal applications and on line transactions to follow.

Quality Assurance

The Registry accepts the recommendation made and will introduce a regular audit as a priority action in its 2002/03 Action Plan.

Certificate Expiry

We see no basis for this recommendation. If adopted, it may be considered as revenue raising and in the opinion of Registry staff, there would be considerable adverse public reaction.

The Registry has taken steps to minimise the incidence of falsely obtaining and/or falsifying certificates, when a Victoria-born person dies in Victoria, the word "Deceased" appears on any birth certificate subsequently issued. A business case is currently being assessed for the Interconnection of Australian Registries where notification of deaths can be notified back to the state of birth via a national inter-agency network.

The Registry believes that it's efforts are best served in their involvement in the Certificate Validation Services project and being able to validate the authenticity of documents being sighted in a timely and responsive manner.

RESPONSE provided by the Acting Secretary, Department of Justice - continued

Validation Services

The Registry recognises the critical importance of the Certificate Validation Service (CVS) project. However, we believe the statement for Validation Service is incomplete and not necessarily an accurate representation of this very important initiative or the Victorian Registry's commitment and involvement in this project.

The Australasian Council of Birth, Death and Marriage Registrars work together to improve all aspects of Registry services and in the cost and development of new initiatives.

In the case of the Certificate Validation Service (CVS), New South Wales was selected to take on the task of developing and piloting the service in conjunction with external agencies, as it was the only Registry operating in an independent network environment.

The CVS is a National Project with NSW Registry being the project managers, therefore responsible for implementing the host system, administration and accounting for this project.

The Victorian Registry was unable to interface with the CVS system until the project managers had resolved all technical issues.

The Victorian Registry is currently running online validation services and has been since 13 February 2002. The CVS is an evolving project and the Registry will continue to implement further enhancements during the course of 2002.

Part 7

Natural Resources and Environment

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VICTORIAN FOREST INDUSTRY STRUCTURAL ADJUSTMENT PACKAGE

7.1 One third of Victoria's land mass is Crown land, with 3.5 million hectares (40 per cent) of this land in State forest. These forests are managed by the Department of Natural Resources and Environment (the Department), which aims to ensure the conservation of flora and fauna, the protection of water catchments and water quality, the provision of timber and other forest products on a sustainable basis, the protection of landscape, archaeological and historic values, and the provision of recreational and educational opportunities.

7.2 The State's forest resources are managed through the *Forest Act 1958*, which establishes the sustainable rates for the continued logging of State forests and the Regional Forest Agreements (RFAs), entered into by the Commonwealth and State Governments, which establish the land available to the native forest timber industry. The aim of these agreements is to provide the industry with security of supply. In establishing these agreements, consideration was also given to other commercial and non-commercial uses of forests, such as bee keeping, preservation of environmental assets, water catchments, tourism and recreation.

7.3 The RFAs, which cover a period of 20 years aim to establish:

- a "Comprehensive, Adequate and Representative" (CAR) forest reserve system;
- certainty for industries and regional communities, enabling the development of internationally competitive and ecologically sustainable industries; and
- ecologically sustainable management of the whole forest estate, both on and off reserves.

7.4 The CAR system was designed to establish a national reserve system, which will safeguard biodiversity, old growth, wilderness and other natural and cultural values of forests. Forests outside the reserves will be available for wood production, subject to codes of practice that will ensure long-term sustainability and contribute to the conservation of these natural and cultural values. In order to establish the national reserve system, the State Governments and Territories have agreed to preserve:

- 15 per cent of the distribution of each forest ecosystem that existed prior to Europeans arriving in Australia;
- 60 per cent or more of existing old growth forest; and
- 90 per cent, or more, of high quality wilderness.

7.5 By March 2000, all 5 RFAs – had been established, namely:

- East Gippsland (Victoria), February 1997;
- Central Highlands, March 1998;
- North East Victoria, August 1999;
- Gippsland, March 2000; and
- West Victoria, March 2000.

7.6 The Department enters into licences with individuals for around 15 years to access timber within specified areas outlined in the RFAs. The licences stipulates the quality and quantity of logs that can be harvested, and the amount that must be paid in rents, fees, royalties and charges.



Timber harvesting.

Victorian Forest Industry Structural Adjustment Package

7.7 In December 1998 the State Government announced a funding initiative designed to facilitate the re-structure of the forestry industry, titled the Victorian Forest Industry Structural Adjustment Package (VIC FISAP). This initiative, which was initially called the Hardwood Timber Industry Development and Restructuring Program (HTIDRP), resulted from a Memorandum of Understanding signed by the Victorian and Commonwealth Governments in August 1998.

7.8 According to the Memorandum of Understanding, the objectives of VIC FISAP (HTIDRP) are to:

- assist in the continuing development of an efficient, competitive and environmentally sound native hardwood industry in Victoria; and

- facilitate any necessary restructuring in the native forest hardwood industry, including assistance for those businesses and employees who are directly and adversely affected by the outcomes of the Regional Forest Agreement process.

7.9 Commonwealth and State Government funding initially allocated to this initiative was \$27.6 million. Of this amount, \$8.8 million was directed towards industry positioning and research, and \$1.3 million towards restructuring during the Interim Forest Agreement process. The balance of \$17.5 million was available to assist businesses, workers and industry organisations whose jobs and businesses had been affected by the RFA process. In 2000, VIC FISAP funding was increased to \$42.6 million.

VIC FISAP planning

7.10 Under the FISAP Memorandum of Understanding, a Forest Industry Development and Adjustment Committee (FIDAC) was established to assess, prioritise and present applications for assistance. This committee comprised representatives from the Commonwealth Department of Agriculture, Fisheries and Forestry (AFFA), the Department of Natural Resources and Environment (the Department) and Business Victoria (within the Department of Innovation, Industry and Regional Development). An Industry Advisory Panel was also established to provide advice to both Governments, through FIDAC, on the progress and direction of the package. The Industry Advisory Committee has remained inactive since early 2000.

7.11 In order to assist FIDAC in developing guidelines for the assistance package, a Hardwood Industry Development Strategy was commissioned through forestry consultants. This strategy suggested that development opportunities were most significant in the sawmilling sector and in the greater utilisation of residual logs. The strategy also outlined the types of assistance that should be considered, including funding principles and priorities.

7.12 The guidelines, which were released in June 1999, provided for assistance under four components, namely: Industry Development Assistance; Rescheduling Assistance; Business Exit Assistance; and Worker Assistance.

Industry Development Assistance guidelines

7.13 The Industry Development Assistance component of the package provided financial assistance for initiatives to develop the Victorian native forest timber industry. The objective of development assistance was to support initiatives which:

- maximised market opportunities for businesses;
- promoted a responsible, sustainable, efficient and competitive forest industry in Victoria; and
- created employment opportunities.

7.14 Development Assistance was available through 3 sub-packages:

- *Enterprise Improvement Program:* Grants were provided to support the hiring of consultants to assist individual companies with activities such as business planning, change management and cleaner production. Grants of between \$4 000 and \$18 000 were provided through the former Department of State and Regional Development;
- *Strategic Grants:* Grants ranging from \$15 000 to \$50 000 were provided by the former Department of State and Regional Development and were targeted at initiatives to increase forest exports; and
- *Industry Development Programs:* Assistance was provided to supplement investment by businesses in the forest industry. These businesses would normally have to meet 80 per cent of the total cost for business-specific investments and 50 per cent for industry-wide proposals. Funding was available either through grants or interest subsidies. Applicants could receive grants of up to \$500 000 per annum to support investments in new equipment, construction of facilities and industry-wide activities to promote the development of the industry. Interest rate subsidies were available to cover up to 50 per cent of the commercial interest cost of any capital investment borrowings.

7.15 To be eligible for assistance, businesses had to show that their investments pertained to the native forest timber industry, they were financially sound and had competent management. Further, the proposal had to meet one or more of the industry development objectives such as value-adding, increasing the use of residual logs, creating employment opportunities and enhancing occupational health and safety. Applications under this program were assessed by an independent assessor who made recommendations to the Forest Industry Development and Adjustment Committee (FIDAC), which is a joint Victorian and Commonwealth Government committee.

7.16 We identified that, while Industry Development Assistance applications closed on 31 October 2000, later applications have been accepted.

7.17 While we acknowledge the right of FIDAC to set or extend deadlines for the receipt of applications for assistance, we believe that in the interest of natural justice any extension of the deadlines should have been made public. Where applications are accepted beyond the deadline without a public announcement, others within the industry who had no knowledge of the changed deadline, may have been disadvantaged.

Rescheduling assistance

7.18 The rescheduling assistance component of the package was designed to compensate existing businesses whose operations had been adversely affected by a newly declared Deferred Forest Area. These areas, which restrict access to commercial logging, were established as part of the Interim Forest Agreements in January 1996 and were a precursor to the CAR reserve system. Applicants requesting rescheduling assistance had to prove an ongoing involvement in the native forest industry and that their businesses had suffered financially as a result of changes to either the:

- location of log supplies (increased transport costs);
- type of logs supplied (increased processing and handling costs); or
- site conditions for harvesting timber (increased harvesting costs).

7.19 Applications were initially assessed by FIDAC against a broad set of criteria. Applications meeting the criteria were referred to the Independent Assessor, who assessed the applicants' eligibility for assistance and made recommendations to the Committee.

Business exit assistance

7.20 The business exit assistance component of the package was designed to assist businesses in, or dependent on, the native forest timber industry, to completely or partially leave the industry where:

- their access to sawlogs had been affected by decisions made as part of the Deferred Forest Area or Regional Forest Agreement processes; and
- restricted access had impacted on the viability of their business.

7.21 This component of FISAP was effectively a licence buy-back scheme.

7.22 Once a decision on the applicant's eligibility for funding and the amount of assistance considered appropriate, if any, was determined this information was conveyed to the applicant. If an application was deemed ineligible by FIDAC, the applicant could lodge an objection, which was referred to the responsible State and Federal Ministers for consideration. Decisions on the provision of assistance were made by FIDAC, following receipt of evaluations from the independent assessor, who assessed each application against the funding guidelines. If an applicant considered the assistance offered by FIDAC was inadequate, the different amount of assistance requested by the applicant and the amount recommended by FIDAC were passed on to the Ministers for a decision.

Worker assistance

7.23 The worker assistance component of the package was designed to assist employees made redundant when businesses exited the industry. Again, any compensation paid had to be linked to an adverse financial impact resulting from the declaration of a Deferred Forest Area or from the Regional Forest Agreement processes. The worker assistance provided consisted of 5 types of support:

- special redundancy payments in addition to any benefits paid by a former employer;
- training assistance (financial support for training);
- relocation assistance (financial assistance for relocation to a new job);
- an employment incentive scheme (wage subsidies for employers); and
- a voluntary redundancy payment (paid to an employee who wished to leave the industry, thereby creating a vacant position).

7.24 The support offered to individuals employed in the industry was provided for a period of up to two years, following their loss of employment.

7.25 Rescheduling assistance remained open for a 12 month period after the signing of a RFA, while the business exit and worker assistance components remained open for an 18 month period.

Allocation of funding between components

7.26 Given that the first 3 Regional Forest Agreements had little or no impact on the resources available to the Victorian timber industry, it was envisaged that as much as \$15 million of the initial \$17.5 million FISAP funding would be directed towards industry development. According to a joint media release by the State and Federal Ministers in June 1999, this was due to the fact that Victoria's timber industry had already undergone considerable structural adjustment in the past. Specifically, the media release stated that: *"... Because of this, we do not expect that the RFA process will lead to a great demand for the Business Exit Assistance, Worker Assistance and Rescheduling Assistance elements of the assistance package. Any unused funds set aside for structural adjustment will be redirected to Industry Development Assistance"*.

7.27 When the final 2 Regional Forest Agreements were signed in March 2000 (Gippsland and West Victoria), the associated reduction in the sustainable rates for continued logging changed the overall direction of FISAP. The reduction in timber available to the industry resulted in FIDAC allocating a greater proportion of assistance funding to business exits and worker assistance.

7.28 In March 2000, the total funding provided for VIC FISAP was increased to \$42.6 million. Table 7A details the funding provided for each component.

TABLE 7A
FUNDING PROVIDED FOR EACH COMPONENT
((\$million))

<i>FISAP Package Component</i>	<i>Funding</i>
Industry Development Assistance	15.3
- DSRD Small Grants	1.1
Rescheduling Assistance	1.2
Business Exit Assistance	7.4
Workers Assistance	4.1
- FAFPESC Contract	1.1
Independent Assessor	0.5
General Administration	1.8
Vic. Gov. In kind & Cwlth. Gov. prepayment	10.1
Total funding	42.6

Source: Department of Natural Resources and Environment.

7.29 Of the \$42.6 million in funding made available, the Victorian Government provided \$23.8 million and the Commonwealth Government \$18.8 million.

7.30 Following the signing of the final 2 RFAs in 2000, the State Government agreed to provide a further \$20 million, separate from FISAP funding, to assist timber industry initiatives, increasing total support available to the native forestry industry to \$62.6 million.

Licence Renewal Project

7.31 In March 2001, the Victorian Minister for Environment and Conservation commissioned an independent expert group to investigate the methodology and information used in the Department’s calculations of sustainable yields. The report was part of the Department’s Licence Renewal Project, and is often referred to as the ‘Vanclay Report’ after one of the authors. The report was finalised in October 2001, but was not released by the Department until February 2002. The report found that the Department, through the State-wide Forest Resource Inventory (SFRI) and Integrated Forest Planning System (IFPS), has both the knowledge and procedures in place to reliably determine the extent and nature of the forest resources. However, the report found that “other priorities” had impinged on the resource estimation activities, with the result that the state of the forest and its ability to sustain timber harvesting could only be reliably established for a few Forest Management Areas (FMAs).

7.32 As part of the licence renewal project, the Government announced in February 2002 that, if logging licences were renewed at current levels, the reserves of suitable timber in some areas could be exhausted by as early as 2011. Consequently, the Government decided to reduce the volume of sawlogs annually available to the logging industry by 30 per cent across the State, from 855 900 to 567 500 cubic metres.

7.33 This decision had the greatest impact in the Midlands Forest Management Area (in the West Victoria RFA), with a 79 per cent reduction in available sawlogs; the Central Gippsland Forest Management Area (in the Central Highlands RFA) with a 50 per cent reduction, and the East Gippsland RFA, with a 50 per cent reduction.

7.34 In order to compensate businesses and individuals for the impact of these decisions, the Government announced an additional \$80 million package named “Our Forests, Our Future” which will provide funding to facilitate further business exists from the industry under a voluntary licence reduction program.

VIC FISAP implementation

7.35 Implementation of the VIC FISAP package began in June 1999. FIDAC’s ability to assess applications and make decisions on assistance in a timely manner has been impacted by:

- the lack of agreement between the State and Federal Ministers on the allocation of funding between the components of the package, which delayed the approval of applications; and
- the licence renewal project in Victoria, which resulted in the Government delaying offers for development assistance, and industry hesitating in accepting offers of assistance.

Industry Development Assistance

7.36 Applicants for Industry Development Assistance were assessed using a 2 stage approach. The first stage required the submission of an initial application (Stage A) that provided:

- an outline of the proposed project and an estimation of its cost;
- information demonstrating the applicants participation in the Victorian native forestry industry; and
- details of the applicant’s financial situation and their business management team.

7.37 An initial assessment was undertaken by FIDAC to determine whether applications broadly meet the eligibility criteria, with successful applicants progressing to Stage B of the evaluation process. In that stage, applicants were requested to provide more detailed project and financial information to support their application. This information was reviewed by the independent assessor, who made recommendations to FIDAC on the level of funding to be provided. In turn, FIDAC made a recommendation on each application, outlining the level of assistance it considered to be appropriate and provided this information to both Ministers for final approval. The assistance process involved the payment of grants by instalment following the successful completion of pre-established milestones.

7.38 Applications for development assistance have been processed in two separate rounds. As at 30 June 2000, the closing date for the first round of applications, 21 applications had been received. The second round of applications, closed on 31 October 2000, with 27 applications received. A further 12 applications were received after the closing date, as a result of the Federal Minister encouraging companies to submit late applications.

7.39 As at the date of preparation of this report, the status of all the applications received was as follows:

- 9 had been granted funding;
- 32 were still being processed; and
- 19 had been unsuccessful.

7.40 While we did not review all applications for development assistance, from the sample of applications examined we concluded that the assessment guidelines were generally adhered to. However, we were concerned about the length of time taken to finalise the processing of applications. While acknowledging that some of the reasons for the delay were outside the control of the Department, we still consider a 2 year assessment period to be excessive and unnecessarily onerous on the industry.

7.41 In the course of our audit review, we identified an issue relating to the approval of development assistance to businesses with outstanding royalty payments to Forestry Victoria, in breach of their licensing agreements. In particular, five of the applicants that have been offered development funding owed significant amounts in overdue royalties at the time development assistance was offered. Table 7B shows the value of outstanding debt as at 31 June 2001, which was around the time the offers were made.

**TABLE 7B
APPROVED APPLICANTS WITH OUTSTANDING
ROYALTY PAYMENTS – 30 JUNE 2001**

<i>Company</i>	<i>Outstanding royalty payments (a)</i>	<i>Days outstanding</i>	<i>Funding offered</i>
	(\$)		(\$)
A	500 000	Up to 360	1 767 000
B	246 300	Up to 60	1 000 000
C	581 800	Up to 60	1 280 000
D	235 300	Up to 90	559 000
E	280 000	Up to 90	14 000

(a) Prior to the issue of grants funding for development purposes, applicants were required to enter into debt repayment arrangements.

Source: Forestry Victoria Aged Debtors Listing 30 June 2001.

7.42 One of the objectives of FISAP is to assist in a continuing efficient, competitive and environmentally sound native hardwood industry. In order to do this, it would be reasonable to expect that development moneys would only be provided to businesses that could demonstrate the greatest potential to be successful. **Where businesses are unable to meet their royalty payments on a timely basis, it could be argued that this is one indicator of poor management and therefore the provision of public money to these businesses is placed in a higher risk context.**

7.43 Other issues identified during our detailed examination of individual applications, included cases where:

- Government assurances were given to an applicant as to the availability of funding, prior to a departmental assessment process to establish eligibility for such funding; and
- Processing of funding in excess of guidelines – one applicant received 66 per cent of funding from the government for a development project when the guidelines envisaged a government contribution of around 20 per cent.

7.44 Applicants were required to provide assurance to FIDAC in respect of their regulatory compliance with the Code of Forest Practices, and environmental and Workcover requirements. **We considered FIDAC's acceptance of this assurance without further verification was insufficient to identify and adequately address breaches of the above requirements.**

Rescheduling assistance

7.45 Only two applications were made for rescheduling assistance under the package - one from a sawmill and the other from the main logging transporter attached to that mill. The sawmill had sourced the majority of its log supply from an area which was subsequently declared a Deferred Forest Area in 1996 as part of the RFA process. As a consequence, the mill had to find alternative log supplies, which increased the costs and reduced the profitability of both companies.

7.46 These applications for assistance were also subject to a two-tiered assessment process, where FISAP vetted the initial applications and an independent assessor evaluated the detailed submissions. In the information provided to the assessor, both companies estimated the impact on their businesses resulting from the RFA process for the 4 year period between the signing of the Deferred Forest Area (DFA) and the signing of the RFA.

7.47 Negotiations over the amount of compensation were again drawn out. Of the 2 applications received, one was still subject to negotiation at the date of preparation of the report, while the other took 17 months to complete. According to the Department, the delay in processing the applications was due to:

- the time taken to develop the assessment methodology;
- subjectivity of information provided;
- the complex nature of the (sawmill) business, which made valuation difficult; and
- the poor state of company records.

Business exit assistance

7.48 The assessment process followed for business exit assistance involved an initial assessment of the application by FIDAC and, if the application met the eligibility criteria, it was passed onto an independent assessor who determined the applicant's compensation entitlement. Assistance under this component of the package provides compensation for:

- losses incurred on the sale of assets;
- costs associated with buying out the applicant's licence, based on the current market price per cubic metre of logs;
- compensation for the loss of the value of business (as estimated by independent assessor);
- site rehabilitation costs (up to \$100 000);
- reimbursement of accounting fees in preparing the business exit application (up to \$15 000); and
- statutory redundancies and (long-service) leave owed to workers.

7.49 In determining the value of the business prior to the impacts of the RFA process, the guidelines require the business to be assessed as a going concern. In calculating this value, the assessor first determined the average earnings of the business before interest costs but after tax over the last 3 years. This balance was then multiplied by a capitalisation rate to determine the gross business valuation. From this amount was deducted the net realisable value of the tangible assets to determine a net business valuation.

7.50 As at the date of the preparation of this report, 22 applications for business exit assistance had been received, with 16 from West Victoria, 3 from North East Victoria, one from Central Highlands, one from East Gippsland, and one from Gippsland. Of the applications received, 11 were deemed ineligible for assistance, 6 were successful and have received assistance, 4 were requested to provide more information but this information was never provided, and one was still under consideration.

7.51 Our examination of the assessment process associated with this type of assistance also identified delays in the processing and finalisation of applications. In relation to the capitalisation multiples used by the assessor, we found that these ranged between 5.5 and 6.8. In the cases where the companies had calculated the multiple themselves, they ranged from 10 to 15.9. **It would have been easier to reach agreement with the companies, and the assessment process would have been shortened had indicative multiples been included in the guidelines.**

7.52 Finally, the majority of applicants for this form of assistance were in debt to Forestry Victoria for unpaid fees and royalties, ranging from \$108 000 to just under to \$1 million, which had to be repaid to the Department before assistance payments were made, or in some cases deducted from the assistance payments.

Worker assistance

7.53 Essentially, the worker assistance component of FISAP covered those workers made redundant as a result of companies accepting the business exit assistance. To be eligible, workers had to have worked for a minimum of 19 hours per week and commenced their employment at least 9 months prior to the relevant RFA being signed.

7.54 As soon as a company applied for business exit assistance, the worker assistance component of the package was activated. Contractors from the Forest and Forest Products Employment Skills Company (FAFPESC), which is part of the National Training Advisory Board for the Forest Industry, were engaged by FIDAC to assist it in providing most of the non-cash compensation component of the worker assistance package.

7.55 Prior to the closure of a company, the FAFPESC contractors would hold meetings with all employees to outline the details of the package, interview each worker, calculate their redundancy amount owed and assist them in filling out the application forms. Further, an industrial psychologist, a financial planner and a Commonwealth Employment Service representative conducted information sessions at the mill prior to its closure. Every employee was required to participate in a skills assessment conducted by FAFPESC contractors.

7.56 In all business exit cases, a special redundancy payment was provided to all eligible workers on the day the mills closed, consisting of:

- Long service leave, for service of greater than 5 years but less than 10. For employees with more than 10 years service, long service leave was paid by the employer as part of the employees' statutory redundancy;
- Sick leave entitlements, up to a maximum of 152 hours; and
- three weeks pay for each year of service, which was in addition to the statutory redundancy paid by employers of 8 weeks pay for workers employed for 4 years or more.

7.57 On the closure of a company, each worker is also entitled to access up to \$5 000 over 2 years in training assistance. The FAFPESC contractors have also organised a voluntary pre-vocational training course open to all redundant employees, which consists of a 6 week, nationally accredited course, comprising literacy, numeracy, basic computer skilling and telephone skills. Participants were paid during the course, with the training provider acting as the employer.

7.58 Claimants can also access up to \$20 000 over 2 years in relocation assistance, including:

- up to \$10 000 for a house deposit;
- travel to interviews;
- temporary accommodation before moving permanently;
- school uniforms;
- connection of utilities;

- rental bonds (refundable within 12 months);
- removalist costs (based on quote);
- rent differentials for six months;
- mortgage payments (on house left) for 3 months;
- basic maintenance on house left;
- conveyancing fees;
- bank fees for house loans; and
- travel allowance to new job (up to 50 km in excess of normal travel).

7.59 Eligible workers were also given preference as applicants for the environmental and silvicultural positions established under the Government's Growing Victoria program. Seven of these positions were filled by workers accessing the worker assistance component of the package.

7.60 One aspect of the worker assistance package is an employer incentive of up to \$5 000 for one year that can be paid to an employer who engages on an eligible worker. Under this part of the package, before the employer receives the assistance, the organisation is required to sign a contract with FIDAC to assure award wages are paid, and occupational health and safety measures in the workplace are adequate. If the employment extends for less than one year, the employee can transfer any unused money to the next employer.

7.61 While this component of the program has been successful overall, it has encountered some problems in implementation, mainly related to some aspects of the guidelines which allow a fair amount of discretion in the approval of funding.

Monitoring and evaluation

7.62 Monitoring of the VIC FISAP program has been provided through a milestone arrangement in the case of industry development assistance, and through the regular reporting from FAFPESC contractors for the worker assistance component. In the case of business exits and the rescheduling components, monitoring has been through on-going checking of the progress of applicants while negotiations were still underway.

7.63 **The FISAP Secretariat has indicated to audit that an evaluation of the implementation and effectiveness of the program has not been conducted by the Department. Given that the Department is about to embark on a Voluntary Licence Reduction Program, which will provide significant assistance to businesses and employees, an evaluation of VIC FISAP would provide useful information for this new initiative.**

Future considerations

7.64 Forty per cent of FISAP funding has been directed towards industry development. When making decisions on the availability and provision of development funding to businesses to improve their efficiency and value adding, reliance was placed on the sustainable yield calculations as part of the RFA process.

7.65 Based on recent Government assessments, it now appears that many of those sustainable yield calculations were overstated, which may have resulted in businesses receiving development money and now having to downsize or exit the industry. As a result, public funds could have been wasted on development grants. Following the licence renewal project, the Department now finds itself in a situation where a considerable part of the \$80 million made available under the “Our Forests, Our Future” package has to be spent on a Voluntary Licence Reduction Program.

7.66 A particular concern with the program has been the lengthy delays in finalising the processing of applications. In relation to development assistance, this can be partly explained by FIDAC deliberately delaying the processing of applications when it became apparent that the sustainable yields were likely to be further reduced. The Department advised that in early 2002, FIDAC intended to send letters to all applicants whose applications were still being processed, giving them four options to progress their applications, namely:

- proceed with the application;
- request an amendment to the application to cater for changed circumstances;
- delay the application until the completion of the Voluntary Licence Reduction Program (October 2002); or
- withdraw the application.

7.67 We recommend that prior to making any Voluntary Licence Reduction Program payment under the \$80 million Our Forests, Our Future policy announced in February 2002, the Department should ensure that the sustainable yield calculations are accurate, so that the available funding is appropriately allocated to make the most effective use of public funds.

RESPONSE provided by Secretary, Department of Natural Resources and Environment

Industry development assistance

The Department accepts that placing tighter timeframes on applicants for responses would have improved the time taken to finalise an application. Where applicants provided timely responses to each stage and to requests for information, applications were progressed at a satisfactory rate.

During the past 7 years, the efficiency of a number of companies in the native forest hardwood sawlog industry was affected by changes in resource type and quality resulting from Deferred Forest Areas and Regional Forest Agreement processes. In addition, the introduction of the GST on 1/7/00 resulted in a significant downturn in demand and price for hardwood products. Forestry Victoria's D+ sawlog sales fell 15% as a consequence of this downturn.

This downturn affected the short term cash flow of a number of businesses. Where necessary, Forestry Victoria negotiated debt repayment plans to ensure a prompt return to normal trading terms. Where invoices are outstanding more than 30 days, penalty interest is charged at a rate of 12.25 per cent.

RESPONSE provided by Secretary, Department of Natural Resources and Environment -
continued

A number of Forestry Victoria customers pay their accounts under royalty averaging arrangements. These agreements commence on 1st October and end on 30th September in the following year. The accounting process for invoiced logs does not strictly match the payments made under the royalty averaging agreement. Consequently, it is possible, as has occurred in one case, that at the end of the financial year the customer may have overdue amounts showing and still be meeting the terms of the royalty averaging agreement.

It should be noted that as a result of review processes only 2 of the 5 companies listed in Table 7B have progressed to the Funding Agreement stage.

Voluntary disclosure was considered a valid means of assessing statutory compliance in these matters. It is not normally a requirement of industry development funding agreements with government departments to seek assurances on compliance with statutory environmental and Work Cover requirements. The Victorian Work Cover Authority was unable to provide Vic FISAP with information on individual company compliance. This avenue continues to be explored with the Victorian Work Cover Authority. The best prospect may be for a company to gain a third, independent party assessment of occupational health safety performance. Code of Forest Practice compliance is the responsibility of individuals with Forest Operator Licences, not companies.

Monitoring and evaluation

In developing the Our Forest Our Future policy statement, consultants were employed by NRE to do a desktop assessment of a range of industry restructure programs, which included FISAP, and dairy and scallop industry programs. The Industry Transition Taskforce appointed recently to advise the Minister for Environment and Conservation on a number of aspects of timber industry reform, has been consulting closely with the FISAP Secretariat on their experience with business exit and worker assistance programs.

Future considerations

While it is possible that businesses that have received development funds may downsize or exit the industry as a result of the Voluntary Licence Reduction Program, recommendations were made to Ministers only for companies that were financially sound, had strong and capable management, and were committed to developing markets for native forest timber and the industry's international competitiveness.

Our Forests Our Future draws on a thorough review outlined in the Expert Data Reference Group Report by Prof J van Clay for the development of estimates of sawlog resource. In addition, in Our Forests Our Future, the Government commits to continue to refine the current resource estimates and give high priority to the completion of the State Forest Resource Inventory. A comprehensive system of annual monitoring and reporting of the extent of harvesting and its impact on sawlog resource estimates will also be developed. The Government will not take undue risks in setting new timber supply levels while data is being further refined and upgraded.

SURVEY INFORMATION AT LAND VICTORIA

7.68 Surveying, as a broad description, involves measuring distances, angles and heights to determine the relative locations of points under, on or above the earth's surface. The information produced by surveyors is utilised by a broad range of individuals and industries, including those with involvement in the:

- property market;
- engineering and construction industry;
- petroleum and mineral exploration;
- emergency services management;
- transportation;
- agriculture; and
- finance sector.

7.69 Many sectors of the Australian economy utilises land assets as a major resource for their operations. A significant portion of the community also has an involvement with or direct interest in real estate. In order to establish a robust market for the exchange of land assets, in which the market participants can place reliance, there needs to be an effective land registration system. The registration system provides an official record of land transactions, defining specific land assets and establishes legal rights to their ownership.

7.70 Where such a registration system exists, the business and general community are in a position to place reliance on the property market, which is underpinned by a government guarantee of title under the Torrens title system.

7.71 It should be understood that cadastral surveying is that branch of the broader discipline of land surveying that deals with surveying activities relating to property boundary definition and certain associated rights. While land surveyors are also qualified to undertake, for example engineering surveys and topographic surveys, cadastral surveying is the only branch of surveying where there is a legislative requirement to be licensed.

7.72 The cadastral surveyor's role is to establish, determine and define land boundaries and to record this information on survey plans, which are lodged with a central land registry. In addition, cadastral surveyors define the limits or extents of the rights or restrictions on land parcels such as leases, easements, access, rights of way and common property. These are matters which impact on the use and value of land. Cadastral surveyors' work provides the community with confidence in the correctness and accuracy of the location of property boundaries, buildings and infrastructure.

7.73 In the absence of an effective surveying function there could be an increase in disputes over ownership of specific land holdings, property boundaries, and the rights and restrictions in the use of properties. Poor quality cadastral survey information can result in costs to property holders associated with moving a building, relocating improvements or defending a lawsuit in court because of a land boundary dispute, or other dispute concerned with rights or restrictions in the property.

7.74 Although not directly a part of cadastral surveying, surveyors can also determine the height at which drainage, water and sewerage infrastructure is constructed. If these determinations are incorrect, there can be significant problems with the effective operation of this infrastructure and the properties involved could be adversely affected by flooding.

7.75 Regulation of surveying in Victoria has existed since 1860. The current regulatory system commenced on 1 January 1896, arising from recommendations of a Royal Commission in 1885. The Victorian Government has regulated the cadastral surveying profession to ensure that only competent surveyors are permitted to define land boundaries and lodge survey plans with the Government. The Government has also accepted responsibility for the delivery of cadastral surveying functions in order to maintain the integrity of land registration systems. Fundamentally, the Government's approach to the regulation of cadastral surveying has been focussed on risk management of the cadastre.

7.76 In Victoria, the land registration system and the activities associated with it are governed by several pieces of legislation, namely the *Subdivision Act* 1988, *Surveyors Act* 1978, *Survey Co-ordination Act* 1958, *Land Act* 1958, *Local Government Act* 1989, *Transfer of Land Act* 1958 and the *Property Law Act* 1958. This legislation is administered by a variety of organisations, which include all local government entities, the Department of Infrastructure, the Department of Natural Resources and Environment, and a number of other public sector agencies.

7.77 Two of these Acts, which deal directly with land surveying are the *Surveyors Act* 1978 and the *Survey Co-ordination Act* 1958. The *Surveyors Act* 1978 enabled the creation of the following Regulations:

- *Surveyors (Fees) Regulations* 1992;
- *Surveyors (Registration) Regulations* 1992;
- *Surveyors (Surveyors Board) Regulations* 1992; and
- *Surveyors (Cadastral Surveys) Regulations* 1995.

7.78 The Act and Regulations deal with such things as the training, assessment and registration of surveyors, especially cadastral surveyors, by the Surveyors Board of Victoria, and the standards and procedures required in performing and recording cadastral surveys.

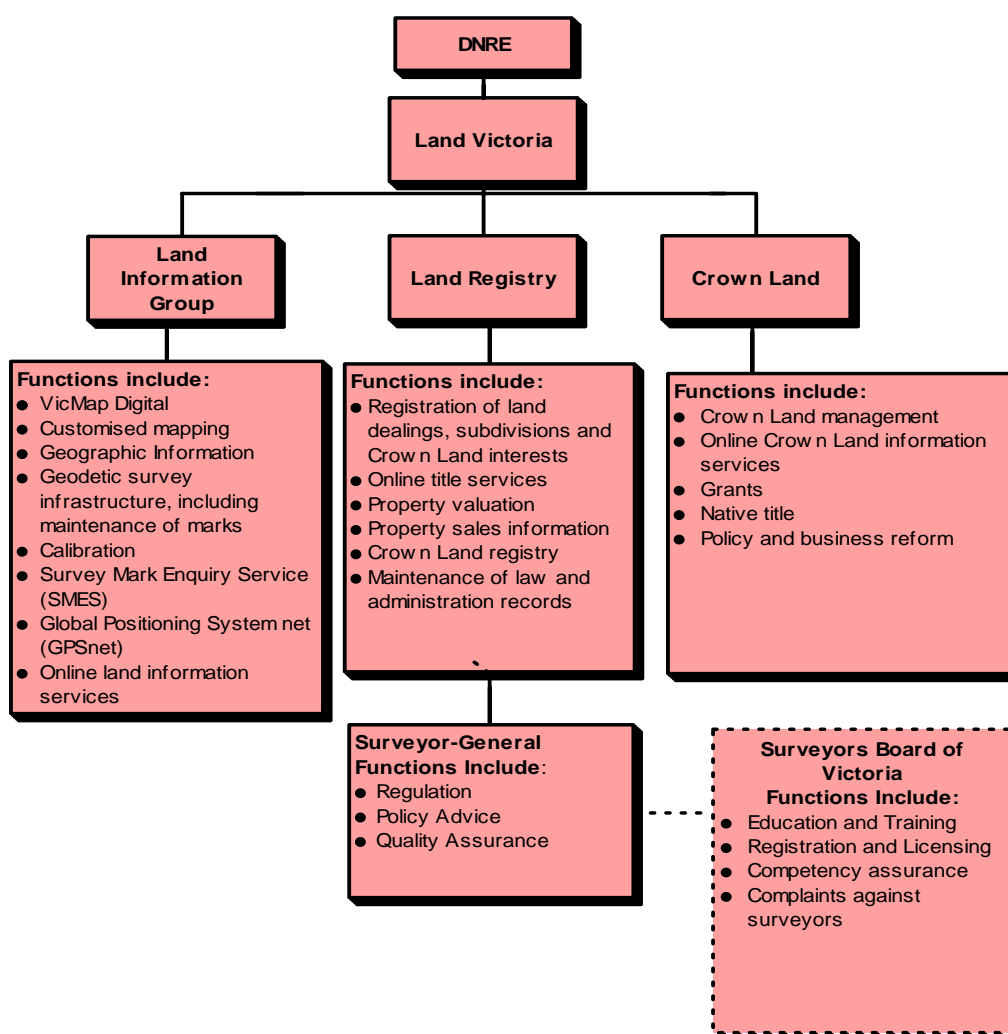
7.79 The *Survey Co-ordination Act* 1958 and the *Survey Co-ordination (Surveys) Regulations* 1992 deal with the co-ordination of surveying activity and information across public bodies, the establishment and maintenance of the infrastructure supporting surveying and the co-ordination of mapping across Victoria in supporting the National Mapping Scheme.

7.80 A revision of the Surveyors Act 1978, resulted in the preparation of the Land Surveying Bill 2001, which is before Parliament at the date of preparation of this report (refer to a later section of this report entitled Surveying Reform).

7.81 A number of the activities undertaken by cadastral and other land surveyors are concerned with planning and development functions. Councils, utilities and certain public sector agencies require certification from licensed cadastral surveyors of many non-boundary survey matters such as the floor level of a building, the proximity of a development to a flood prone area, alignment of vertical structures, building set-out, sewerage set-out, building floor lease area management for building owners, and expert witnesses in court. These requirements are generally not covered by legislation.

7.82 In order to understand how the functions and services that impact on surveying are spread across Land Victoria within the Department of Natural Resources and Environment (DNRE), Chart 7C which follows, details the operational responsibilities of that Business Unit, and those of the Surveyors Board of Victoria, a statutory authority chaired by the Surveyor-General.

**CHART 7C
LAND-RELATED FUNCTIONS WITHIN THE DEPARTMENT**



Audit objectives

7.83 The objective of the audit was to assess whether the systems and procedures for the recording of survey related information in Land Victoria's land registration system ensure that the information is accurate and reliable, and conforms with the requirements of legislation. In order to achieve this objective, we reviewed:

- the standard of the survey control network and the systems used to record information on the network;
- accuracy of measuring equipment used by surveyors;
- skills and competence of practising surveyors, including the operations of the Surveyors Board of Victoria;
- reliability of information recorded in Land Victoria's public register of land; and
- the role and operations of the position of Surveyor-General.

Conduct of the audit

7.84 To provide on-going technical assistance and advice during the audit, we engaged the services of a specialist. In undertaking the audit, a wide range of evidence gathering techniques was employed, which are outlined in detail below.

7.85 As part of the audit we conducted a survey, the major aims of which were to:

- assess the industry's level of satisfaction with the performance of the Surveyor General, Land Victoria and the Surveyors Board of Victoria, and to determine the impacts these organisations have on the surveying profession; and
- determine the level of industry and departmental compliance with relevant legislation and associated regulations.

7.86 There are approximately 1 020 licensed surveyors in Victoria. However, as licences are issued for life, a considerable number of these surveyors are non-practising members. As the audit was primarily concerned with survey information generated from cadastral surveying, it was important that the survey targeted practising licensed surveyors.

7.87 Accordingly, we decided to use the membership database of the Association of Consulting Surveyors Victoria (ACSV), as we considered that responses from its membership would provide a good representation of the views of practising surveyors. The ACSV is the peak surveying industry organisation for the private sector in Victoria, with its membership representing the majority of surveying firms in the State. Surveying firms are generally small to medium enterprises, employing between one and 20 practising surveyors, along with other technical and administrative staff. To further improve the coverage of the survey, questionnaires were also sent to a number of larger surveying organisations, which were not members of the ACSV.

7.88 The questionnaire consisted of four sections, namely “The Survey Control Network”, “Calibration”, “Ensuring the Competency of Surveyors” and the “Integrity of the Cadastre”. Of the 87 surveys sent out, 66 were completed and returned, resulting in a response rate of 78.6 per cent.

7.89 In undertaking the audit, the following techniques were also used:

- Reviewing literature, policies, legislation, departmental procedures and consultants’ reports pertaining to the subject areas of the review;
- Holding meetings and discussions with professionals involved in the spatial information industry from the following entities:
 - Melbourne City Council;
 - VicRoads;
 - RMIT;
 - Barwon Water;
 - Melbourne University;
 - Surveyors Board of Victoria; and
 - Office of the Surveyor General, Land Information Group and Land Registry within Land Victoria, which form part of the Department of Natural Resources and Environment; and
- Contacting the Offices of the Surveyor-General (or equivalent) in all other Australian States and requesting details of their survey reform process. Responses were received from New South Wales, South Australia, Tasmania and Western Australia.

Key aspects of surveying arrangements and records

7.90 In order to gain an understanding of the functions performed by the cadastral surveying profession, the information generated by surveyors and the equipment used, the following information is provided.

Cadastral surveying

7.91 Cadastral surveying involves the determination, and recording of property boundaries. In addition, cadastral surveyors define the limit or extent of the rights or restrictions on land parcels such as easements, access, rights of way and common property. These matters impact on the value and the use of land.

7.92 Cadastral surveys are used to re-establish the boundaries of previously surveyed properties or to establish the boundaries of newly sub-divided land in order to establish ownership and to facilitate the transfer of property title. Establishing title boundaries or re-establishing them has two components, namely the interpretation of the law and evidence, and physical measurement and position fixing.

7.93 The majority of cadastral surveys are concerned with re-establishing or determining title boundaries and the extent of related rights and restrictions in land, and relating their position to fences and other forms of occupation. This process typically requires the surveyor in the field to compute distances and relationships between survey features, which provide evidence about the location of title boundaries. Traditionally, the surveyor's work has involved determining the property boundaries by undertaking distance and angular measurements to and from existing survey marks, physical features such as rivers and coastlines and evidence of occupation such as fences, walls and buildings. In determining the location of boundaries, the surveyor must give due regard to the boundaries of adjoining properties and road alignments.

7.94 Cadastral surveying work also includes the marking of new boundaries for large subdivisions and the connection of the survey to the survey control network. For some larger subdivisions, it may first be necessary to undertake a control survey. This involves locating and/or creating sufficient control points, with height and horizontal co-ordinates, to establish a network of points (refer to a later section of this report entitled survey control network). This network of control points can then be used to determine property boundaries.

7.95 In Victoria, there are approximately 800 000 dealings each year in relation to registration and interests in land. Of these, approximately 10 000 represent cadastral surveys and other matters prepared by cadastral surveyors. Most of the 800 000 dealings would be associated with changes in ownership.



Land Victoria staff conducting a survey.

The cadastre

7.96 The public register used to document the official record of land holdings and related interests, including a definition of boundaries is called a cadastre. The cadastre can contain some or all of the following information:

- legal interests in land (record of rights, restrictions and obligations that influence land administration and land management);
- physical or thematic land data (record of terrain, hills, lakes, etc.);
- survey information, including the location of the survey control network (such as the Department's Survey Mark Enquiry Service (SMES), electronic maps (known as VicMap Digital Property), parish plans and surveyors reports and field notes; and
- other information such as property addresses, land values, location of roads and utility infrastructure.

7.97 In Victoria, the cadastre is not a single database but a collection of public registers and records, which contain information on land ownership, land tenure and value, and a geometric description of land parcels. The information contained in the cadastre supports the Government's land tenure and taxation policies, and provides security of title by maintaining an accurate record of registered interests in land, which underpins the Government's guarantee of land title.

7.98 The data contained within the cadastre can also be described as a form of geospatial information.

Geospatial information

7.99 One of the functions of the Department is to gather, store and make available to the community, geospatial information describing the location of an object and other information that can be linked to its location. The collection, storage and dissemination of geospatial data is a multi-billion dollar industry, representing one of the world's growth industries. Cadastral survey information is a significant component of geospatial information.

7.100 Geospatial data is fundamental to many human activities and functions, including the provision of essential services such as gas, power and water, asset management and provision of emergency services. The accuracy requirements of users of this data varies with some users needing only a broad reference to location, like a street address, while other organisations such as gas, power and water utilities require accuracy of 15 centimetres. Cadastral surveyors require accuracy in accordance with the requirements of the Cadastral Surveying Regulations which ranges from a centimetre to a decimetre, relative to the specific topography.

7.101 The primary challenge for the DNRE in the provision of geospatial information is to ensure that the data collected:

- is transportable (from one database to another);
- can be used by a number of different users;
- can be integrated with data from other sources/locations; and
- maintains its spatial accuracy over distance and time.

7.102 In order to gather information describing the location of objects, there needs to be a common, reliable and accurate framework to which all locations are referenced. In Victoria, this framework is known as the survey control network.

7.103 It should be noted that in order to undertake a cadastral survey, there is no practical need for surveyors to connect their surveys to the survey control network, as cadastral surveys rely on local evidence and information for their own particular purposes.

Survey control network

7.104 In order to establish a geographically referenced survey control network, there needs to be a system in place to determine co-ordinates for positions on the earth's surface. Each country has independently established its own co-ordinate system which in Australia, up until 1994, was known as the Australian Geodetic Datum 1966 (AGD66). This co-ordinate datum is the one on which the Australian Map Grid (AMG) has been based. The AMG is a particularly defined map projection with characteristics suitable for use in Australia.

7.105 However, with the adoption of the Global Positioning System, (refer following section of this Report) it became appropriate to adopt a common worldwide co-ordination system. In Australia, this common co-ordination system is known as the Geocentric Datum of Australia 1994 (GDA94). This new datum forms the basis for the Map Grid of Australia (MGA), which was established on 1 January 2000. The difference between the co-ordinates of a point in the MGA compared with AMG is about 200 metres.

7.106 The survey control network is a State-wide network comprising approximately 137 000 physical ground marks, of which approximately 40 000 have AMG co-ordinates and approximately 23 000 have MGA co-ordinates determined. In addition, there are also 6 300 Primary Cadastral Marks, which are placed by cadastral surveyors in accordance with the requirements of the Surveyors (Cadastral Surveys) Regulations 1992. There are two components to the network, a horizontal survey network and a levelling network. The horizontal survey network is used to establish horizontal control and the levelling network is used to determine height. In the survey control network there is information available for up to 65 000 marks that have height values in accordance with the Australian Height Datum (AHD).

7.107 The survey control network provides the essential positioning framework for mapping, infrastructure, environment and resource management for the State although, as mentioned previously, cadastral surveys for land development and other purposes are not dependent on this framework.

7.108 Complementing the survey control network are 15 Global Positioning System base stations, which have been established by Land Victoria in conjunction with other bodies since 1996.

Global Positioning System (GPS)

7.109 The advent of satellite positioning systems has revolutionised the positioning industry and impacted on the way in which surveyors undertake their work. The Global Positioning System (GPS) is a worldwide satellite based radio navigation system developed by the U.S Department of Defence. The constellation of satellites, which currently comprises 29 operational satellites, blanket the globe with their transmission of standardised messages which are to establish the location of an object in time and space on or above the earths surface.

7.110 GPS is used in a wide variety of sectors including agriculture, forestry, fishing, construction, defence, emergency services, mining, surveying and mapping. In practice, a receiver is used to calculate its position in time and space using signals provided by four or more satellites.

7.111 In its simplest form, a hand held GPS receiver can be used to calculate the position of the operator in time and space using signals provided by 4 or more satellites. The accuracy of the position determined using the hand held receiver is within plus or minus 15 metres horizontally and plus or minus 30 metres vertically. For applications requiring a higher degree of accuracy, such as cadastral surveying, either connection to a geodetic network of GPS base stations or the use of at least two survey grade GPS receivers is required.

7.112 In Victoria, GPSnet is the system used to continuously record, store, validate and disseminate information received from the constellation of satellites, through a network of public access GPS base stations. Land Victoria, is planning to develop 20 GPS base stations across Victoria by June 2002. There are currently 15 base stations in operation.

7.113 GPS provides a powerful surveying and mapping tool for the collection of position information. It provides a fast method of linking to the survey control network, which in turn can reduce the time taken to connect property boundaries to geodetic control when dealing with distances exceeding 2 kilometres. However, based on our enquiries, it appears that although GPS is very useful in a number of circumstances, it does not replace the need for a ground marked survey control network.

7.114 As indicated earlier, a cadastral survey involves surveyors re-establishing title boundaries and relating their position to fences, walls and buildings, and marking new boundaries and connecting to the survey control network. For re-establishing boundaries, GPS techniques are not ideal for occupation pick-up, and are inadequate to observe occupation close to or part of buildings or garden shrubbery. A review undertaken by Royal Melbourne Institute of Technology (RMIT) in 2000, suggested that as much as half of metropolitan Melbourne is unsuited to GPS observation due to buildings, trees and shrubs obstructing the signal. However, GPS is generally a suitable mechanism to use in survey control connection for cadastral surveys and where the surveyor is establishing survey control for larger developments.

7.115 Other factors impacting on the surveying industries use of GPS include the cost of equipment and the accuracy of the GPS.

7.116 With a basic single-frequency survey GPS unit costing around \$20 000, and a dual-frequency unit costing \$40 000, with software and other assorted equipment costing around a further \$20 000, the overall cost is a significant barrier to the increased use of GPS. This compares with conventional survey equipment which costs about \$20 000. The cost of GPS equipment providing the accuracy of measurement required by surveyors has been fairly static over the last couple of years, unlike GPS equipment providing a lower level of accuracy, which has been targeted at the “consumer” market.

7.117 A further impediment to the use of GPS is the accuracy of the system. The accuracy requirement for “length of line” in cadastral surveying is currently 10 millimetres plus 60 parts per million (ppm). To determine the length of a line from GPS measurements, the distance must be derived from the co-ordinates of the positions at the ends of the line. As such, for lines of less than 1 500 metres, it is unlikely that GPS can be used to derive a distance that satisfies the Surveyors (Cadastral Surveys) Regulations 1995. Similarly, to derive the bearing of a short line for cadastral purposes, unsatisfactory results may be achieved.

7.118 Land Victoria claims that horizontal accuracy levels of plus or minus 5 millimetres plus 1 ppm and vertical accuracy levels of plus or minus 15 millimetres plus 2 ppm can be reached using GPS if certain techniques and procedures are adopted. These techniques can be costly and time consuming and are probably more suited to large projects.

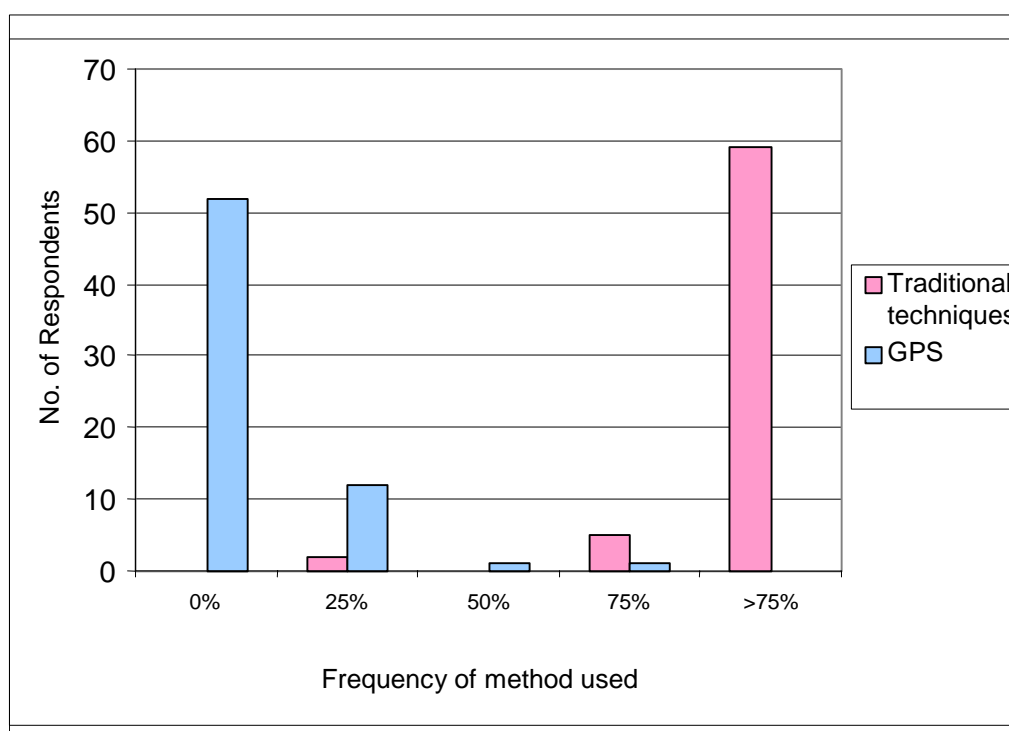
Audit findings

7.119 The remainder of this section of this report provides detailed observations and findings resulting from the audit relating to survey information at Land Victoria.

Usage of GPS

7.120 Land Victoria has suggested that ‘traditional’ cadastral surveying techniques such as total station traversing using electronic distance measuring equipment (see earlier section in the report entitled Cadastral Surveying) are being replaced by the use of GPS. It has been further suggested that the GPS network will over time replace the traditional survey control network. In order to assess the validity of this claim audit requested cadastral surveyors to indicate the proportion of their work, which involves the use of GPS. The responses to this survey question are depicted in Chart 7D, which follows.

**CHART 7D
USE OF TRADITIONAL SURVEYING TECHNIQUES AND GPS**



Source: Victorian Auditor-General's Office – Summary of Survey Responses.

7.121 From the Chart it can be seen that 59 of the 66 respondents (96 per cent) indicated that they use traditional surveying techniques for three quarters or more of their surveying work. Although GPS may become a widely adopted tool used by surveyors in the future, the results from the questionnaire indicate that at present only a small part of a cadastral surveyors business involves the use of GPS.

7.122 Cadastral surveying uses either a combination of GPS and traditional methods, or traditional methods alone. However, total station traversing or traditional surveying techniques remain the dominant technique to undertake both types of surveys described above.

7.123 A significant shift in the usage of GPS equipment is not expected until new equipment can integrate GPS with total station traversing equipment and costs are moderated. Such equipment is still under development.

7.124 There is also a problem with the use of GPS equipment, which impacts on the legal traceability of survey measurements, where it is used to directly establish or re-establish property boundaries. The Surveyors Board of Victoria is currently developing guidelines to address this issue.

Survey control connection - legislative requirements

7.125 Regulation 10 of the *Surveyors (Cadastral Surveys) Regulations 1995*, requires a licensed surveyor making a cadastral survey to:

- adopt and verify a datum in accordance with a previous cadastral survey or plan and enter the datum onto the Australian Map Grid unless the conversion cannot be practically achieved; and
- in a survey area proclaimed under Section 12 of the Survey Co-ordination Act 1958 connect every cadastral survey in accordance with the requirements of that Act.

7.126 The purpose of the regulation is to outline the circumstances in which the surveyor must connect the survey undertaken to the survey control network. The survey connection process involves surveyors:

- locating or creating survey control points (survey marks with co-ordinates);
- connecting the survey that established the property boundary to these points; and
- providing information to Land Victoria, demonstrating that the property boundaries had been referenced to survey control points.

7.127 The above reference to “unless the conversion cannot be practically achieved” is clarified in the Surveyor-General’s Survey Practice Circular August 1995 (Revised April 2000). The circular states that for cadastral surveys of 10 lots or more, co-ordinate connection is mandatory. If co-ordinated marks are not available within one kilometre or three survey instrument set-ups, the Surveyor-General undertakes to provide co-ordinated marks within one kilometre of the survey. For cadastral surveys of less than ten lots, survey control connection is required if marks exist within 500 metres or 3 survey instrument set-ups.

7.128 In assessing the need for survey control connection, a factor that must be considered is that the Victorian cadastre was not historically based on co-ordinated survey control references (boundaries referenced to marks with known co-ordinates) and at the date of preparation of this report largely exists and functions without the need for survey control references. Cadastral boundaries in Victoria are primarily defined by dimension and relationship to local monuments and occupation, rather than their relationship to marks with known co-ordinates. Therefore, most cadastral surveys can be undertaken without geodetic connection. However, there is a legislative requirement in certain circumstances for geodetic connection to occur.

7.129 Where surveyors do connect to the survey control network, the impact is two-fold. First, they do not generally directly benefit from the connection and secondly, it requires them to undertake additional work and incur additional costs, which their clients are often unwilling to pay.

7.130 The main benefit of the connection of cadastral surveys to the survey control network is the provision of co-ordinate information to the VicMap Digital Property (VDP), the State's digital cadastral mapbase. This then benefits users of information contained within VDP. The information in cadastral surveys which creates new land boundaries (subdivisions) needs to be integrated into VDP to maintain its currency and legitimacy as a complete record of land parcels. The connection of surveys to an accurate, consistent survey control referencing system and the integration of precise cadastral survey information into VDP would allow the spatial accuracy of VDP to be improved. Upgrading VDP potentially could result in a broadening of its application and could increase the benefits which can be derived from it. These benefits include the attraction of additional users who have a requirement for a more spatially accurate and/or complete map base. (refer to a later section of this report entitled VicMap Digital).

7.131 In 2000, the Surveyor-General engaged RMIT to review the effectiveness of the survey control network. The review used a questionnaire, focus groups, discussions with Land Victoria staff and a literature search. **The review disclosed a high level of non-compliance by surveyors with the Surveyor-General's directive relating to the connection of cadastral surveys to the co-ordinated marks of the survey control network.** Specifically the review found that:

- many practitioners consider connection for the smaller surveys to be unreasonably time-consuming and expensive, particularly as many survey marks were destroyed, difficult to find, located in dangerous areas (for example, road intersections) or did not meet accuracy requirements;
- the requirement for survey control connection of re-establishment surveys was considered to be unreasonable; and
- the requirement to connect to the survey control network in Proclaimed Survey Areas was considered practical and reasonable for large surveys where adequate ground marks exist.

7.132 Where adequate survey control marks do not exist in close proximity to the location of large surveys, Land Victoria offers to establish such survey control marks. However, surveyors have reported considerable time delays in Land Victoria providing this service, which adversely impacts on the time taken for surveyors to complete their survey work. Discussions with Land Victoria indicated that very few requests to establish survey marks are received from surveyors, but when requests are received, this service is provided in a timely fashion.

7.133 The RMIT report recommended that:

- survey control network connection of re-establishment surveys should no longer be required; and
- the Surveyor-General's practice directive should contain a statement, which clearly articulates the benefits and beneficiaries of survey control connection for newly sub-divided land.

7.134 Subsequent to that report, the Surveyor-General issued a practice directive which withdrew the requirement for surveyors to connect to the survey control network for re-establishment surveys.

Maintaining and upgrading survey marks

7.135 Under the *Survey Co-ordination Act 1958*, responsibility for the establishment and maintenance of the permanent marks and the survey control network is the joint responsibility of the Surveyor-General and departments and public authorities involved in undertaking surveys. This network of survey marks provides a system to which the position of properties or objects can be referenced. Since 1945, the Surveyor-General, along with other utilities, has maintained the survey control network. In 1998, the operational maintenance function within Land Victoria was transferred to the Land Information Group.

7.136 The survey control network consists of survey marks that either:

- form part of a mathematically adjusted set of co-ordinated marks that are part of a nationally-adjusted set of co-ordinated marks;
- are not part of the adjusted set of co-ordinated marks but have been connected to those co-ordinated marks; or
- have no co-ordinate information.

7.137 The geodetic network, described earlier in this report, is a subset of the survey control network and represents those survey marks with established co-ordinates.

7.138 In order for the survey control network to be effective for surveying purposes, its usefulness is dependent on:

- The quantity of marks in relation to need. As there is no accurate measure of need, the appropriate number of marks can only be assessed by comparing the number of marks to indicators such as land area, properties and population; and
- Quality of survey marks, which includes the physical condition of the marks and their accuracy in relation to established minimum standards.

7.139 Maintaining the network has 2 components, physical maintaining the survey marks in the field, and upgrading the coordinates, level or other information in respect to these marks (refer to a later section in this report entitled Survey Marks Enquiry Service (SMES)).

7.140 The RMIT review estimated that:

- of around 100 000 co-ordinated marks across the State, only 25 000 meet the minimum accuracy standards;
- surveyors generally considered the density of marks to be reasonable in regional towns and cities, but not adequate in many rural areas; and
- in the Melbourne metropolitan area, many of the old marks are located in the middle of road intersections, making them unsafe.

7.141 There are also issues relating to vertical control marks (height), particularly with the lack of maintenance and replacement of marks destroyed. These marks are more widely used by:

- water authorities in the construction of water, sewerage and drainage infrastructure;
- local government in the construction of drainage infrastructure and identifying areas prone to flooding; and
- building industry in the construction of drainage and in the determination of floor levels.

7.142 However, the survey control network connection for height is not a requirement of the current practice directive and is not required in relation to the update or upgrade of the VicMap Digital Property. Nevertheless, the Victorian cadastre is inherently three-dimensional and there is a requirement in some cadastral legislation, planning processes and the approval process of sub-divisions by Councils and utility companies for a licensed surveyor to provide heights related to the Australian Height Datum (AHD).

7.143 As indicated previously, the Land Information Group has operational responsibility for the maintenance of the survey control network. In its Geospatial Information Strategy, it is stated: "...*Geodetic Control Networks will move from physical ground control points to GPS...*" However, for cadastral surveying purposes, GPS can only replace the current survey control network when utilisation of GPS is more widespread in the surveying industry. At what point in time the industry moves to GPSnet (GPS based control network) depends on the development of additional functionality for this network, and further technology developments in GPS equipment and reductions in the cost of this equipment. However, there are other GPS networks able to be accessed, and as such, there does not necessarily need to be a complete reliance on GPSnet.

7.144 However, as indicated earlier in this report, the need to maintain survey marks for use by cadastral surveyors in re-establishing property boundaries is likely to continue into the foreseeable future.

7.145 The requirements under the *Survey Co-ordination Act 1958* and the accompanying regulations to connect to the survey control network in Proclaimed Survey Areas (PSA) are predicated on the ready availability of survey marks in PSAs. The RMIT review found that surveyors consider these requirements to be quite practicable and reasonable for larger surveys where adequate ground marks exist. However, the lack of an on-going maintenance program means that an adequate density of marks cannot be guaranteed in PSAs and therefore there is no rationale for distinguishing PSAs from other survey areas. The crucial criteria for survey control network connection is the availability of adequate survey marks or alternative technology to allow the connection to occur without undue economic burden on the cadastral surveyor whether or not in a PSA.

Condition of survey marks

7.146 In 1996, the former Melbourne Metropolitan Board of Works undertook a review of survey marks and found that 30 per cent of the 3 500 marks existing at that time were missing or were recorded as such in SMES. On the basis of this statistic and responses to the audit questionnaire, it is highly likely that at least 10 to 20 per cent of registered marks shown as available in SMES are in fact missing on the ground. In addition, the frequency of sketch plans with ties shown which are out of date is between 10 per cent and 30 per cent according to 71 per cent of the questionnaire respondents.

7.147 Destruction and damage to survey marks is an unavoidable consequence of a ground mark based control system. Therefore, in order for the network to be effective, there needs to be processes in place to monitor the existence and condition of all marks and a structured maintenance program to replace or repair destroyed or damaged marks.

7.148 In order to determine the adequacy of the current survey control network and to assess the performance of Land Victoria in maintaining the network, information was also gathered by audit on the survey control networks of New South Wales, South Australia and Queensland. The information collected included the total land parcels in the State, total number of marks, quality of the marks, the quantity of marks subject to physical maintenance, new marks installed by the relevant departments and marks planned to be subject to physical maintenance in 2001-02. The data obtained is outlined in Table 7E, which follows.

**TABLE 7E
MAINTENANCE OF SURVEY MARKS**

	VIC	NSW	SA	QLD
Total parcels in State (Freehold & Crown)	2 400 000	2 982 261	890 000	1 835 000
Total marks (Horizontal & Vertical) in Survey Control Network	143 800	183 684	120 000	121 048
Density: Marks per parcel	16.7	16.2	7.4	15
Density: Marks per square kilometre	0.63	0.23	0.12	0.07
Accuracy: Horizontal marks (3 rd order or better)	40 600	100 829	69 500	13 790
Accuracy: Vertical marks (4 th order or better)	65 000	18 214	53 000	42 066
Total marks subject to physical maintenance (by private sector and department combined) 2000-01	120 (estimate) (a)	4 494	5 600	14 200
Total new marks installed 2000-01 by the department	733	2 210 (b)	650	3 238
Marks planned to be subject to physical maintenance in 2001-02 by department.	100	10 000	5 500	5 658

(a) 120 estimate relates to marks subject to physical maintenance by the Department. No information could be provided on the level of maintenance by the private sector.

(b) New South Wales does not collect separate information for the number of new marks installed and the number of marks subject to physical maintenance by the Department.

Source: Victorian Auditor-General's Office.

7.149 From the above table, it can be seen that:

- **Victoria, New South Wales and Queensland with between 15 and 16.7 properties per survey mark have a lower number of marks relative to properties, compared with South Australia, which has the highest density of marks relative to properties;**
- **On a survey mark per unit of area basis, Victoria has the most dense network of the 4 States. However, looking at the density of the network on this basis without reference to need is a rather simplistic measure as the larger States such as Queensland, have large land areas with few if any survey marks, but in these areas there is little or no need for such marks;**
- **The number of survey marks with horizontal accuracy of a 3rd order or better in Victoria is 40 600, which is less than New South Wales and South Australia, but higher than Queensland. However, allowing for the proportion of marks estimated to be destroyed and not yet reported, those for which it is difficult to assure the quality of the co-ordinates, and those for which ready and safe access is questionable, the number of geodetic marks useable for quality assured geodetic connection in Victoria is estimated to be around 25 000;**
- **The number of survey marks with vertical accuracy of a 4th order or better in Victoria is estimated at 65 000 which is the highest of all the States compared in the above analysis;**

- **The number of marks physically replaced or planned to be replaced is significantly lower in Victoria than the other States; and**
- **The number of marks subject to physical maintenance or planned to be subject to physical maintenance is significantly lower in Victoria than the other States.**

7.150 In Victoria, surveyors have indicated that the density of marks is generally reasonable in regional towns and cities but is not adequate in many rural areas and in some metropolitan areas of Melbourne.

7.151 While the physical maintenance program in Land Victoria is limited, it should be noted that the information on the co-ordinates or elevations of more than 4 400 marks were upgraded (in SMES) in 2000-01. This figure is set to rise to 20 500 in 2001-02, with the placement of the GDA 94 co-ordinates in SMES (refer to a later section in this report entitled Survey Marks Enquiry Service).

Connection to the survey control network

7.152 The audit questionnaire was used to gather information on the survey control network, including:

- the proportion of cadastral surveying which involves connection to the network;
- adequacy of the network;
- reasons why surveyors were unable to connect to the control network;
- usage of GPS in cadastral surveying; and
- the performance of Land Victoria in maintaining the survey control network.

7.153 In order to assess the usefulness of the survey control network, it was necessary to determine the proportion of a cadastral surveyors' business that utilised the survey control network. To do this, surveyors were asked in the audit questionnaire to indicate the percentage of their work which involved connecting to the survey control network.

7.154 Responses to the questionnaire indicated that almost all respondents (92 per cent) connect half or more of their surveys to the survey control network for either horizontal and height connection, or both. Furthermore, almost half of the respondents connected three out of every four surveys to horizontal control points and 77 per cent connected three out of every four surveys to vertical control points within the survey control network. These responses indicate that a large part of a cadastral surveyor's activities involve connecting surveys to the control network and as a result, the adequacy of the survey control network becomes critical to those activities.

Standard of survey marks

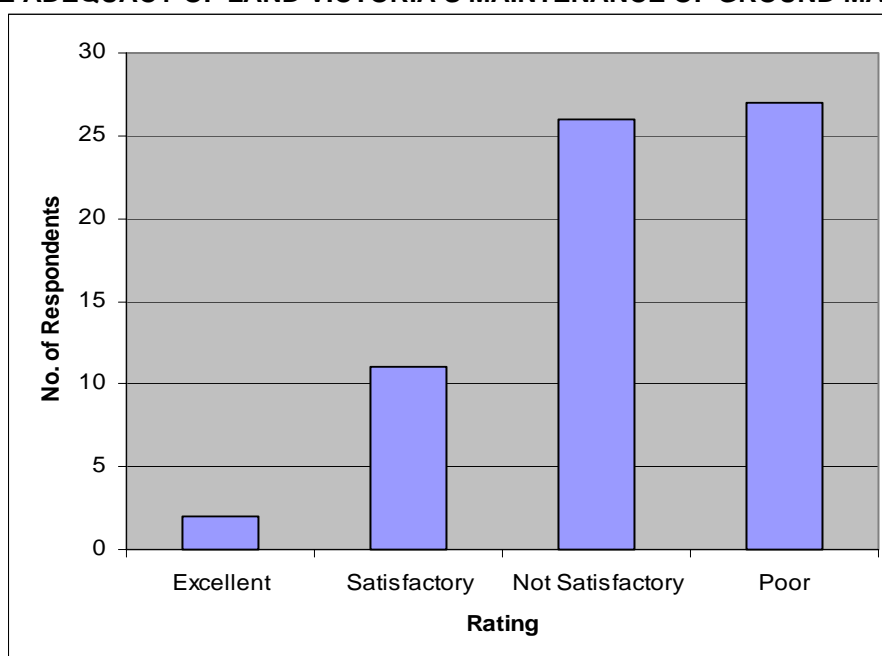
7.155 In order to assess the adequacy of the survey control network, surveyors were asked to indicate the percentage of cadastral surveys that were not connected to the survey control network due to the unavailability of survey marks and asked to assess the adequacy of maintenance of ground marks.

7.156 The responses to the audit questionnaire indicated that of the surveys required to be connected to the survey control network:

- 73 per cent of respondents could not connect in more than one out of every 5 surveys undertaken in the Melbourne metropolitan area;
- 60 per cent of respondents could not connect in more than one out of every 5 surveys undertaken in regional Victoria; and
- 85 per cent of respondents could not connect in more than one out of every 5 surveys undertaken in Rural Victoria.

7.157 Furthermore, 80 per cent of respondents, indicated that they consider the maintenance of the ground marks to be either “not satisfactory” or “poor” as disclosed in Chart 7F.

**CHART 7F
THE ADEQUACY OF LAND VICTORIA’S MAINTENANCE OF GROUND MARKS**

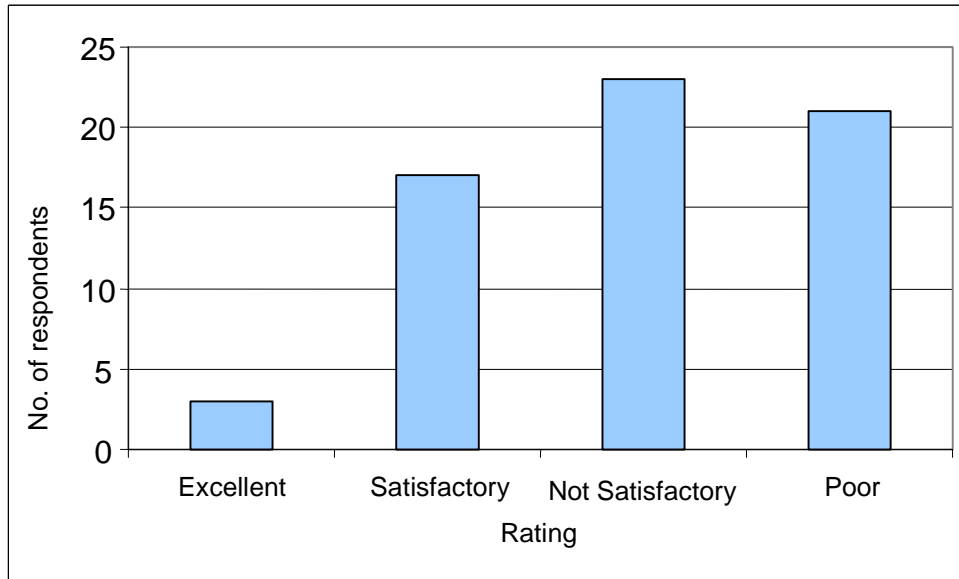


Source: Victorian Auditor-General's Office – Summary of survey results.

Performance of Land Victoria

7.158 Our questionnaire also asked surveyors to assess Land Victoria’s overall performance in managing and maintaining the survey control network. In response to this question 69 per cent of surveyors indicated that the Land Victoria’s performance was “not satisfactory” or “poor”. The result of this aspect of the survey is disclosed in Chart 7G.

**CHART 7G
LAND VICTORIA OVERALL PERFORMANCE IN
MAINTAINING THE SURVEY CONTROL NETWORK**



Source: Victorian Auditor-General's Office – Summary of Survey Results.

7.159 The above responses to our questionnaire indicate a level of dissatisfaction with Land Victoria's maintenance of the survey control network.

7.160 Land Victoria, in co-operation with the Surveyor-General and the Surveyors Board of Victoria, should further consult with cadastral surveyors and, if deemed appropriate, develop a strategic plan for the maintenance and upgrading of the survey control network, including the replacement of damaged marks and the establishment of new marks in strategic areas. The consultation should also include other public sector agencies that are involved in the use of the survey control network.

Survey Marks Enquiry Service (SMES)

7.161 As indicated earlier in this report, cadastral surveyors are required by regulation to connect their cadastral surveys to the State's survey control network. In order for cadastral surveyors to undertake this requirement, they need access to information on the location and co-ordinates of survey control marks. In Victoria, the name of the system that stores and manages the State's survey mark information is the SMES. Other states and territories of Australia and New Zealand maintain similar systems.

7.162 Prior to the establishment of SMES, the primary method of obtaining current information about survey marks was to telephone or visit a range of Government agencies, which held information regarding survey marks. In 1996, Land Victoria converted all of its survey mark information to electronic form to provide an "on line" access for users to log onto and retrieve survey information with minimal delay. This process centralised and standardised (as far as possible) the data from State Government agencies.

7.163 The current system provides users with the ability to access information on approximately 146 000 survey marks as well as property maps held on the State's cadastral map base, VicMap Digital Property. Information on the placement, destruction and suitability of marks across Victoria is available via the SMES database, which is accessed by a software interface available to industry and the community through the Internet.

7.164 The survey mark data held by SMES comprises all the recorded textual attributes for each survey mark (current and historical co-ordinates, mark name and numbers, scale factors, data and alternative mark names) and the marks sketch plans (locational diagrams).

Completeness and accuracy of information in SMES

7.165 For SMES to be of use to cadastral surveyors and other users, the database needs to be a complete record of all of the co-ordinated survey marks and the information recorded should, as far as possible, represent the actual condition of the marks.

7.166 Access to information recorded in SMES is critical to the work undertaken by cadastral surveyors. The time taken to complete a survey and the costs of cadastral surveying services are adversely affected where survey marks recorded in SMES are damaged, missing or unsuitable.

7.167 In order to assess the accuracy and completeness of the information in SMES, surveyors were asked to respond to a series of questions by audit. As these same questions were asked in the RMIT review, the results of the two questionnaires were compared to determine whether the quality of information in SMES was changing over time.

7.168 Surveyors were asked the following questions:

- what percentage of survey marks recorded in SMES have they attempted to use and found that the physical mark was missing or damaged?;
- what percentage of marks were unsuitable for use?; and
- how often are the ties shown on sketch plans out of date?.

7.169 The responses to the questions indicated that:

- 66 per cent of respondents considered that 20 per cent or more of the survey marks recorded in SMES were missing or damaged;
- 74 per cent of respondents considered that 20 per cent or more of the survey marks recorded in SMES were unsuitable for use; and
- 71 per cent of respondents considered that 20 per cent or more of ties on sketch plans were out of date.

7.170 In 2001, the RMIT review asked the same questions regarding SMES. Responses to the RMIT survey indicated that:

- 50 per cent of respondents considered that 20 per cent or more of the survey marks recorded in SMES were missing or damaged;

- 76 per cent of respondents considered that 20 per cent or more of the survey marks recorded in SMES were unsuitable for use; and
- 78 per cent of respondents considered that 20 per cent or more of ties on sketch plans were out of date.

7.171 The responses to the two surveys support the view that the information recorded in SMES is not always accurate in reflecting the changes to the condition of survey marks. We recommend that Land Victoria undertake a physical review of survey marks over an established timeframe to determine the accuracy of the information contained in SMES.

Feedback from surveyors

7.172 A major factor impacting on the accuracy and usefulness of the information in SMES is the regular feedback provided by users of SMES. Due to the significant costs associated with Land Victoria directly monitoring the condition of the survey marks to update the information recorded in SMES, it relies on the surveying industry to provide this information. In order to determine the level of feedback provided by surveyors to Land Victoria, audit asked surveyors whether:

- they frequently provide feedback to Land Victoria on the status of survey marks and other relevant survey information recorded in SMES; and
- if they did not, why not.

7.173 In answering the questionnaire a little more than half, or 55 per cent, of respondents indicated that they do not provide regular feedback to Land Victoria to update SMES. When asked to indicate why they had not provided feedback to Land Victoria, around 40 per cent indicated time and/or costs restraint as the reasons for not providing feedback. Eight respondents indicated that the Department does not utilise the information provided, with a further three respondents indicating that SMES was not user friendly.

7.174 The problem with surveyors not providing feedback was also identified in the RMIT review, which indicated that the major control over the quality of information in SMES is the on-going feedback provided by the users of this information. The review also made the following observations:

- the most important feedback comes in the forms of data lodgement and updating from surveyors, and in the absence of this feedback, the value of the system to users is greatly reduced; and
- there appeared to be a lack of awareness by surveyors of their responsibilities and options available in reporting damage to survey marks.

7.175 From the above analysis, it is clear that surveyors are not meeting their responsibility to provide feedback to Land Victoria on the condition of survey marks. We consider that Land Victoria should take action to ensure that surveyors provide this feedback. Initiatives Land Victoria could consider include:

- an awareness campaign to re-emphasise the responsibilities of the industry to provide feedback;
- financial incentives to encourage feedback; and
- financial penalties for surveyors not providing feedback.

Information held by other parties

7.176 A number of water authorities, gas and power companies and other entities such as VicRoads and Local Government bodies have staff who undertake surveying functions and generate survey information.

7.177 The *Survey Co-ordination Act 1958* requires these entities to make available all their survey information to DNRE. This is an area which appears to have suffered in the deregulation process. Most of these entities now contract out all survey work, but there is no mechanism to ensure that this reporting requirement is being met. Furthermore, it appears that there is a lack of awareness within these organisations of their duty to provide information to Land Victoria. The Surveyor-General should remind Local Government bodies, utilities and construction contractors of their responsibilities for placing, registering and notifying of destruction of survey marks.

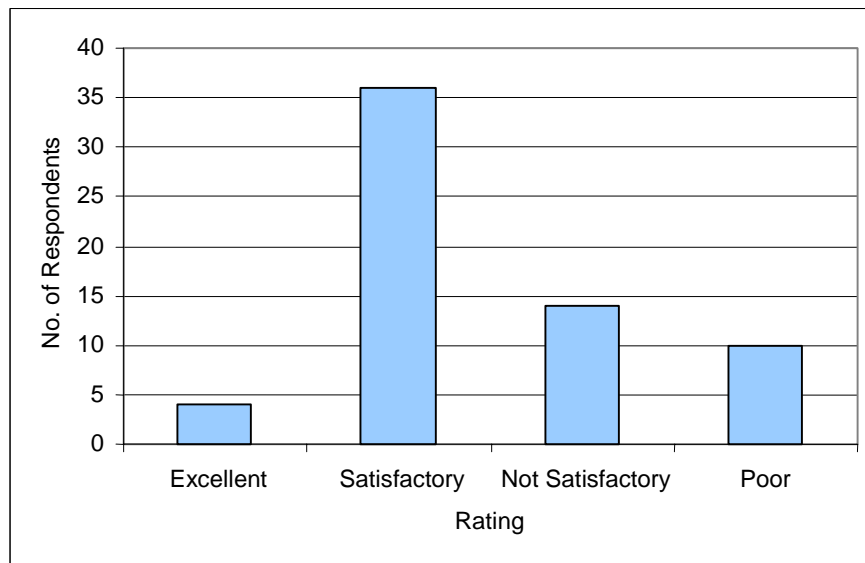
7.178 We reiterate our previous recommendation that action be taken by Land Victoria to ensure that the industry, including government agencies are made aware of their obligations under the *Survey Co-ordination Act 1958*.

Updating SMES with surveyor provided information

7.179 Feedback from surveyors is necessary but not sufficient to ensure the accuracy and completeness of the information recorded in the SMES. For the SMES to be an accurate reflection of the physical survey marks in the field, Land Victoria must also use the information supplied by surveyors to update the SMES.

7.180 Our audit questionnaire contained 2 questions designed to assess Land Victoria's performance in updating the SMES, from information provided by surveyors and to determine the standard of service provided by Land Victoria with regard to the provision of survey mark information. Chart 7H, which follows, outlines the results of our survey.

CHART 7H
RATING OF LAND VICTORIA PERFORMANCE IN UPDATING THE SMES



Source: Victorian Auditor-General's Office –Summary of survey results.

7.181 The responses to the audit survey indicate that:

- 62 per cent of respondents rated Land Victoria's performance in updating the SMES from information provided by surveyors to be satisfactory or better;
- 83 per cent rated the standard of service provided by Land Victoria as satisfactory or better; and
- while 24 per cent of respondents consider that the standard of the survey control network and the performance of Land Victoria in updating information recorded in SMES have improved over the last 5 years, 35 per cent of respondents believe it had deteriorated.

7.182 While the above outcomes indicate a level of satisfaction with Land Victoria's performance in maintaining the SMES, they also indicate scope for improvement.

7.183 The RMIT review also found that Land Victoria's process of extracting feedback from Surveyor's Reports to update the information contained in SMES was deficient and needed to be addressed.

7.184 Land Victoria has as one of its performance indicators to update SMES from information provided by surveyors within ten working days of notification. The survey results indicate a need for greater attention in this area.

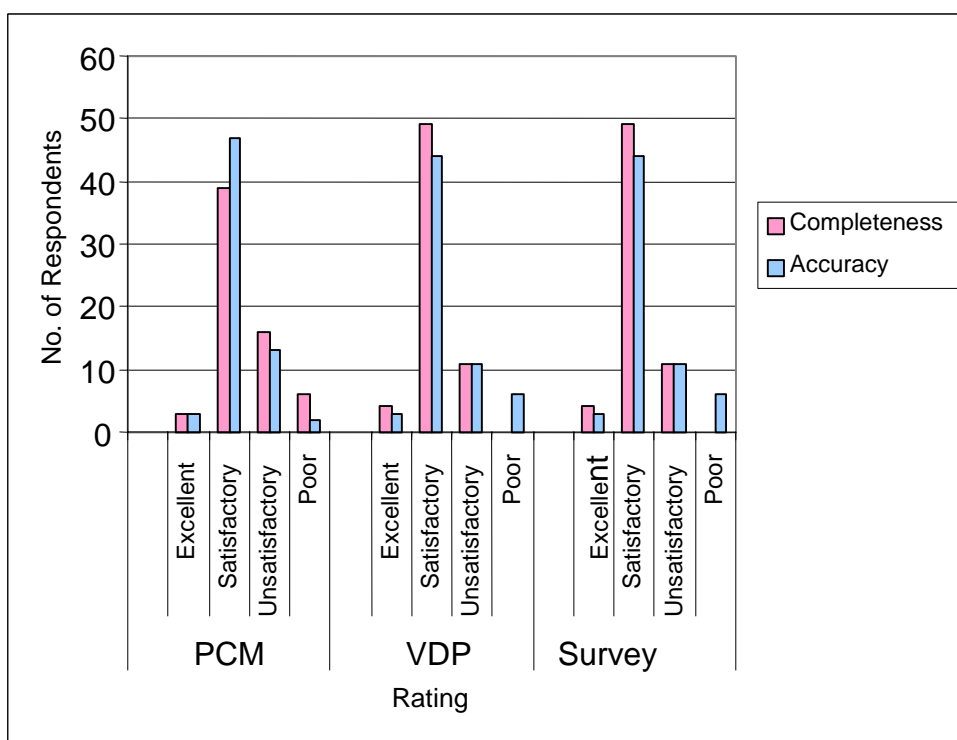
Integrity of survey information in the cadastre

7.185 In order to assess the quality of the survey information included in the cadastre, we obtained feedback from surveyors via the audit survey. Surveyors were asked, "Keeping in mind the purposes for which it is used, overall, how would you rate the quality of the following cadastral information currently recorded by Land Victoria?"

7.186 Respondents were asked to rate the completeness and accuracy of three components of the survey information in the cadastre, namely primary cadastral marks (PCMs), VicMap Digital Property (VDP), and survey plans.

7.187 In assessing the responses to this part of our survey, we considered that an acceptable outcome is where 75 per cent or more of respondents have rated the quality of the information as satisfactory or excellent. On this basis, as shown in Chart 7I, the accuracy of the PCMs, and the completeness of VDP and the survey plans were considered by surveyors to be acceptable. However, there appeared to be room for some improvement in relation to the completeness of information on PCMs and the accuracy of information on VDP and survey plans.

**CHART 7I
ACCURACY & COMPLETENESS OF CADASTRAL INFORMATION**



Source: Victorian Auditor-General's Office –Summary of Survey Results.

7.188 The questionnaire also asked surveyors to “Rate the ease of access to cadastral information in Land Victoria” dealing with PCMs, VDP and survey plans and field notes.

7.189 In answering this question, 75 per cent of respondents considered their ease of access to cadastral information on PCMs, VDP and Land Registry survey plans and field notes to be either satisfactory or excellent.



A licensed surveyor undertaking a cadastral survey.

VicMap Digital

7.190 VicMap Digital, is a State-wide computerised dataset, forming a spatial index to the cadastre, combining spatial data such as:

- land parcels and properties, street names, suburbs allotment and sub-division details (VicMap Digital Property (VDP));
- the full road network, road attributes, road names and address points for Melbourne and environs (VicMap Digital – Roads); and
- the physical structure and features of land across Victoria such as hydrology, roads and infrastructure, and vegetation (VicMap Digital – Topographic).

7.191 The dataset provides information, which can be used for the administration of many State and Local Government functions, provision of utility infrastructure and asset mapping. VicMap Digital is available free of charge to licensed cadastral surveyors.

7.192 In Victoria, properties within 32 km of the Melbourne central business district were originally mapped by the former Metropolitan Board of Works (now Melbourne Water). This mapbase focussed on rateable properties only. Outside of metropolitan area, the Surveyor-General (and later Surveying and Mapping Victoria), had responsibility for mapping.

7.193 As these maps were generated by different organisations for different purposes, they had different scales, and consequently different levels of spatial accuracy. For example, Metropolitan Melbourne was mapped at a scale of 1 to 500, regional towns at a scale of 1 to 2 500 and rural areas at a scale of 1 to 25 000.

7.194 In 1994, Melbourne Water agreed to transfer responsibility for the metropolitan mapbase to the Office of Geographic Data Co-ordination, which eventually became the Land Information Group within Land Victoria.

7.195 The current VDP database, comprising about 2.4 million parcels of land, was developed during the 1990s by digitising (converting to electronic format) the existing Victorian paper maps. Where all the lines are digitised precisely, the accuracy of the digital maps is dependent on the scale of the original paper map. This implies that those parts of the mapbase that were originally portrayed on a scale of 1 to 500 (metropolitan areas) are accurate to half a metre, those on a scale of 1 to 2 500 (urban areas) are accurate to 2.5 metres and those on a scale of 1 to 25 000 (rural areas) are accurate to 25 metres. Where the lines were not digitised precisely, the size of the inaccuracies increases.

7.196 VicMap is sometimes incorrectly referred to as the cadastre. In reality, VicMap is effectively a digital map index, a subset of the cadastre. VicMap consists of a base map with 8 information overlays. The overlays provide information on:

- the location of the geodetic control network;
- individual properties;
- roads;
- addresses;
- administrative boundaries;
- elevation;
- hydrography; and
- imagery.

7.197 In addition to the maps, there is narrative information regarding each property, known as property attributes. These attributes include property addresses and lot numbers. An external party providing contracted services to the Land Information Group, maintains and upgrades VDP.

7.198 Users of VDP include government departments, local government, private sector organisations, utilities, educational institutes and the surveying profession. The mapbase and associated attributes are provided to these organisations, who are able to add their own attributes to their copy of the mapbase. For example, a local council may add details of council rates or other information attributes in their copy of the mapbase. Generally users have to pay a licence fee to access VDP, however in some cases this fee is waived.

7.199 It is envisaged that, progressively, as users of VicMap attach their own datasets to their copies of VicMap, they will be able to access information on a property or area on a map which could include:

- environmental information;
- crime statistics;
- council rates;
- population profiles;
- valuation information; and
- planning zones.

Completeness and accuracy of VicMap Digital Property

7.200 The completeness of property and attribute details maintained within VDP are of varying quality, with Land Victoria estimating the accuracy to range from 45 to 99 per cent in rural areas, and from 90 to 99 per cent in the metropolitan areas of Melbourne. The overall quality is estimated to be 90 per cent or better. Again, the original paper maps from which VicMap was created were more comprehensive in the metropolitan areas of Melbourne, with the maps becoming less complete in regional and rural areas. Nevertheless, the maps were brought together and digitised as a base, which provides Land Victoria with a facility to develop a more accurate and complete mapping system.

7.201 Survey information generated by cadastral surveyors is one of the main mechanisms of providing VDP with high quality data to improve the spatial accuracy and completeness of the database. This process involves cadastral surveyors connecting their surveys to the survey control network and then providing property information to the Department through the registration of cadastral surveys. As such, the component of the cadastre which benefits most from the geodetic connection of surveys is VDP. The mapbase relies on the geodetic framework to provide a seamless representation of the relative and absolute position of properties in the State.

7.202 Users of VDP have different requirements in respect of the spatial accuracy of information in the database and the completeness and accuracy of property related information. Some users, such as the real estate industry or marketing firms, require property attributes to be accurate, but are less concerned with the precision of property boundary definition. Other users, such as surveyors, require a high degree of precision in respect of spatial information and a complete database of all properties, but are less interested in property attributes. However, users such as water authorities require a reasonable degree of spatial accuracy and for the mapbase to include all rateable properties. Discussions with a number of utilities indicated that they would prefer spatial accuracies of about 15 centimetres to find their pipes.

7.203 There has been considerable debate within the surveying industry over whether the Department should concentrate on improving the precision of spatial information or the accuracy and completeness of property attributes.

7.204 Although there is recognition within the Land Victoria geodetic strategy of the need to improve the precision of spatial information contained in VicMap, Land Victoria has not detailed the level of precision required. In fact, there has been little public debate regarding the costs and benefits of a survey accurate mapbase. **This is not to suggest that VicMap should be survey accurate, but the level of precision required by Land Victoria should be expressly conveyed to users of VicMap and support provided for the standard chosen.**

7.205 Surveyors believe that if they are required to connect to the survey control network that Land Victoria should use the information provided by them to improve the spatial accuracy of the information held in VicMap. In the metropolitan area and some of the regional centres, VicMap is currently at a spatial accuracy level of about 0.5 metres. In rural areas, the spatial accuracy level decreases to up to 50 metres. Many in the industry consider that the Land Information Group is more concerned with the accuracy and completeness of property attributes than spatial accuracy.

7.206 The Queensland Department of Natural Resources has identified the following 5 levels of development for the accuracy of spatial infrastructure in its equivalent of VicMap:

- digitised map base;
- upgraded map base;
- survey accurate cadastral model;
- reinstatable cadastral model; and
- legal co-ordinated cadastre.

7.207 The lowest level of development is a digitised map base, with the highest level of development being a legally co-ordinated cadastre. A large part of VicMap is currently at the lowest level of development, that is a digitised map base, although much of the Melbourne Metropolitan Area and regional centres are at a slightly higher level of development, that is an upgraded mapbase. If the spatial accuracy of VicMap was taken to the highest level outlined above, that is to the level of legally co-ordinated cadastre, VicMap would be spatially accurate to the level of current cadastral regulations, that is within 15 millimetres plus 100 parts per million.

7.208 New Zealand, as part of its Landonline project, is converting all databases into a series of lines defined by control points, bearings and distances that were recorded on original land titles. This is instead of lines defined by a person's digitising skills and the scale of the map from which the lines were digitised. However, this is an expensive exercise with the cost to convert New Zealand maps costing around NZ \$12 million.

7.209 Updating the precision of spatial information is not a simple matter given the cost and associated difficulties involved, particularly in the less accurate and complete parts of the mapbase. For example, upon receipt of a cadastral survey from a rural area, which have accuracies of say a centimetre, it is often not possible to upgrade the map, because the accuracy of the data base in that area might be as low as 50 metres. If the maps are thought of as pieces of a jigsaw puzzle, with pieces all made to the same level of accuracy, then they will fit neatly together. However, if some newly introduced pieces are of a higher level of accuracy than the existing pieces, then they will not match.

7.210 Although some in the surveying industry advocate a survey accurate mapbase, it is difficult to identify all the specific benefits to be generated from this course of action. Having said this, the 2 clear benefits from increasing the precision of spatial information are to:

- assist utilities in locating distribution networks; and
- enable Land Victoria to mathematically check the accuracy of survey information lodged by surveyors.

7.211 It should also be kept in mind that, although a survey accurate mapbase would be appealing to a number of users, any benefits derived would have to be weighed up against the cost of improving the accuracy of the mapbase.

7.212 Although the Department has an internal objective of updating VicMap within 10 days of receipt of a survey plan, the current practise is quite different. At present Land Victoria records the co-ordinates of the newly completed surveys and waits until there is enough survey work done in an area to be able to update a larger part of the mapbase. In some areas this could take a considerable amount of time.

7.213 From our analysis of the responses received to our audit questionnaire and other discussions with surveyors, it is apparent that many surveyors are unhappy with this strategy. They believe that it is inappropriate for the Department to direct surveyors to connect their surveys to the survey control network, which takes additional time and adds to their costs, when the Department does not utilise the information provided to immediately update the mapbase. The wait-and-update approach is also problematic for utilities. While they wait for Land Victoria to update the existing mapbase, their surveyed infrastructure is misaligned with the property boundaries on VicMap.

7.214 One of the main objectives of developing VicMap was to prevent the situation where different organisations, both private and public, were maintaining separate databases of property and property related information for their businesses. Land Victoria has generally been successful in achieving this objective. However, as the accuracy of spatial data and the completeness of the mapbase itself is not sufficient to meet the needs of all users, such as some water authorities and VicRoads, these organisations have retained their own mapbases.

7.215 In summary, VicMap is a useful and progressive product which, as it develops will provide an easily accessible “one-stop shop” for a wide range of property and property related information. However, to maximise the benefit from its use, Land Victoria needs to:

- establish clear targets for accuracy, precision and completeness in relation to information to be maintained on this system;
- develop plans and implement strategies to ensure these targets are met; and
- clearly communicate these strategies to all stakeholders.

Auditing of surveys

7.216 Every year, Victoria's 500 registered surveyors lodge around 10 200 cadastral surveys with Land Victoria, consisting of approximately 9 000 plans of freehold subdivisions, 1 000 freehold applications and approximately 200 Crown surveys.

7.217 Prior to 1980, the Land Registry review process involved a comprehensive examination of both the mathematical accuracy and the legal validity of the survey information submitted for registration to that Office. Following reviews undertaken by that Office of survey information submitted, problems such as non-compliance with the regulations, incorrect measurement and omissions were conveyed back to the surveyors for correction. As there were no financial penalties incurred by cadastral surveyors who failed to comply with the regulations or provided inaccurate cadastral survey information, surveyors often used Land Registry as their primary means of quality assurance.

7.218 Since 1980, downsizing in Land Registry has led to a significant reduction in the level of review of lodged cadastral surveys undertaken by Land Registry, with greater reliance placed on the competence and integrity of surveyors to ensure the adequacy of cadastral survey information. When surveyors register these surveys with Land Registry, the documents are subject to a quality assurance review by the Title Registration Service (TRS) within Land Registry before they are registered. Currently the review of freehold surveys involves a cursory level of checking, consisting of an examination of plan details and legal implications, with limited verification of mathematics or boundary re-establishment.

7.219 As indicated earlier in this report, the policy of shifting responsibility for the quality of survey information back to cadastral surveyors has been reflected in the *Surveyors (Cadastral Surveys) Regulations 1995*. The Regulations require surveyors to be responsible for meeting minimum quality standards in preparing their cadastral surveys for submission to Land Registry. Therefore between 1980 and 1995, while all plans were still examined prior to their incorporation into the cadastre, the level of checking was significantly less than in the preceding period. In addition, little work was undertaken by departmental staff to assess the quality of the survey information presented to Land Victoria after lodgement.

7.220 The effectiveness of this strategy was dependent on the quality of the assurance mechanisms operating within the cadastral surveying profession to ensure the competence and technical capability of surveyors. However, these mechanisms were not in place at that time. It was not until much later when the Department was developing its Land Surveying Bill 2001, that it started to address these deficiencies. **In the absence of these quality assurance mechanisms, the reduced level of departmental review is likely to have increased the risk of undetected errors in the survey information recorded in the cadastre.**

Current audit process

7.221 In 1995, following an assessment of the arrangements in place at that time, the Surveyor-General considered that there were insufficient internal controls in place to ensure that the integrity of the cadastre would not be compromised by errors made in cadastral surveys. In order to address this problem, a quality assurance program was introduced, which had the following objectives:

- monitor surveying standards;
- protect the integrity of the cadastre; and
- report back to the industry with the aim of improving the quality of surveys.

7.222 The auditing process incorporated within this program was much more detailed than the examination process performed by the TRS and involved a post registration full desk check (covering mathematics and boundary re-establishment) and an on-site field audit. Due to the intensive nature of the review processes (with each audit taking approximately 3 days to complete) and limited resources, only 80 to 150 audits of cadastral surveys (0.8 to 1.5 per cent of surveys lodged) are undertaken each year.

7.223 In selecting surveys for auditing, the Surveyor-General targets surveys which based on past experience and knowledge are likely to be sub-standard. Where problems are identified, the surveyors responsible are sent a requisition requiring them to rectify the non-conformance in the plans. Requisitions are classified as serious or non-serious, and as cadastral or standards related. In July 2000, a joint initiative between TRS and the Surveyor-General resulted in the movement from post-registration to pre-registration auditing of surveys.

Consultant's reviews

7.224 In mid-2000, a consulting firm was engaged to analyse the data collected from the survey audit process between 1996 and 2000. The purpose of the review was to provide an understanding of the current standard of cadastral surveying in Victoria and to develop a sampling plan to deliver on all three of the Surveyor-General's quality assurance program objectives. **The report found that only 24 per cent of surveys tested were free from non-conformance and that 13 per cent of surveys had serious non-conformance.**

7.225 In April 2001, the consultants were again engaged to undertake a quality control review of Land Victoria's auditing process. The consultants reviewed the compliance of cadastral surveys lodged against a checklist of Land Victoria survey requirements. Both the 2000 review and the 2001 review analysed information on survey audits conducted by the Surveyor-General for the period 1996 to 2000.

7.226 According to the consultant's report entitled "*Survey Audit Programme – Statistical Quality Control for Land Victoria*", of the surveys examined by that firm in 2001, **only one in five surveys examined complied with Land Victoria requirements, with 64 per cent of surveys containing serious deficiencies.** Consequently, the consultants considered that the poor standard of the survey information represented a threat to the integrity of the cadastre.

7.227 While recognising that the survey undertaken by the consultants was biased toward surveyors with a history of lodging sub-standard surveys, in extrapolating their findings into the survey population, the consultants concluded that there were likely to be 6 000 serious non-conforming land surveys lodged by surveyors each year. On the basis of these findings, the consultants recommended that:

- both random sampling (for monitoring standards) and targeted sampling (to protect the integrity of the cadastre) be utilised;
- for the purposes of monitoring standards, at least 270 surveys be audited per annum, utilising a random sampling methodology;
- for the purposes of protecting the integrity of the cadastre (in the current climate), at least 3717 surveys be audited per annum, utilising a targeted sampling methodology;
- survey auditing targets be reviewed annually; and
- monthly reports continue to be published, showing quality standards for the month and detailing the nature of common non-conformances, and that these be extended to incorporate comparisons with previous months and with previous periods of significant length (say, 4 years).

Audits undertaken subsequent to the consultant's reviews

7.228 Each year licensed surveyors prepare approximately 350 plans of sub-divisions. In 2000-01, the Surveyor-General completed 176 survey audits (covering 136 licensed surveyors), which represent 38 per cent of those licensed surveyors that prepared and lodged plans of sub-divisions during the year.

7.229 We found that 61 per cent of the surveys subject to review by the Surveyor-General received a satisfactory audit assessment, that is, they contained no serious non-conformances. The major serious non-conformance identified mainly related to missing dimensions on adopted boundaries and surveyors not connecting to the survey control network.

7.230 It is likely that the differences between the consultant's findings and those reported by the Surveyor-General in his 2000-01 report were due to:

- the increase in the overall number of audits undertaken by the Surveyor-General, which heightened awareness, within the surveying profession, of the stricter quality assurance mechanisms now in place; and
- introduction of pre-registration audits which impacts directly on the progress of lodging and approval, and hence on the clients of surveyors.

7.231 In the context of the latest available quality assurance findings, as referred to above, it is important that the Surveyor-General continually reassesses the quality assurance program to ensure that it continues to target areas of greatest risk.

Accuracy of survey measuring equipment

7.232 A significant amount of a cadastral surveyor's work involves the use of measuring equipment which includes steel bands, tapes, levelling staves, electronic measuring equipment and GPS equipment. The accuracy of each survey undertaken is reliant on the accuracy of this equipment.

7.233 Calibration refers to the testing of equipment against an established standard to ensure the accuracy of that equipment. In recognition of the importance of accurate measuring equipment, the requirement for legal traceability is built into legislation. The need to demonstrate legal traceability in the context of cadastral surveying arises from section 12A(1) of the *National Measurement Act 1960*, which provides that: "*After the commencement of this section, every contract, dealing or other transaction made or entered into with respect to an interest in land that refers to any measurement of a physical quantity (including a reference to a measurement of a physical quantity for descriptive purposes only) shall refer to Australian legal units of measurements of that physical quantity.*"

7.234 Although the establishment and maintenance of facilities to provide for calibration is beyond the scope of the *National Measurement Act 1960*, the Act names the verifying authority for calibration in each State. It is then up to the Government in each State to ensure compliance through the inclusion of provisions in all relevant State legislation, and through the maintenance of appropriate facilities to satisfy the traceability requirements.

7.235 In Victoria, the Surveyor-General is named by the *National Measurement Act 1960* as the verifying authority for tapes measuring the distances of 20, 30 and 50 metres, and Electronic Distance Measuring (EDM) equipment for the distances of 50 metres to 1160 metres. In the State regulations, section 15 of the *Survey Co-ordination (Surveys) Regulations 1992* requires surveyors to use calibrated equipment. The Surveyor General's Survey Practice Circular – August 1995 (Revised April 2000) states that: "*The Surveyor General will ensure that facilities are available for calibration of distance measuring survey equipment*".

7.236 While legislative responsibility for calibration in Victoria rests with the Surveyor-General, operationally the Land Information Group provides these services (refer to a later section in this report entitled The Surveyor-General's Legislative Responsibilities).

Legislative reporting requirements

7.237 Section 20 of the Survey Co-ordination Act 1958 (the Act) requires the Surveyor-General to prepare an annual report, which is to be tabled in Parliament. Specifically the Act states that "*The Surveyor-General shall furnish to the Minister before the thirty-first day of July in each year a report upon the progress of surveys within Victoria under the Commonwealth national mapping scheme and upon the co-ordination of surveys under this Act with such surveys under the Commonwealth scheme and generally upon the administration of this Act during the period of twelve months ended on the thirtieth day of June then last past, and a copy of such report shall be laid before each House of Parliament.*"

7.238 Information provided to audit from the Surveyor-General indicated that from 1987 to 1995, the reports prepared by the Surveyor General under the authority of Section 20 of the Act were included in the annual reports of the relevant department. **Since 1996, these reports have not been completed and tabled in Parliament in contravention of the Act.**

7.239 The report covering the 2000-01 financial year was prepared by the Surveyor-General and presented to the Minister in early May 2002, 10 months after the date required in the Act. The Report included information on:

- maintenance of the survey control network;
- internal reviews conducted;
- proposed legislative changes;
- co-ordination of mapping; and
- statistics relating to the number of permanent marks, number of new permanent marks, users of SMES, survey plans registered, certificates of verification issued, and total number of proclaimed areas.

7.240 In the absence of legislative amendment, the Surveyor-General's report should be prepared and tabled in Parliament on a timely basis, in accordance with the requirements of the Act.

Surveyors Board of Victoria - Licensing of Practitioners and ensuring competency

7.241 Under the Surveyors Act 1978, the Surveyors Board of Victoria is the statutory body responsible for the registration and licensing of surveyors in Victoria. The Board has a pivotal role in overseeing the surveying profession, which includes providing specialist advice on surveying matters as well as maintaining the survey licensing system and providing advice and support to surveyors seeking registration. The Board conducts assessments of competency and issues Certificates of Competency for Surveying and Cadastral Surveying.

7.242 The Board is responsible for licensing surveyors, which involves:

- accrediting and auditing surveying courses provided by educational institutions;
- requiring survey graduates to enter into a training agreement with a 'Master Surveyor';
- auditing training agreements to ensure adherence to quality principles; and
- undertaking periodic audits of surveys following the registration of surveyors.

7.243 The Board is also responsible for the Surveyors (Cadastral Surveying) Regulations 1995 and for making regulations regarding all aspects of surveying, including the survey control network, surveying practice and the conduct of surveyors. The Surveyor-General is the Chair of the Board and has overall responsibility for the management of its operations.

7.244 A surveyor who wants to conduct cadastral surveys is required to be licensed by the Board, which involves further training and undertaking a post-graduate course of study. Once issued with certificates, surveyors can currently remain registered and/or licensed for life.

7.245 The responsibilities of the Surveyors Board of Victoria also include investigating complaints regarding the conduct of registered and licensed surveyors and taking action against those surveyors who are in breach of legislation. However, under the existing Act, the Board is not empowered to deal with matters of professional conduct.

7.246 As part of the Department's surveying reform process, problems associated with life-long registration of surveyors and the Board's limited powers in investigating surveyors' professional conduct were recognised and attempts have been made to address these issues in the Land Surveying Bill 2001.

7.247 In the audit questionnaire, surveyors were asked whether the current licensing requirements set out in the Surveyors Act 1978 and administered by the Surveyors Board of Victoria were sufficient to ensure the competency of licensed surveyors. In answering this question, the majority of respondents (74 per cent) agreed that the licensing requirements were sufficient. In respect of those respondents who believed that the licensing requirements were insufficient, the main reasons provided were that:

- the Surveyors Board of Victoria lacked the powers to enforce standards; and
- licensing for life has a negative effect on competency and/or there is a need for annual registration and on-going education in the profession.

7.248 The questionnaire also asked surveyors to assess the Board's examination and training requirements. The clear majority of respondents (76 per cent) considered the examination and training requirements prescribed by the Board to be sufficient to ensure the licensing of competent surveyors. Of the 10 per cent of surveyors who believed that the current arrangements were inadequate, the main themes expressed were that there was not enough emphasis on on-going competency assurance and training.

7.249 In summary, the respondents to our survey indicated a high level of confidence among cadastral surveyors in the Surveyors Board of Victoria. There also appears to be a high level of support for the provisions in the Land Surveying Bill 2001 requiring annual registration of surveyors to ensure competence and to identify on-going training needs. Furthermore, surveyors responding to the questionnaire appear to be of the view that the Bill will enable the (new) Board to deal with incompetent surveyors.

Surveyor-General's legislative responsibilities

7.250 The Surveyor-General has a pivotal role, enshrined in statute, in the administration and registration of land in the State involving various responsibilities which are detailed below.

Policy advice

7.251 Under the *Survey Co-ordination Act 1958*, the Surveyor-General, through his report on the administration of the Act, provides high-level advice to the responsible Minister and the secretary of the Department on statutory and policy matters relating to survey issues.

Creation and maintenance of the survey control network

7.252 Under the *Survey Co-ordination Act 1958*, responsibility for the establishment and maintenance of the permanent marks and the survey control network is the joint responsibility of the Surveyor-General and departments and public authorities involved in undertaking surveys. However, from reading the Act in its totality, it could be reasonably deduced that the Surveyor-General has overarching responsibility for the establishment and maintenance of the survey control network. Furthermore, between 1945 and 1998, the Office of the Surveyor-General performed these functions, which indicates a long-standing acceptance of the operational responsibility for the maintenance of the survey control network by successive officers in the position of Surveyor-General.

Calibration of survey equipment

7.253 In accordance with the *Survey Co-ordination Act 1958*, and the associated regulations, surveyors are required to calibrate their equipment. The Surveyor-General, under the National Measurement Act 1960 and its associated regulations is named as the Verifying Authority for 'length' in Victoria.

7.254 The Surveyor-General is also the State Verifying Authority for the measurement of length, under the Commonwealth *National Measurement Act 1960*.

Land registration

7.255 Under the *Survey Co-ordination Act 1958*, the Surveyor-General is responsible for:

- control and access to all registered survey plans and the index of those plans;
- adequate maintenance of the cadastral boundaries, which form the basis of land ownership in Victoria;
- determination and approval of Crown land boundaries; and
- ensuring that appropriate databases are developed for the collection, collation and dissemination of survey related spatial data.

Register of geographic names

7.256 Under the *Geographic Place Names Act 1998*, the Registrar of Geographic Names is responsible for keeping and maintaining the Register of Geographic Place Names. The Surveyor-General is currently the Registrar of Geographic Names.

Electoral boundaries

7.257 The Surveyor-General is a Commissioner for Electoral Boundaries appointed under the Electoral Boundaries Commission Act 1982, with responsibility for re-division of State electorates (districts and provinces). The Surveyor General is also a member of the Commonwealth Electoral Boundaries Re-distribution Committee for Victoria, in accordance with Commonwealth legislation.

Delivery of legislative responsibilities

7.258 We were advised by Land Victoria that the management of activities related to the survey control network, equipment calibration and survey mark management were transferred from the Surveyor-General to the Land Information Group in 1998. Subsequent to this transfer, a Service Level Agreement (which appears to relate to 1998-99) was entered into between the Land Information Group and Land Registry for the Land Information Group to provide a range of services to Land Registry. The agreement included the services outlined above, for which the Surveyor-General had responsibility. Despite the Surveyor-General having statutory responsibility for the provision of the above-mentioned functions, operational control has remained with the Land Information Group of the Department since 1998.

7.259 We are of the view that once legislative responsibility for a function or activity has been assigned to a statutory position, the ultimate responsibility cannot be transferred to a third party under a contract or other arrangement. Although the Surveyor-General has no operational control over these activities, he is still legislatively accountable.

7.260 If the Government considers that responsibility for these functions should not be assigned to the Surveyor-General, then this should be considered by the Parliament and, if deemed appropriate, reflected in legislation.

Surveying reform

7.261 Surveying reform in Victoria has been a slow process, which has been impacted by a number of external factors such as Commonwealth National Competition Policy, changing governments and administrative re-organisations between departments.

7.262 In the early 1990s, the Surveyors Board of Victoria and the Survey and Mapping Co-ordination Council undertook a review of surveying legislation and produced a report which was released in 1992. The recommendations of the review were incorporated into a draft Survey and Land Information Bill. At that time, the surveying and mapping functions were the responsibility of the Surveying and Mapping Victoria section within the Department of Treasury and Finance.

7.263 The draft Bill was presented to the Minister in 1994 but did not proceed as the Government, through the former Office of Regulation Reform and the former Department of Business and Employment, had some months earlier initiated a review of all occupational regulation. That review, known as the Licence Simplification Program (LSP), was aimed at reducing the overall number of business licences in Victoria by decreasing the amount of business regulation. Later in the same year, mapping was removed from Surveying and Mapping Victoria, and incorporated into the new Office of Geographic Data Co-ordination (OGDC). At the same time the Office of the Surveyor-General (OSG) was created.

7.264 Following the formation of OGDC and OSG, the regulatory review process was recommenced focussing on the registration of the surveying profession but excluding mapping. In April 1995, a discussion paper, “*A Review on the Regulation of Cadastral Surveyors in Victoria*”, was released for public comment. However, in May 1996, responsibility for OGDC and OSG was moved from the Department of Treasury and Finance to the then newly formed Department of Natural Resources and Environment (DNRE). Further internal reorganisation within that Department resulted in the integration of the functions concerned with surveying, valuation, mapping, Crown land management and land titling functions into a single business unit, namely Land Victoria in June 1996, into which OSG and OGDC were absorbed.

7.265 Another major change to the regulatory environment, which took place about the same time, was the creation of the *Surveyors (Cadastral Surveys) Regulations 1995*. The main aim of the Regulations was to facilitate the movement from a ‘prescriptive’ regulatory environment, which established specific requirements and inputs to an ‘enabling’ regulatory environment focusing on outcomes. These new regulations were designed to shift much of the regulatory responsibility back to licensed surveyors by requiring them to apply greater professional judgement in satisfying professional standards, rather than relying on regulatory requirements designed to ensure compliance with those standards.

7.266 Consistent with this objective, the Regulations now set only the minimum standards for the surveying of title boundaries. For example, in relation to the calibration of survey equipment (ensuring the accuracy of measuring equipment), the Regulations do not require equipment to be calibrated within a certain timeframe, but only that equipment meet minimum accuracy requirements. The surveyor now determines the frequency with which this equipment needs to be calibrated in order to satisfy those accuracy standards. Prior to the Regulations coming into force, surveyors were required to calibrate their equipment every 6 months.

7.267 With the Government’s agenda in the mid 1990s focussing on reducing the size and cost of government, the Department decided to reassess its reform process. Following this assessment, another discussion paper, *Review of the Surveyors Act 1978*, was released for public comment in late 1996.

7.268 However, the Government's regulatory reform agenda was again overtaken by external factors, which this time took the form of the Commonwealth Government's National Competition Policy (NCP). The legislative review required to be undertaken under the NCP involved an examination of all legislation for restrictive or anti-competitive practices, which was broader than that required by the Department's review process. Initially the NCP review of the surveying legislation was to be undertaken at a later date. However, the Department decided to bring forward the planned NCP review of the Surveyors Act 1978, so that it could be consolidated with the on-going policy review of surveying legislation to form a single review process. As part of this process, a private consultant was engaged to examine the Surveyors Act 1978 against the NCP principles and in July 1997 a report titled, National Competition Policy Review of Surveyors Act 1978, was completed.

7.269 Prior to the issue of that report, the Office of the Surveyor-General, the Office of the Valuer-General and the Registrar of Titles were combined to form the Land Registry Group in Land Victoria. Under this new structure, the Surveyor-General was responsible for:

- providing authoritative advice on surveying and land (cadastral) boundaries;
- managing the Surveyors Board of Victoria and the Registrar of Geographic Names;
- fulfilling a variety of statutory responsibilities that are enacted in a wide range of legislation covering surveying, standards, geodesy, mapping, land status, land record evidence, land records, land boundaries, surveying regulation and electoral boundaries;
- managing the industry-wide survey audit program, which monitors the adherence of survey providers with industry quality standards; and
- assisting in the co-ordination of survey policy and provision of strategic advice on standards setting and monitoring, including ensuring that the integrity of the cadastre is protected and enhanced.

7.270 In line with the overall Government policy at that time, Land Victoria took the role of policy setter and purchaser of survey services, rather than a direct provider of services. This role included policy reform, system overview, and monitoring and maintenance of standards. As a result, departments and public sector agencies purchased survey services directly from contracted providers.

7.271 The above reform process also involved Land Victoria in 1998 transferring responsibility for the geodetic survey control function and the calibration services from the Surveyor-General to the Land Information Group within Land Victoria.

7.272 In February 1999, an external contractor was employed to develop the Government's response to the NCP review of Surveyors Act 1978 which was subsequently released and endorsed by the Premier in March 1999. In its response, the State Government decided to replace the existing registration scheme with an industry-run accreditation scheme based on legislated minimum performance standards.

7.273 Later that year, a new reform process was initiated and a co-ordination committee, with representatives from Government, the surveying profession and external interest groups was created to develop a new regulatory model. The process known as the “Reform of Land Surveying in Victoria project” involved public meetings, wide-ranging discussions and workshops. The aims of this process were to:

- separate industry regulation from Government;
- create a new Land Surveying Act;
- move towards a national system of registration, national competency standards and standard setting for dealing with changes to the cadastre;
- establish a ministerial survey advisory body; and
- provide better access to information, with an improved consumer complaint resolution mechanism.

7.274 It was originally intended that the scope of this reform process would be broader and include an examination of two existing pieces of legislation and their attendant regulations, namely the Surveyors Act 1978 and the Survey Co-ordination Act 1958. However, in early 2000, due to the complex and contentious issues surrounding the management of the Spatial Data Infrastructure, the Department decided that it would be too time consuming to include a review of the Survey Co-ordination Act 1958 at that time. As a result, the reform process concentrated on those matters primarily associated with the Surveyors Act 1978.

7.275 The reform process continued throughout 2000 and, by the end of that year, a new Land Surveying Bill 2000 (the Bill) was drafted. The proposed Bill included the following principles and characteristics:

- establishment of a co-regulation model, with the private sector engaged in the day to day management of cadastral surveying and practitioners within a legislative framework;
- establishment of a Land Surveying Advisory Council to directly advise the Minister on matters relating to Surveying and Mapping;
- creation of an industry based Recognised Professional Body, with a specified representation from Government, industry and the community, that would be responsible for a range of matters associated with the accreditation, registration and on-going management of cadastral surveyors and surveying;
- annual re-registration of Licensed Surveyors, subject to payment of a fee, attaining continuous professional development requirements and some other conditions associated with performance and training, which would be able to be imposed by the Recognised Professional Body;
- retaining the position of Surveyor-General, who would be eligible to be a Licensed Surveyor, be appointed under *the Public Sector Management and Employment Act 1998* and whose roles and responsibilities would be defined;

- provide for a levy per lot to be placed upon plans of sub-divisions submitted to Land Registry, at a level sufficient to assist with the resourcing of the requirements and activities specified in the Act, and with the maintenance and development of the survey control network; and
- providing the Recognised Professional Body with the powers to deal with issues regarding professional conduct.

7.276 In early 2000, the industry was informed that substantial changes had been made to the proposed Bill by Land Victoria. The major changes included the removal of the requirement to establish a Land Surveying Advisory Council, the removal of the definition of the roles and responsibilities for the Surveyor-General and a change in the manner in which the proposed lot levy was to be introduced.

7.277 In response to concerns raised by the surveying profession to these changes, which were conveyed to the Department, the proposed Bill was restructured again to remove the concept of a co-regulatory model and to re-introduce a government administered regulatory model. The co-regulation model had proposed a registration scheme run by industry through a recognised professional body, whereas the government administered regulatory body involved an expanded Surveyors Board.

7.278 The surveying profession indicated that its support of the proposed arrangements was dependent on some further amendments being made to the proposed legislation in relation to:

- the process for the appointment of the Surveyor-General;
- a requirement for the Surveyor General to be a licensed surveyor;
- inclusion of a definition of the Surveyor-General's roles and responsibilities; and
- inclusion of some additional conditions in relation to the membership of the proposed Surveyors Registration Board, and the appointment of the Surveyor-General to the position of Chairperson of the Board.

7.279 As at the date of preparation of this report, the Land Surveying Bill had not been passed by the Parliament.

7.280 As indicated above, the Department's legislative reform agenda has been limited to reforming the *Surveyors Act 1978*. The other major Act impacting on the provision of land survey information, the *Survey Co-ordination Act 1958*, has not been included in the current reform process. As a result, a number of important issues have not been reviewed as part of the reform process, including:

- survey co-ordination within Victoria;
- upgrading and maintenance of the survey control network;
- prescription of measurement and accuracy standards; and
- co-ordination of mapping activities.

7.281 We recommend that the Department’s legislative review process be broadened to cover matters outlined in the *Survey Co-ordination Act 1958* and other associated issues.

RESPONSE provided by Secretary, Department of Natural Resources and Environment

Overall Comment

The objective of the audit as stated was to “to assess whether the systems and procedures for the recording of information in Land Victoria’s land registration system ensure that the information is accurate and reliable and conforms with the requirements of legislation”.

Land registration systems in Victoria cover a range of professional disciplines and stakeholders including legal practitioners, conveyancers, financial institutions, property developers, local councils, surveyors and the spatial information industry. In this context survey activity is primarily concerned with recording information to facilitate cadastral surveying and in particular the delimitation of boundaries in support of the integrity of the cadastre and the operation of the State’s land registration system and land market.

The audit report suggests (sections 7.68, 7.73, 7.97) that cadastral surveying activities have a broader role and influence in the operation of the State’s land administration and land registration systems than is in fact the case.

In 2001-02 Land Registry within Land Victoria will register approximately 800 000 dealings against land of which only 10 000 or 1.25 per cent will involve provision of information by licensed cadastral surveyors. In this context it is important to note that about 50 of the 66 (75 per cent) surveyors responding to the audit survey rated the completeness and accuracy quality of cadastral information currently recorded by Land Victoria as satisfactory or excellent – refer Chart 7I.

The Department is of the view that the Audit report would have benefitted had comments been obtained from a broader cross section of the survey and spatial information industry, which encompasses the disciplines of remote sensing and photogrammetry, mapping and surveying, land administration and geographic information services. Practical applications include environmental monitoring, location based services, provision of emergency services, and management of natural resources and assets. While cadastral land surveying still plays a very important role, the issues raised in audit’s review need to be considered in the context of the much larger spatial information industry rather than in isolation.

*The Audit report identifies a number of areas of misalignment between existing legislation, which tends to reflect out dated practices and technology, and the current spatial information environment. The Department agrees with this assessment and with Audit’s recommendation that the Department review the *Survey Co-ordination Act 1958*.*

RESPONSE provided by Secretary, Department of Natural Resources and Environment -
continued

Survey Control Network

The Audit identifies a high level of non-compliance by surveyors with the Surveyor-General's directive relative to the connection of cadastral surveys to coordinated marks"(Section 7.131), but recognises that "cadastral surveys for land development and other purposes are not dependent on this (control) framework"(Section 7.107)

The Department agrees that there is a mismatch between statutory requirements and practice and will review this issue as a matter of priority. The recommended review of the Survey Coordination Act 1958 will also be relevant in this context.

In undertaking this review, the Department will consult with the primary users of the state's geodetic framework as well as with cadastral surveyors who currently are required to provide information to support the survey control network, and with the broader spatial information community.

Audit also raises concerns about the level of maintenance of the survey control network. To address these concerns NRE has commissioned its internal audit provider, Acumen Alliance to conduct a risk analysis which will benchmark Land Victoria's delivery of geodetic services against similar interstate organisations, identify and evaluate any significant risks for government and the public in the delivery of geodetic services and recommend strategies for management of any significant risks identified.

LAND TITLES AUTOMATION PROJECT

7.282 The State's Land Titles Register comprises in excess of 3.9 million land titles. Around 800 000 updates of details registered on these titles and 1.1 million title searches occur annually. Management of the Register is under the responsibility of Land Registry, a division of Land Victoria within the Department of Natural Resources and Environment.

7.283 A project to automate the Land Titles Register (the project) was commenced in 1997 following consideration of the need for greater automation dating back as far as 1989. This current automation project encompasses the conversion of former paper-based land titles and associated documents to electronic format and the implementation of a new electronic system, the Victorian On-Line Titles System (VOTS).

7.284 The project is aimed at transforming the way in which land titles information is recorded, accessed and transacted and at delivering significant benefits to users, including the property industry, banks, solicitors and individuals. Specific benefits should include:

- remote and immediate access to land titles and associated documents;
- quicker and easier registration of land dealings;
- improved customer service;
- improved security over the Register; and
- ongoing enhancements in the processing of land transactions by providing the framework for the development of a State-wide property transaction and information network.

7.285 My *Report on Ministerial Portfolios*, June 2001 set out findings of our interim review of the project viz:

- significant delays in automating the land register over the last decade with limited progress made between suspension of an initial automation project in 1993 and the commencement of the current automation project in 1997;
- delays in completion of the current automation project compared to original timeframes;
- an increase of \$29.4 million from the original cost estimate for the project of \$62.2 million with potential for further escalation of costs; and
- actions taken by Land Registry to address deficiencies identified in project management arrangements.

7.286 Given the size and importance of the automation project and the findings of the previous review, a further audit assessment of the status of the project was undertaken.

Current status of the project

7.287 Since the previous audit review, significant progress has been made on the project with VOTS becoming operational on 27 December 2001, approximately 2 months after the project's revised commencement target of 7 November 2001. Delays in the commencement of VOTS operations have been attributed to industry-wide action of public sector employees from August to October 2001 that adversely affected the timing of certain project activities including training of staff in using the new system.

7.288 The decision to commence operation of VOTS in December 2001 was based on the achievement of critical project milestones by external contractors and the completion of data migration, integrity and quality assurance checks by Land Registry and external consultants. Some of the key activities in the lead up to the commencement of VOTS included:

- relocation of Land Registry operations to new premises at Bourke Street;
- installation of IT infrastructure and systems to enable VOTS functionality at the new premises;
- finalisation of information download from the previous system;
- completion of data migration and data conversion reconciliation processes;
- confirmation and acceptance of VOTS by Land Registry, following business quality assurance processes;
- completion of VOTS training for Land Registry staff; and
- official handover of VOTS to Land Registry.

7.289 Some initial problems were encountered in the period following the commencement of VOTS. These problems, which since have been largely rectified, included an increased number of system errors, slow system response times, malfunctioning of computer screens in customer areas and data issues that affected a small number of titles.

Key post-implementation activities

7.290 A number of post-implementation activities were completed in the three months following the commencement of VOTS operations including:

- the systems that were previously used for recording land information (Unregistered Dealings System and the Automated Land Titles System) were decommissioned in March 2002;
- a final report on the data conversion reconciliation process was issued, highlighting minor discrepancies in the numbers of records that had been converted in comparison with the estimated Land Registry numbers;
- contracted project management arrangements were handed over to Land Registry on expiration of the project management contract at the end of March 2002; and
- the project risk management committee was disbanded with responsibility for project risks being allocated to nominated Land Registry staff.

7.291 In addition, Land Registry has developed a framework for two post implementation reviews to be undertaken with the aim of evaluating project management and project delivery outcomes. These reviews, to be conducted by independent consultants, are expected to be finalised by July 2002. **As the project has now been operational for 4 months, it is critical that post implementation reviews are conducted as soon as possible to ensure the early identification and resolution of any shortcomings in project expectations and deliverables.**

Status of key services provided under the data conversion and VOTS development contracts

7.292 Longer term contractual arrangements are in place for the provision of facilities management and support services by the data conversion and VOTS development contractors until the expiration of their contracts in March 2004. Other outstanding contractual obligations are connected with further upgrades of VOTS software (due for completion by July 2002 for release 2 and yet to be determined for release 3 and 4), and the conclusion of data conversion and imaging services for the remaining plans and diagrams as detailed in Table 7J.

**TABLE 7J
STATUS OF DATA CONVERSION AND VOTS DEVELOPMENT SERVICES,
AS AT 30 APRIL 2002**

<i>Contract Item no.</i>	<i>Contract service</i>	<i>Status (per cent)</i>	<i>Date of completion</i>
Data Conversion Services			
1	Land Titles Security Copy (Imaging)	100	Completed – October 2000
2A	Data Conversion -Text Capture of Titles	100	Completed - November 2000 (Text capture excludes 240,000 titles which by virtue of their complexity are being captured as and when a transaction on that title is recorded)
2B	Data Conversion – Diagrams	75	Expected completion date – August 2002 (Conversion of diagrams were completed in December 2000, however errors were subsequently identified and are now being rectified at the contractor's expense)
3	Plan of Subdivision (Imaging)	86	Expected completion date - August 2003 (Imaging of 29 000 plans completed in June 1999. For 12 900 very large historic plans, Land Registry is progressively disaggregating into A4 size documents before imaging)
3	Plan of Subdivision Survey Reports	100	Completed – June 2001
4	Instrument Conversion	100	Completed – August 2000
5	Document Imaging/Facilities Management	On-going	Contract expires in March 2004

TABLE 7J
STATUS OF DATA CONVERSION AND VOTS DEVELOPMENT SERVICES,
AS AT 30 APRIL 2002 - *continued*

<i>Contract Item no.</i>	<i>Contract service</i>	<i>Status (per cent)</i>	<i>Date of completion</i>
6	Image and Data Migration	100	Completed – January 2000
7	Ongoing Document Load	On-going	Contract expires in March 2004
VOTS Services			
1	VOTS Development		
	• Business Process Requirements Definition	100	Completed – March 2000
	• Software Development	100	Completed - July 2001
	• User Acceptance Testing	100	Completed – August 2001
	• Release Acceptance	100	Completed - September 2001
2	Facilities Management	On-going	Contract expires in March 2004
3	Support Service	On-going	Contract expires in March 2004
4	Systems Integration	On-going	Contract expires in March 2004

Project Management Arrangements

7.293 A project control group was established in 1997 to oversee the development of the project and has continued to play a key role in this area, directly reporting to the executive management team of the Department of Natural Resources and Environment on all aspects of the project.

7.294 Additional measures were also introduced to enhance project management arrangements as the project progressed through the implementation and deployment phase. An independent IT expert was appointed to the project control group in May 2001. An IT risk manager was also engaged in June 2001 with responsibility for reviewing the implementation plan for the commencement of VOTS, developing contingency plans and monitoring and reporting on the status of project risks. Approval procedures for project variations and payments were also strengthened.

7.295 As indicated previously in this Report, contracted project management services were handed over to Land Registry at the end of March 2002. In preparing for this transition, the external project managers were required to:

- finalise procedures for managing production system issues, including change requests and faults;
- undertake a post implementation review of project management outcomes;
- address all issues in the project risk register to achieve closure;

- address all outstanding issues in the “Issues Log” and allocate ownership to Land Registry staff for those remaining incomplete; and
- consolidate and deliver project documentation.

7.296 With the exception of the post implementation review of the project, Land Registry have advised that all other responsibilities were satisfactorily discharged by the contractor by March 2002. It is intended that formal acknowledgement of the satisfactory completion of external contractor responsibilities will be undertaken on completion of the post implementation review.

7.297 While project management enhancements have been introduced to ensure the efficient administration and timely completion of the project within budget, project management could be further strengthened by the:

- continual review of the project management processes to ensure that they continue to be appropriate as the project progresses through the operational, software enhancement and facilities management stages;
- enhancement to project management reports produced from the system including development of exception reports to enable the effective monitoring of project performance and deliverables; and
- formal assignment to the internal project management team of activities previously performed by external contractors.

Project funding

7.298 Initial funding for the project was established at \$62 million and approved by the Department of Treasury and Finance in August 1997. Further funding requirements were to be finalised on the completion of detailed project specifications that were unavailable at the time of the initial funding request.

7.299 Additional funding requirements were subsequently established within the context of detailed project specifications. A comprehensive review of project costs to completion was also undertaken by external consultants in October 2000 to ensure that total funding requirements had been adequately determined. **The review undertaken by consultants established a total cost to completion for the project of \$91.7 million, including a contingency provision of \$3 million.**

7.300 In January 2001, a submission for additional funding of \$29.7 million was made to the Department of Treasury and Finance to cover the estimated costs to completion of the project of \$91.7 million. Funding approval for \$22.2 million was received from the Department of Treasury and Finance with the balance of funding to be sourced from the Department of Natural Resources and Environment (\$3 million) and facilities management cost savings (\$4.5 million) that would emanate from the closure of the previous systems that were used to record land transactions.

Project costs

7.301 Since our previous review, the estimated total cost to complete the VOTS project has remained at \$91.7 million. As outlined in Table 7K, while additional costs of \$1.5 million are forecast relating to the data conversion and the project management components of the project, these additional costs will be met from the allocation of \$1.15 million from the contingency provision established for the project and a reduction of \$355 000 in the estimated costs to complete system development.

TABLE 7K
ESTIMATED COSTS TO COMPLETION OF THE PROJECT,
AS AT MARCH 2002
 (\$'000)

<i>Key project component</i>	<i>Forecast June 2001</i>	<i>Revised Forecast March 2002</i>	<i>Variance</i>
Services -			
Data conversion	50 486	51 409	923
System development	30 970	30 615	(355)
Project management	7 208	7 788	580
	88 664	89 812	1 148
Contingency not yet allocated	3 000	1 852	(1 148)
Total	91 664	91 664	-

7.302 The decrease in the estimated costs to complete system development has resulted from a reduction in the scope of the project following a decision by the Department of Natural Resources and Environment to integrate the new VOTS system within its information technology architecture. It was previously intended that Land Victoria, the group responsible for Land Registry, would operate within an autonomous IT environment. **The Department of Natural Resources and Environment has agreed to compensate the VOTS contractor to the value of the reduced project works by their engagement in the provision of alternative IT services before March 2004.**

7.303 The key reasons for the increases in the estimated costs to completion for data conversion and project management include:

- delays in VOTS training programs due to industry-wide bans that were in force from August 2001 to October 2001;
- rectification of errors that were identified in the diagram conversion process, following a quality assurance process by Land Registry (some of these costs are expected to be recouped from the contractor);
- difficulties encountered in downloading title information from the previous system to VOTS;
- additional staff appointments including a risk manager and an independent member of the project control group to enhance internal project management arrangements; and
- extension of staff employment arrangements as a consequence of the industry-wide bans.

7.304 While Land Registry does not anticipate further cost overruns, any variations in the estimated costs for outstanding project activities, including certain data conversion services and VOTS system upgrades, will erode the contingency provision of \$1.85 million that remains unallocated and may lead to an increase in final project costs.

7.305 While the Department has estimated the cost of the project to be \$91.7 million, this estimate excludes certain substantial costs that should be accounted for as part of the overall cost of the project. These costs include:

- salary costs of in-house staff involved in the project, as only the overtime component of the cost of these employees has been assigned to the project;
- redundancy payouts made to staff in the Land Registry section as a consequence of the changes in business processes arising from the project;
- post implementation review costs;
- the conversion of an additional 240 000 complex titles to the new system with conversion costs to be met by Land Registry from its operating budget; and
- costs associated with the relocation of Land Registry operations to new premises, costs to store paper titles and associated land documents within new storage facilities and project clean up costs.

7.306 Land Registry should continue to closely monitor project costs to ensure the completion of the project within budget and on time. The impact of system change requests on the timing and cost to completion of the project should also be continually assessed.

7.307 Direct costs incurred on the project to 31 March 2002 amounted to \$71 million, leaving an unexpended amount of \$20.7 million. A significant portion (\$13.6 million) of the unexpended amount will be applied towards contracted facilities management services that extend to March 2004 with the remaining amount to be applied to the completion of the data conversion and system development components of the project.

RESPONSE provided by Secretary, Department of Natural Resources and Environment

Overall comment

As audit's Report acknowledges, the Titles Automation project was successfully deployed over the Christmas New Year period 2001 with first registrations on the new system on 27 December. The project is also within budget.

The project was initially scheduled for deployment over the Melbourne Cup Week 2001. Industrial action in support of the public sector wide Enterprise Bargaining negotiations delayed completion of the intensive staff training program and the deployment date was postponed. All other aspects of the project in particular key data migration activities and final software testing and acceptance were completed by 29 October 2001 to the original schedule.

Once the industrial action bans were lifted a new deployment date (Christmas 2001, a date suitable to Land Registry customers) was selected.

Since deployment the new Victorian Online Titles System (VOTS) has performed above contract requirements which specify 99.5% system availability during business hours (7.00 am to 8.00 pm). Any problems experienced in the immediate post deployment period were consistent with installation of a new IT system and were rectified.

Post Implementation Review

The Department agrees with the need to complete a post implementation review of the project. A Request for Tender (RFT) to conduct an independent evaluation of project outcomes and deliverables has been advertised and will be completed by July 2002.

Project Management

Deployment of the new Victorian On Line Titles System was undertaken simultaneously with relocation of services to a new building and the introduction of a new organisational structure. In the immediate days and weeks after deployment project governance and project management reports reflected Land Registry's intention to maintain intensive monitoring of all aspects of business operations including IT systems, staff training, office fit out, new business processes and customer satisfaction.

Project governance and project management reports have since been reviewed to reflect transition to a stable production environment. In February 2002 the TAP Project Control Group approved establishment and terms of reference for a VOTS Operational Steering Committee and operational reports on system performance are provided to that committee.

Most external project contractors left during January 2002 when their respective activities were completed. Two project management contractors remained to March to assist with the transition from a project to an operational system and any ongoing activities were formally handed over before their departure.

Estimated Costs to Completion

Difficulties in downloading information from legacy systems and costs associated with appointments to enhance internal project management were funded from savings in other areas of project expenditure.

Utilisation of project contingency has only been required to date to fund costs associated with the postponement of the 'go-live' date as a result of sector wide industrial action and may be required to meet some additional data conversion costs.

RESPONSE provided by Secretary, Department of Natural Resources and Environment -
continued

As mentioned in the audit report, at 31 March 2002 the unexpended amount of amount of project funding is \$20.6 million of which \$13.6 million will be applied to contracted facilities management services. These are fixed price contracts with no risk of cost escalation. The balance of unexpended project funding of \$7 million (to be spent on software enhancements and plans of subdivision rectification) includes \$1.85 million contingency. Land Registry will manage the remainder of the project within available funding.

Excluded Costs

All appropriate TAP relates costs including project clean up and post implementation review costs, are included in the \$91.7 million TAP capital funding. This also includes \$3.988 million of Land Registry's costs for staff overtime and employment of fixed term staff to replace permanent staff assigned to project related activities.

Salary cost for staff with ongoing positions in Land Registry beyond the completion of the Titles Automation project continue to be funded from the recurrent budget.

Land Registry will monitor project costs to completion to ensure that the balance of the project is completed on schedule and budget. A constant monitoring regime is included in the responsibilities of the Project Control Group, the Operational Steering Committee and in the work program of senior officers accountable for the project.

Part 8

Premier and Cabinet

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ADVERTISING AND MARKETING BY GOVERNMENT DEPARTMENTS

8.1 From time-to-time, questions are raised by Members of Parliament and the community about the propriety of government advertising and, in particular, the appropriateness of expending public moneys on promotional activities that may be perceived by some to be party-political in nature. Between June 2001 and February 2002, 8 such cases were referred to my Office for examination, where the complainants considered the advertising and marketing material to be an inappropriate use of public moneys.

8.2 In our March 1996 Special Report No. 39, *Marketing government services*, my Office acknowledged that the use of public funds for advertising and promotion that is aimed at explaining policies and programs, and at informing the public of their rights, is often appropriate. That report also recognised that communication of information designed to encourage behaviour regarded within the community as “in the public interest”, is also generally appropriate. However, various instances were identified where material produced appeared to be party-political in nature and, therefore, considered to be an inappropriate use of public moneys.

8.3 At that time, it was suggested that broad conventions, supported by all political parties represented in Parliament, be developed to provide guidance in the area of publicly-funded advertising and promotion. However, the then Secretary of the Department of Premier and Cabinet responded that the Government did not accept the need for guidelines on marketing propriety to be issued, noting that no other jurisdiction in Australia had promulgated guidelines of this type.

8.4 Given the elapsed period since the previous audit by my Office, and the number of cases referred to me in recent times, I considered it appropriate to undertake a follow-up review into this subject.

Our assessment criteria

8.5 In the absence of relevant Victorian conventions or guidelines on advertising and marketing propriety, we independently developed criteria to facilitate our assessment of the referred cases. Our previous report provided a framework for assessing advertising and promotion, including criteria for determining whether material may be party-political in nature. Using these criteria as a starting point, we researched developments in other jurisdictions since 1996 and updated the assessment framework to reflect the principles generally accepted at this time.

8.6 Since tabling our previous report, we found that a great deal of discussion had taken place in other jurisdictions about the need to develop conventions or guidelines for government advertising and marketing. In June 1999, the Victorian Public Accounts and Estimates Committee undertook a follow-up of Special Report No. 39¹. Our research for our current review found that since June 1999, little has changed in other jurisdictions in terms of the introduction of conventions or guidelines. At that time, acknowledging that the Government did not accept my Office's suggestion for developing conventions or guidelines, the Committee provided an overview of developments in other Australian jurisdictions, New Zealand, the United Kingdom and British Columbia, reporting that:

- Guidelines or conventions for publicly funded advertising were in place in New Zealand and the United Kingdom, and some broad guidelines were in place in Queensland; and
- While many other Australian jurisdictions and British Columbia did not have guidelines in place, consideration had been given to the need to address the issue and there was a view that care must be taken in this area. For example, independent watchdogs, including the Commission on Government in Western Australia and the Auditors-General of New South Wales, the Commonwealth (Australia), and British Columbia, had raised the need for guidelines. However, action by the respective governments to adopt or develop guidelines had not been taken.

8.7 The Public Accounts and Estimates Committee did not recommend that Parliament develop conventions or guidelines, stating that it would continue to monitor developments in this area. However, the Committee's report included a minority report² signed by 4 of its members which indicated that public funds should not be used for party-political advertising. The minority report supported adoption of guidelines based on a model proposed by the Australian National Audit Office in its 1998-99 report on *Taxation Reform: Community Education and Information Programme*.³

8.8 The Commonwealth Joint Committee of Public Accounts and Audit tabled a report *Guidelines for Government Advertising*⁴ in the Commonwealth Parliament in October 2000, following its inquiry into the Community Education and Information Programme. The report recommended that the Commonwealth Government adopt the Committee's draft guidelines for government advertising, the underlying principles of which were consistent with those developed earlier by the Australian National Audit Office. However, the Commonwealth Government has yet to respond to the Committee's report and, consequently, the guidelines have yet to be adopted in that jurisdiction.

¹ Public Accounts and Estimates Committee, 30th Report to Parliament, June 1999 *Review of Auditor-General's Reports Nos 39 to 41*, p. 12.

² *Ibid*, p.55.

³ Australian National Audit Office, Audit Report No. 12, 1998-99, Performance Audit, *Taxation Reform: Community Education and Information Programme*, pp. 57-60.

⁴ Commonwealth of Australia, Joint Committee of Public Accounts and Audit, October 2000 Report 377, *Guidelines for Government Advertising*, Canberra.

8.9 The criteria utilised for this audit, detailed later in this report article on Government Advertising and Marketing, largely reflect the principles contained in the proposed guidelines developed by the Australian National Audit Office and the conventions or guidelines in place in New Zealand and the United Kingdom.

8.10 In broad terms, the criteria require that in developing material to be communicated to the public, the material should be:

- relevant to government policies;
- explanatory and objective, fair and factual;
- not liable to interpretation as party-political; and
- produced and distributed in an efficient, effective and relevant way.

Methodology

8.11 The cases of alleged party-political material referred to the Office for examination were as follows:

- material issued on a one-off basis, specifically:
 - newspaper advertisements related to the Government's proposed marine national parks package, which appeared in the media in June 2001;
 - a letter relating to the Scoresby Freeway, distributed by the Premier and the Minister for Transport in September 2001; and
 - a letter circulated to seniors card holders by the Minister for Housing and Senior Victorians in January 2002; and
- materials contained in periodicals, specifically:
 - *Multicultural Victoria*, a quarterly periodical issued by the Victorian Multicultural Commission (the Spring 2001 edition);
 - *PeopleFocus*, a monthly periodical issued by the Department of Human Services (the July 2000 edition). Prior to 1997, the periodical was titled *Humanity*;
 - *Live it Up*, a booklet setting out the program of events for the 2002 Victorian Seniors Festival, issued by the Minister for Housing and Senior Victorians. A similar publication is distributed annually;
 - *Education Times*, a periodical issued fortnightly during school terms by the Department of Education and Training. (The whole series of publications.) Prior to 1997, the periodical was published weekly as the *Victorian School News*; and
 - *Parent Link*, a publication issued periodically by the Department of Education and Training. (The whole series of publications.)

8.12 In relation to the material issued on a one-off basis, our assessment was limited to the cases specifically referred to us. However, in the case of the periodicals, we assessed a sample of each publication covering the 6 year period from 1996 (or from when publication commenced), thus examining examples of such material published under governments of different political parties. We selected editions at fixed intervals over the period, for example we examined the July edition of *PeopleFocus* for each of the years from 1996 to 2001. In each case, where a specific edition of the periodical had been referred to my Office, the referred edition was included in the sample.

8.13 Given the reasons for the referrals, our assessments focused specifically on whether the material referred could be considered to be party-political in nature.

Overall audit assessment

8.14 Our assessments identified many cases where the messages conveyed in the distributed material were clearly focused on informing the community of programs, and educating the public about government initiatives, programs and activities. This was particularly evident in the periodicals examined.

8.15 However, there were also examples, both within the one-off material and the periodicals examined, where the material could lead to interpretations that it was party-political in nature. This was the case over the entire 6 year period examined, under governments of different political persuasions. For example:

- the regular use of the terms “*the Bracks Government*” or “*the Bracks Labor Government*” in material produced during the period 2000 to 2002; and
- during the entire 6 year period, material included:
 - frequent quotes from Ministers, which did not add information of substance to the articles; and
 - examples of communicating/promoting government proposals, without providing both the benefits and the impacts of such proposals.

8.16 In regard to the first of the issues raised, we recognise that it is common practice in Victoria and other jurisdictions to use the name of the leader of the government or the party in power when referring to the government of the day. However, we believe that this practice is a form of branding which may be interpreted by some to be party-political. We, therefore, consider that the use of the term “*the Bracks Government*”, or similar terms if another political party is in power, is inappropriate in official pronouncements and explanations of government policy, and undesirable in other publicity material about government activities. Any reference other than to “*the Government*” or “*the State Government*” is clearly open to an interpretation that the message is seeking to promote a party and, therefore, leads to the appearance of the material being party-political in nature.

8.17 In relation to the frequency of naming Ministers or the number of photographs of Ministers or Parliamentarians within periodicals, we believe that in themselves, multiple references or photographs do not lead to an assessment that material is party-political. Rather, it is the context within which this material is presented that may be the determining factor. For example, a number of photographs and mentions of a Minister undertaking a range of activities such as launching government programs, opening publicly-funded facilities and providing a summary of government initiatives within a periodical may not mean that the material is party-political. These activities are seen to be the normal activities of a government Minister and may be considered to be providing valuable public information and raising awareness. However, it is the content of the text that accompanies the references to, and photographs of, the Minister that can lead to the material being deemed party-political in nature, i.e. if the content of the text is not fair, factual and objective.

8.18 Nevertheless, it is apparent that opposing views exist in this regard, as some of the material referred to us for examination was accompanied by documents summarising the number of Ministerial references and photographs in the referred publications. It is precisely because of the differing judgements that may be made, that we consider it necessary for guidance to be developed in the form of conventions.

8.19 In the material we examined, we also found statements which we consider attacked or scorned the views, policies or actions of others, for example:

- *“In recent years, our education system has been neglected and run down” (Parent Link, February 2001);*
- *“It is impossible to remain silent in the face of statements about our society made by people who do not respect the truth, who play on the anxieties of ordinary Australians and who peddle suspicion. I am talking about Pauline Hanson and her One Nation Party ...”. (Multicultural Victoria, Winter 1998); and*
- *“... in the first few months of the Government we achieved more to increase preschool participation than was achieved during the previous seven years...”, “... a cash crisis left by the Kennett Government ...”, “Under the former Kennett Government, Melbourne’s hospitals were not only surviving on the smell of an oily rag but were secretly selling off the family silver ...” and “The new services will be smaller, more in touch with their communities and work in co-operation with each other, as distinct from the Kennett era where networks actively competed against each other” (PeopleFocus, July 2000).*

8.20 These comments are similar in nature and intent to the examples referred to in 1996 in my Office’s Special Report No. 39, and should be avoided in publicly-funded advertising or marketing material.

Conclusion and recommendations

8.21 In the period since our 1996 Special Report No. 39, the use of public funds for what may be considered as party-political promotional purposes has continued in Victoria and the debate regarding what in fact constitutes inappropriate advertising within the public sector has continued. As the cases examined during the current review illustrate, this inappropriate use of public funds is not limited to any one political party.

8.22 Guidelines or conventions to address the propriety of government promotional activities within the Victorian public sector have not been established. We were advised that work is currently underway within the Department of Premier and Cabinet on the development of improved communications standards and guidelines to guide government activity.

8.23 We recommend that conventions or guidelines for government advertising supported by all political parties in the Parliament be finalised and adopted as soon as possible by the Government. Establishment of the broad principles and acceptance of clear examples of what is or is not appropriate practice will give the public greater assurance that public moneys used for promotional activities are not used for party-political purposes.

8.24 We further recommend that appropriate review and monitoring mechanisms be established to ensure compliance with the conventions or guidelines.

Specific assessments of referred cases

8.25 While in some cases it was relatively simple to determine whether or not the material leads to the appearance of being party-political in nature, there were other cases where our examinations proved how difficult it can be to make assessments. The following specific assessments of the cases referred provide some examples of both of these situations.

Periodicals

MULTICULTURAL VICTORIA

Multicultural Victoria, the official journal of the Victorian Multicultural Commission, is published to inform community organisations of the Commission's work and other government and community initiatives, and to promote a better understanding of Victorian ethnic groups in the wider community. The periodical is distributed to approximately 1 700 ethnic community organisations in Victoria, State and Commonwealth parliamentarians, government departments and community organisations. The cost of production and distribution of the periodical for the period 1 July 2001 to 28 February 2002 is \$12 336 (\$22 227 for 2000-01).

The Spring 2001 edition of the periodical was referred to my Office for examination. The complainant drew specific attention to a series of 8 photos in the edition which depicted cheque presentations by Members of Parliament or Commission members to local community groups.

8.26 We considered that the referred material was not party-political in nature. We also examined the Spring 2000, Winter 1999, Winter 1998, Spring 1997 and Spring 1996 editions of this periodical, and found references to "*the Bracks Government*" in both the Spring 2000 and 2001 editions, which while minimal, were also considered undesirable.

8.27 Our general concern regarding this periodical, however, relates to whether it addresses the dual purposes for which it is produced, i.e. to inform community organisations of the Commission's work and other government and community initiatives, and to promote a better understanding of Victorian ethnic groups in the wider community. We found that the periodical acts as a conduit for communication of initiatives and achievements from across the whole government sector to community organisations. We consider this to be a legitimate function which has been met by the periodical.

8.28 However, in regard to the second purpose, the material examined appeared to have a lesser focus on promoting a better understanding of Victorian ethnic groups in the wider community, over the 6 year period. Without an appropriate focus on this material the periodical could be open to interpretation that it is little more than a vehicle for promoting the Government as a whole and, therefore, lead to interpretations that is it party-political in nature.

PEOPLEFOCUS

PeopleFocus is a 10 page publication of the Department of Human Services distributed monthly, to promote and disseminate information about services and programs provided by the Department, hospitals and government-funded agencies. It is designed to share information and includes press releases and articles submitted by hospitals, agencies and the Department.

The periodical is distributed to hospitals and health services, funded agencies, departmental regional offices and on request, with around 9 300 copies being printed monthly. The cost of production and distribution for the period 1 July 2001 to 28 February 2002 is \$93 450 (\$145 750 for 2000-01).

The July 2000 edition of the periodical was referred to my Office for examination. The complainant drew specific attention to the lead article titled "*New start for public hospitals*" which outlined government initiatives and included a number of quotes from the Minister for Health.

8.29 We considered that the quotes in the referred article, examples of which appear earlier in this report, were party-political and, therefore, an inappropriate use of public moneys. Such quotes had the appearance of promoting the Minister and scorned the actions of the previous government.

8.30 In addition to the referred material, we examined the July editions of this publication over the period from 1997 to 1999 and 2001. As PeopleFocus was introduced in 1997, the July 1996 *Humanity* (its predecessor) was examined in its stead for that year.

8.31 We found that, generally, the editions had a promotional focus, rather than one of information provision, with little provision of information to enable readers to make their own assessment of the benefits of the programs and initiatives promoted. While it could not be conclusively considered that this was an inappropriate use of public moneys, care should be taken to ensure an appropriate balance is struck in such publications between providing information and promotion.

8.32 To the credit of the Department, it commissioned an external evaluation of the publication in 2000. In terms of overall perspective, the evaluation found:

- PeopleFocus was regarded a particularly easy to read with an appealing layout;

- Most readers could not think of ways to improve or change the publication. Suggestions that were mentioned largely included making the publication more prominent, or clarifying usefulness of information to the target audience; and
- Two in 5 readers (38 per cent) regarded the publication as a biased newsletter and part of current politicians' public relations tools.

PARENT LINK

Parent Link was introduced in February 2001 to keep parents informed about developments in government schools and to provide advice and information about educational resources and support, as part of a broader initiative to improve communication with parents, consistent with the Government's partnership with the representative body, Parents Victoria.

It is distributed to parents of government school children through the schools and to senior officers of the Department and key stakeholder organisations. The average circulation per issue is 552 000. Expenditure for the period from 1 July 2001 to 28 February 2002 is \$189 842 against a budget of \$400 000 (actual for 2000-01 was \$189 842 for the 6 months of publication).

The periodical as a whole was referred to my Office for examination, with the complainant indicating that it is an example of a periodical with an inappropriate bias.

8.33 We assessed 3 editions of the publication (February 2001, May 2001 and February 2002), i.e. the first and most recent editions, as well as the one in closest proximity to the complainant's letter.

8.34 Our assessment was that the publication does contain examples of material that could be regarded as party-political in nature, including:

- use of "*the Bracks Government*", "*the Bracks Labor Government*" and "*the Bracks Budget*"; and
- comments that scorn the performance of the previous government, including "... *lifting the gag on teachers, put in place by the previous government*" and others quoted previously in this report.

EDUCATION TIMES

The *Education Times* is provided free to all employees of government schools (teachers, principals and school service officers), all government school councillors, all corporate offices and regions of the Department of Education and Training, and other education stakeholders such as university education faculties and TAFE colleges. Circulation is 69 000 for each of the 20 issues scheduled annually. This figure also includes about 500 people who take out paid subscriptions annually. The publication is distributed by mail to schools, offices and to individual subscribers. It is also provided in online format.

It is published for the purpose of: informing school staff of vacant teaching and principal class positions and appointments as required by legislation; providing news for staff on the latest developments in the Department and notices about grants, Statewide programs and professional development opportunities for teachers; and providing a means for teachers to share ideas about innovative classroom practice.

The actual expenditure for 1 July 2001 to 28 February 2002 is \$425 969 against a budget of \$761 458 (actual expenditure for 2000-01 was \$767 065).

The publication as a whole was referred to my Office for examination with the complainant citing it as an example of a periodical with an inappropriate bias.

8.35 We examined one July edition of the publication for each of the years 1996 to 2001. As the *Education Times* was introduced in 1997, the July 1996 *Victorian School News* (its predecessor) was examined in its stead for that year.

8.36 We considered that, on balance, the publication was not party-political in nature. Of the 6 editions examined, 2 editions contained, in our view, undesirable use of the term “*the Bracks Government*”.

SENIORS FESTIVAL BOOKLETS

This booklet is produced annually to inform senior Victorians, their families and friends about the program of events for the Seniors Festival. The booklet is distributed through selected supermarkets, Information Victoria, the Seniors Card Centre and a range of other outlets, including council offices, libraries, offices of State Members of Parliament, Seniors Information Victoria and older people's organisations.

The total cost of production and distribution of the 195 750 copies of the booklet produced for 2001-02 was \$114 972.

The complainant who referred the 2002 booklet to my Office made reference to 3 uses of the term “*the Bracks Government*” in the introduction by the responsible Minister.

8.37 We concur that the 3 references to “*the Bracks Government*” are undesirable, but did not find any other inappropriate material in the publication.

8.38 We also examined the booklets produced for the 1996 to 2001 years and found only one other instance of inappropriate material, namely, a reference to “*the Victorian Labor Government*” in the 2001 edition.

Material issued on a “one-off” basis

ADVERTISEMENT FOR THE MARINE PARKS PACKAGE

This advertisement appeared in the media in June 2001, prior to the Marine Parks Bill being debated in Parliament. The complainant referred the case to my Office after a Question Without Notice was raised in the Legislative Council to which the Minister for Energy and Resources responded that the government was “*seeking to explain and seek support for what it regards as a very important initiative and election commitment*”⁵. The advertisements appeared in country and metropolitan print media at a cost of \$108 609.

The advertisements provided a brief outline of the Government's proposed package, details of where further information could be obtained and indicated that the proposal was being considered by Parliament. The material made one reference to “*the Bracks Government*”.

8.39 The audit criteria does not preclude the use of public funds for advertising or communicating proposed policy. However, we considered that the material should have included, or provided reference points to, both the benefits and the impacts of the proposal.

8.40 The material in itself, on balance, was not considered to be party-political in nature. However, given that the debate recorded in *Hansard* indicated dissent along party lines for the policy proposal, the material is open to interpretation as being party-political, given the political environment in which it was communicated.

SCORESBY FREEWAY LETTER

In September 2001, the Premier and the Minister for Transport, wrote to 320 000 residents of the Scoresby Integrated Transport Corridor seeking their support in calling on the Commonwealth Government to immediately commit to a 50/50 share of funding for the Scoresby Freeway, representing an agreed Road of National Importance. The letter was accompanied by a *Declaration of Commitment* including a “Mayoral Call for Commitment” signed by each of the Mayors of the municipalities along the Scoresby Transport Corridor. Supporters were asked to join an email petition at a specified Victorian government website, or to write to the Minister for Transport.

The letter on the Premier's letterhead was distributed by letterbox drop. The total cost of production and distribution was \$46 685, and was funded by VicRoads.

8.41 In a number of aspects, the letter may be considered as containing elements that give the appearance of being party-political in nature, including:

- **Personalising the message:** The letter referred to “*the Bracks Government*” in 3 places and “*the Howard Government*”. In addition, the *Declaration of Commitment* carried a message in large bold text “SIGN HERE MR HOWARD” and an arrow indicating the appropriate space for the signature; and

⁵ Parliament of Victoria, *Parliamentary debates (Hansard)*, Legislative Council Fifty-fourth Parliament, First Session, Book 6 - 5, 6 and 7 June 2001, p. 1154.

- **Promoting government policy and image building:** The text clearly outlined the State Government’s policy commitment to the Freeway and economic development for the State, and positioned the “*Bracks Government*” against the “*Howard Government*” in terms of provision of funding. While clearly indicating that the Commonwealth Government had yet to fully meet the funding arrangements, there was an implied criticism that the “*Howard Government*” was holding-up progress.

8.42 The letter was clearly intended to leverage action for the Commonwealth Government to provide funds to the State Government. It could be considered that by obviously branding the letter it was designed to promote one party above another and was, therefore, inappropriate. However, it is considered appropriate that the State Government via its responsible Minister communicate with affected residents so that the policies of the elected government may proceed.

LETTER TO SENIORS CARD HOLDERS

The Minister for Housing and Senior Victorians wrote to seniors card holders in early to mid-January 2002 to advise them of the 20th birthday celebration of Senior Citizens Week. The letter also commented on the Government’s performance in relation to programs and services that impact upon Senior Victorians including health, education, police numbers, and rural and regional issues.

The letter accompanied a mail-out of the annual Seniors Card directory. The cost of the letter’s production was \$18 150 for 550 000 copies. The cost of inserting the Minister’s letter, the directory and 3 other pieces of material into the envelope amounted to \$8 750. (This amount does not include the cost of postage.)

8.43 Aspects of the letter which could lead to the appearance that the material is party-political in nature included:

- **Personalising the message:** Reference was made to “*the Bracks Government*” in 5 instances; and
- **Promoting the Government:** The opening and closing paragraphs of the letter referred to the 2002 Senior Citizens Week and, therefore, gave the impression that the main purpose was to communicate this to the constituents. However, the remaining 4 paragraphs, the majority of the letter, focused on promoting the Government’s achievements, policy, commitments and values.

8.44 An aspect less easily assessed related to what was communicated and what it was meant to achieve. The letter referred briefly to the development of fast train services and re-opening of specified rail passenger lines between rural and regional Victoria and Melbourne; the establishment of the Ministerial Advisory Council of Senior Victorians; development of the *Growing Victoria Together* booklet; and the 2002 Seniors Festival. This could be considered as having provided senior Victorians with information that was of direct interest to them, i.e. that it was fulfilling an information need. However, it could also be argued that due to the absence of any detailed information about each of these matters, the letter was designed to promote the image of the Government without providing any substantive detail to the recipients.

FRAMEWORK FOR GOVERNMENT ADVERTISING AND MARKETING

8.45 Frameworks for promotional and advertising material are in place or recommended in a number of jurisdictions. Many are based, in part, on the principles developed by the Office of the Auditor-General, New Zealand in 1989:

*“A government **may**, for example, disseminate material that:*

- *explains its policies;*
- *informs the public of government services available to them; or*
- *informs the public of their rights and liabilities under the law.”*

*“A Government **should not**, for example, disseminate material that:*

- *is designed to promote, or has the effect of promoting, its interests above those of other parliamentary groupings; or*
- *is designed to secure, or has the effect of attempting to secure, popular support for the party-political persuasion of the members of the Government.”*

8.46 We researched principles from frameworks and guidelines, either in place or proposed, in jurisdictions including the United Kingdom, Canada, New Zealand and Australia (national, New South Wales and Western Australia), and synthesised the following principles considered to be appropriate for guiding government advertising and marketing in Victoria.

Fundamental principles covering government advertising and marketing

The fundamental principles governing the use of public funds for government information programs are that:

- all members of the public have equal rights to access comprehensive information about government policies, programs and services which affect their rights and entitlements, except where access to this information would represent a breach of government responsibilities; and
- governments may legitimately use public funds for information programs or education campaigns to explain government policies, programs or services, and to inform members of the public of their obligations, rights and entitlements.

Examples of suitable uses for government advertising and marketing include to:

- inform the public of new, existing or proposed government policies, or policy revisions;
- provide information on government programs or services or revisions to programs or services to which the public are entitled to access; and
- inform the public of their rights, entitlements or obligations under the law.

Government communications and advertising to the public should be:

Relevant to government policies

- The subject matter should be directly related to the Government's responsibilities.
- Material produced should be in response to an identified information need.

Explanatory and objective, fair and factual

- Information should be based on accurate, verifiable facts. No claim or statement should be made which cannot be substantiated.
- The information and its presentation should be fair, unbiased and objective.
- When making a comparison, the material should clearly represent to the recipient the situation within which the comparison is made and it should state explicitly the nature of the comparison.
- The recipient of the material should always be able to distinguish clearly and easily between facts on the one hand, and comment, opinion and analysis on the other.
- When dealing with matters on which a decision has not yet been made, for example a policy proposal, the material given should include both the benefits and the impacts.
- Material may include a response to, but should not be aimed solely at rebutting, the arguments of others.
- Pre-existing policies, products, services and activities should not be presented as new ones.

Not liable to interpretation as party-political

- Material should not intentionally promote, or be perceived as promoting, party-political interests. (Party-political actions are defined as promoting activities, programs or initiatives of the Government in a politically partisan or biased manner, which places party advantage above the public interest.) To this end, in addition to ensuring that the content is appropriate, communications planning should consider whether matters such as timing, targeting, and the overall environment in which it is planned to be communicated, could suggest a party-political motive.
- Material should not be designed to influence public support for a political party, a candidate for election or a Member of Parliament. For example, material should not be personalised or directed toward self or party-political image building, whether explicit or implied.
- Material should not attack or scorn, for its own sake, the views, policies or actions of others, such as the policies and opinions of Opposition parties or groups. It should avoid political slogans and be presented in unbiased and objective language.
- Distribution of unsolicited material should be carefully controlled. As a general rule, publicity touching on politically controversial issues should not reach members of the public unsolicited, except where the information communicated clearly and directly affects their interests.
- Official pronouncements and explanations of government policy should not refer to the name of a political party or to the Government using the Premier's name.
- Other publicity material about Government activities should not include reference to the political party and should minimise reference to the Government using the Premier's name.
- In any agreed quarantine period leading up to an election (e.g. in the period after the writs for an election have been issued):
 - the Ministers/Members of the government of the day should not be directly associated with a product or service provided by an agency of government;
 - any material issued by agencies must have a clear commercial or essential community information purpose and be necessary at that particular time; and
 - planned advertising campaigns may require amendment.
- All material must comply with relevant broadcasting, media and electoral laws.

Produced and distributed in an efficient, effective and relevant way

- The cost of the chosen scale and methods of communicating information must be justifiable in terms of achieving the identified objective(s) for the least practicable expense (i.e. efficient and effective) and justified by a cost-benefit analysis;
- There should be a clear audit trail regarding decision-making;
- Existing purchasing/procurement policies and procedures for the tendering and commissioning of services and the employment of consultants should be followed; and
- Material should not be used or reproduced by members of political parties in support of party-political activities without appropriate approval.

RESPONSE by Secretary, Department of Premier and Cabinet

The Department's view is that, in the interests of good public administration, an appropriate framework for government advertising is desirable.

The principles espoused in your proposed guidelines are consistent with the broad objectives set by government and provide a solid basis for an appropriate set of advertising guidelines for the Victorian Government.

RESPONSES from the individual agencies audited follow.

Department of Education and Training

The Department maintains that it is important to distinguish between text that a reader could interpret as fact and material in the form of a letter from the Premier or a Minister that is what it purports to be – their views about a particular issue or achievements.

The quote attributed to Parent Link (para. 8.19) was taken from a letter from the Premier. Therefore, it is very clear that the views expressed in that letter are the Premier's views. The publication is unambiguous and honest in its presentation of these views.

Similarly, the quote from Parent Link (para. 8.34) that referred to "lifting the gag on teachers" was made in conjunction with a letter from the Minister and is an extract from the Government's election policies. Therefore, it is clear that in this case also, the achievements identified are those identified by the Minister and the publication is not presenting them as anything else.

Department of Human Resources

PeopleFocus

PeopleFocus is an information publication, which focuses on educating key stakeholders about DHS initiatives programs and activities. As your report notes, the Department initiated an independent review of PeopleFocus in June 2000, in order to conduct a readership evaluation through 300 telephone interviews. This review was prompted by the Department's commitment to an informative, relevant publication, plus concern that some material may be interpreted as political in nature. Results indicated that the publication was regarded well within the field. New starters to the Department (employed for 6 months or less) plus managers responded that they consistently read PeopleFocus as a source of the broader activity within the Department. The format and content of PeopleFocus have been revised in line with the recommendations of this review.

Publications such as PeopleFocus have a role in providing a collegiate environment in the broader human services sector – identifying the relationship between government policy and activity in services.

Seniors “Live it Up” Festival Booklet

The annual festival booklet outlines the events organised by both State and local government during the Seniors Festival, and is intended to inform them of activities and encourage them to participate. The festival is associated by seniors as a “recognition from the Victorian Government” of their contribution to society.

Seniors Letter accompanying the Seniors Card Directory

The Department notes comments regarding the nature of the information included in the letter, but reiterates that the information relates to issues of concern to older people. It is important to recognise that as of December 2001, when the title changed from Minister for Aged Care, to the Minister for Senior Victorians, the portfolio moved to a whole-of-government focus, which was reflected in publications after that point.

Department of Infrastructure

The Department of Infrastructure has noted the Auditor-General’s comments.

Department of Natural Resources and Environment

The Department notes the comments and recommendations put forward by the Auditor-General.

Victorian Multicultural Commission

The Commission notes the comments and recommendations put forward by the Auditor-General.

NATIONAL GALLERY OF VICTORIA REDEVELOPMENT

8.47 The National Gallery of Victoria has operated from its St. Kilda Road site since 1968, with the building and associated facilities used to store and exhibit the State's collection of works of art. By 1996, the State's collection had more than doubled, resulting in over-crowded and inadequate storage and exhibition space. The limited facilities, together with heightened community expectations for cultural venues, contributed to the State Government's announcement in May 1996 to redevelop the National Gallery site.

8.48 The main aims of the redevelopment project were to increase and improve permanent exhibition gallery spaces, significantly increase high-quality storage capacity, and provide modern lecture theatres and associated areas to support a greater range of education and public programs.

8.49 In May 1997, the Government released its plan for the National Gallery redevelopment. The redevelopment project was then estimated to cost \$160 million and was to be undertaken in the following 2 stages:

- Stage 1 - modification and expansion to the main gallery building, administration building and basement facilities - at an estimated cost of \$136 million; and
- Stage 2 - establishment of a new galleria (function space), restaurant and kitchen facilities at the rear of the main building and a new bistro/coffee bar on the National Gallery's moat - at an estimated cost of \$24 million.

8.50 At that time, the Government acknowledged that the redevelopment plan represented a preferred design concept only, with design changes expected to occur as work proceeded and consultation with Heritage Victoria and community bodies continued. It was anticipated that Stage 1 of the redevelopment would commence in January 1999 and be completed by late 2001.

8.51 Funding of Stage 1 of the redevelopment was to be provided by way of Victorian Government contributions totalling \$96 million, a Federal Government grant of \$25 million and a donation from the Ian Potter Foundation of \$15 million. The Government anticipated that plans and funding for Stage 2 would be further considered upon completion of Stage 1.

8.52 We undertook a review of the redevelopment project to assess the adequacy of arrangements established to facilitate its management and the progress of its implementation, including any associated issues impacting on the cost of the project and the timeliness of its completion.



The National Gallery of Victoria, currently being redeveloped.

Project management arrangements

8.53 The National Gallery redevelopment has been managed by the Office of Major Projects (which forms part of the Department of State and Regional Development) on behalf of Arts Victoria (which forms part of the Department of Premier and Cabinet) and the Council of Trustees of the National Gallery of Victoria, under the provisions of the *Project Development and Construction Management Act* 1994. The Act provides the Office of Major Projects with the powers necessary to facilitate the delivery of the project, including the ability to enter into contracts.

8.54 The Council of Trustees of the National Gallery of Victoria are responsible for the authorisation, monitoring and control of all aspects of the National Gallery project, other than construction of the facility. The Trustees responsibilities include:

- approval of the National Gallery user brief;
- overview of the design process to ensure consistency with the functional requirements of the user brief; and
- monitoring operational budgets and programs to fund the development, both during the construction phase and following project completion.

8.55 A Project Control Group, appointed by the Minister for Planning and the Minister for the Arts, has been assigned responsibility for the oversight of the redevelopment. This group comprises representatives from Arts Victoria, the Council of Trustees and the Office of Major Projects. The Project Control Group is responsible for:

- advising the Ministers on the adequacy of the proposed brief, the redevelopment program and budget;
- reviewing the design at strategic points during the redevelopment; and
- reviewing any proposed changes to scope, and ensuring all necessary approvals are in place prior to any direction to proceed with implementation.

8.56 Our review found that the management arrangements over the redevelopment provide for effective monitoring and oversight of the project.

Project implementation

Selection of architects

8.57 In May 1996, expressions of interest were sought from Australian and overseas architects to be involved in the National Gallery redevelopment project. From the 26 registrations of interest received from architects and consortia, a shortlist of 10 applicants were selected for interview by a panel comprising 4 Trustees, the Director of the National Gallery of Victoria, the Director of Arts Victoria, the Director of the Office of Major Projects, and 2 architects from academia. This shortlist of architects was subsequently reduced to 4, with the remaining architects required to prepare further presentations for the panel. On the basis of a preliminary brief and masterplan provided by the panel, the presentations were to include preliminary planning and design analysis, addressing the functional deficiencies of the existing building and the options for extension and redevelopment of the building to provide additional exhibition and storage space.

8.58 In September 1996, a consortium comprising a Melbourne-based firm together with an overseas firm, was appointed as architects for the National Gallery redevelopment project. The architectural fees were set at 12.5 per cent of the final value of each stage of the redevelopment.

8.59 The Office of Major Projects was not able to provide documentary evidence to audit of the assessment undertaken by the evaluation panel to shortlist applicants or to select the winning consortium. Therefore, we were not in a position to assess the adequacy and probity of the selection process.

Selection of construction contractors

8.60 Design changes brought about by the appointment in March 1999 of a new Director of the National Gallery as well as heritage issues concerning the “Water Wall” and the proposed “Grounds Gallery”, delayed the finalisation of architectural plans for the tender process.

8.61 In order to allow the project to move forward while the design process was being finalised, the Office of Major Projects negotiated an “early-works” contract for demolition works at the National Gallery site. The Office of Major Projects expected this approach would minimise lost time and allow the “main works” construction contract to be negotiated when architectural plans were finalised.

Appointment of demolition contractor

8.62 A consultant was engaged by the Office of Major Projects to identify firms considered to have the necessary level of experience and capability to undertake the demolition works at the National Gallery site. In February 2000, the 5 firms identified by the consultant were invited to submit tenders for the required works.

8.63 Subsequently, 4 tenders were received and assessed by an evaluation team comprising representatives from the Office of Major Projects, a consultant quantity surveyor engaged by the Office of Major Projects, and the project architects. The tenders were assessed based on the following criteria:

- tender price;
- understanding of the key problems to be resolved during the demolition works;
- experience and capacity of the management team; and
- the overall management strategy proposed to ensure the project’s timely completion.

8.64 The early works contract was awarded in June 2000 for an amount of \$1.8 million.

Appointment of main works contractor

8.65 A consultant engaged by the Office of Major Projects to provide advice in respect to contract packaging, identified a number of firms considered to have the capability and experience to undertake the main works construction project. In particular, 5 firms were selected from a departmental register of firms deemed to be capable of undertaking works of the magnitude required for this project, which were invited to tender for the project.

8.66 **The prevailing legislative framework does not require the Office of Major Projects to seek public expressions of interest for major construction projects. Nevertheless, it is our view that a public invitation for expressions of interest would have been desirable from the perspective of ensuring that the greatest possible range of potential tenderers was identified.**

8.67 Tenders were received by August 2000 and assessed by an evaluation team comprising representatives from the Office of Major Projects, the project architects, and the consultant quantity surveyor. As the tenderers had been preselected, the only criteria considered was the price quoted in the tender. The contract, to the value of \$93 million, was subsequently awarded in January 2001.

Audit assessment of the contract evaluation process

8.68 The Victorian Government Purchasing Board within the Department of Treasury and Finance has developed guidelines to assist public sector agencies in the conduct of tender processes, including the evaluation of tenders. In particular, the guidelines recommend that tenders be evaluated using a weighted analysis technique, whereby each measurable criterion are assigned a weighting in the form of points and/or percentages. The tender receiving the highest weighted score is prima-facie the most attractive offer. Consideration is then given to cost, which is not weighted. Using this technique, evaluators have to assess whether a higher point score justifies paying a higher price, which necessarily involves a value for money judgement.

8.69 Our review concluded that the tender assessment process for both the early-works and main-works contracts did not comply with important aspects of the Victorian Government Purchasing Board guidelines. In particular, we found that:

- Individual scores were not assigned to each of the evaluation criteria, nor overall scores established for each tender. Instead, the only criteria considered was the price quoted in the tender; and
- A consolidated evaluation report was not prepared in support of the decision to appoint the contractors. In our view, such a report should have been prepared detailing how the successful tenderer offered the best value for money, with reference to the assessed overall score achieved for each of the evaluation criteria, relative to the other tenderers and their respective tendered amounts. This is particularly important for an undertaking such as the National Gallery redevelopment, which includes unique design, and construction challenges, has substantial cultural and civic importance to the State, and involves significant outlays of taxpayer funds.

Probity of tendering process

8.70 Probity within tendering processes enhances accountability, encourages commercial competition by ensuring all tenders are assessed on the same criteria, preserves public and tenderer confidence in government processes and improves the defensibility of decisions.

8.71 The Victorian Government Purchasing Board guidelines acknowledge that the probity of tendering and contracting processes is the responsibility of all members of a tender evaluation team. In particular, the guidelines support the need for a probity auditor where the transaction is of a high value, the matter is highly complex, unusual or contentious or the nature of the market place makes bidder grievances more likely.

8.72 The role of a probity auditor is to provide an opinion as to whether the tendering and contracting process is fair, and that the tender selection process is conducted in accordance with that stated in the tender documents.

8.73 The tendering processes for the National Gallery of Victoria redevelopment project were not subject to a probity audit. As a consequence, best practice guidelines were not adopted and the benefits from a probity audit were not realised, including assurances over the fairness and equity of the tendering arrangements.

Expected project final cost and completion

8.74 As indicated earlier in this Report, Stage 1 of the redevelopment was initially expected to cost \$136 million and be completed by late 2001. As at April 2002, the Office of Major Projects expected Stage 1 of the project to be completed by July 2003, around 1.5 years later than initially expected, at a final cost of \$148.7 million, some \$12.7 million greater than initially expected.

8.75 The extension of the completion date for Stage 1 to July 2003 is mainly attributable to delays in the finalisation of architectural planning, as referred to previously in this Report. The additional costs of \$12.7 million compared with the initial project estimates were mainly due to:

- acquisition of additional display cases - \$5 million;
- changes in design and materials - \$7.7 million (including additional dining and catering areas amounting to \$1.5 million).

8.76 While the Council of Trustees has been successful in raising further donations of \$3 million to fund the increased cost of the redevelopment, a funding shortfall of \$9.7 million remained at December 2001.

8.77 We were advised that the Trustees have requested additional funding from the State Government to enable Stage 1 of the redevelopment to be completed in its entirety. The Trustees have also identified project items totalling \$6.5 million that could be deferred, should additional funds not be made available, leaving a funding shortfall of \$3.2 million to be met from other sources.

RESPONSE provided by Secretary to the Department of Infrastructure

The government requirement for probity audits was not introduced until April 2001. In respect to the Purchasing Board Guidelines, construction with a pre-selection process does not fit the intent of the conditions under which there is a need for a probity audit. The high value, construction market place is well known to the participants and the selection on the basis of price most effectively ensures visible fairness and equity in tendering. I do not believe that the probity of the tendering process can be reasonably questioned.

Part 9

Treasury and Finance

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STATE REVENUE OFFICE: MANAGEMENT OF STAMP DUTY COLLECTIONS

9.1 The State Revenue Office (SRO) is the State's major taxation collection agency and operates as a service agency under a Framework Agreement between the Treasurer of Victoria, the Secretary to the Department of Treasury and Finance, and the Commissioner of State Revenue (the Commissioner). Given that taxation receipts are a key source of financing many Government services, the SRO plays a critical role in the State's finances.

9.2 The SRO administers a range of taxes, duties and levies which during the 2000-01 financial year resulted in collections of around \$6.6 billion, representing some 22 per cent of the State's total revenue. The main revenue sources over this period were payroll tax (\$2.8 billion), stamp duty (\$2.6 billion) and land tax (\$525 million). The key challenge for the SRO, in effectively performing its tax collection role, is to maximize taxation compliance and minimize tax evasion by its collection agents and taxpayers.

9.3 A key responsibility of the SRO is the administration of stamp duty collections under the *Duties Act 2000*, which replaced the *Stamps Act 1958* as from 1 July 2001. Under this legislation, stamp duties are imposed on a wide range of transactions including property transfers, leases of land, hiring of goods, mortgages, debentures and other securities, shares and other marketable securities, insurance and acquisitions of motor vehicles.

9.4 Table 9A outlines the stamp duty types administered by the SRO during the 2000-01 financial year.

TABLE 9A
STAMP DUTY COLLECTED BY SRO
DURING THE 2000-01 FINANCIAL YEAR
((\$million))

	<i>Amount</i>	<i>Per cent</i>
Land Transfers	1 284	49
Insurance	358	14
Marketable Securities	266	10
Motor Vehicle Transfers	429	16
Mortgages	122	5
Transport Accident Charges (TAC)	86	3
Other duties (a)	88	3
Total	2 633	100

(a) Other duties mainly include non-residential leases.

9.5 During the 2001 year, the Government's *Better Business Taxes* package was released which outlined that the following stamp duties were to be removed:

- non-residential leases, from 26 April 2001;
- marketable securities quoted on a recognised stock exchange, from 1 July 2001;
- unquoted marketable securities, from 1 July 2002; and
- mortgages, from 1 July 2004.

9.6 In addition, in April 2002, the Government released the *Building Tomorrow's Business Today* Statement which abolished the stamp duty on unquoted marketable securities as from 1 July 2002.

9.7 The SRO administers the collection of stamp duties both directly and through agents. Under the established agency arrangements, agents assess and collect duty payable by themselves or their clients and remit the amounts to the SRO through regular returns. During the 2000-01 financial year, around 49 per cent or \$1.3 billion of total stamp duty was collected through such agency arrangements, with the majority related to land and motor vehicle transfers, and the balance collected directly by the SRO.

9.8 Other than stamp duty collected by VicRoads, stamp duty revenue is collected on behalf of the SRO by two types of agents:

- agents that have been authorised by the SRO, under the *Duties Act 2000*, to endorse duty on documents such as land transfers and mortgages - they are known as Document Returns System (DRS) agents; and
- agents required to be registered by the SRO under the *Duties Act 2000* - these agents are generally a party to dutiable transactions and self-assess duty on such transactions – including used car dealers.

9.9 Our October 1998 Report to Parliament, entitled *State Revenue Office – a customer service focus towards improving taxation collection*, outlined the results of an audit of SRO operations and concluded that the SRO had discharged the majority of its tax collection responsibilities efficiently and effectively. The audit also identified the potential for improvement in some areas. In particular, it was found that SRO had not fully evaluated the extent to which the key components of its Compliance Enhancement Strategy and the Investigations Branch had improved the level of taxpayer compliance.

9.10 We have undertaken an audit focused mainly on the SRO's management of stamp duty collections through the use of agents in the context of the above conclusions. This focus was driven by the nature, value, complexity and volume of dutiable transactions managed through agency arrangements, as well as the major risks associated with non-compliance and potentially fraudulent activity in outsourced arrangements of this nature.

Overall conclusion

9.11 **The SRO's key exposures in the management of stamp duty collection through the use of agency arrangements mainly relate to the under-collection of stamp duty, resulting from:**

- agents failing to remit all stamp duty collections to the SRO;
- agents not remitting collections to the SRO in a timely manner;
- agents providing incorrect assessments either deliberately or erroneously; and
- stamp duty being collected illegally by persons not authorised as agents.

9.12 Under the agency management arrangements that operated up until the end of the 2001 year, these exposures were difficult to manage as there had been significant reliance by the SRO on the integrity of agent dealings and practices without independent assurance thereof. In addition, the SRO did not have access to corroborative data, which it has only recently obtained from the Land Titles Office, to check the completeness and accuracy of stamp duty remitted for land transfers and mortgages. These factors reduced the SRO's ability to effectively detect incidences of fraudulent misconduct and non-compliance with legislation by document return system (DRS) appointed agents.

9.13 In the context of the above short-comings, we concluded that stamp duty collection by appointed DRS agents had not been effectively managed prior to the 2002 calendar year, as a result of key exposures not being identified and effectively managed; inadequate monitoring tools employed; over-reliance on the integrity of agents; and a reactive investigations and compliance function.

9.14 During the 2001 year and continuing into 2002, the SRO has established a range of initiatives to address these issues, including the development of a strategic framework for the management of duty collections, improvements to duty monitoring processes, rationalisation of DRS agents and enhancements to procedures for the appointment and monitoring of DRS agents. These initiatives have led to the detection of a number of instances where certain DRS agents had failed to remit collections to the SRO and an instance where an unauthorised person illegally used a forged stamp.

9.15 The implementation of the initiatives and further enhancement to management processes by the SRO will be critical to ensuring the effective management of stamp duty collections, and the associated exposures, into the future.

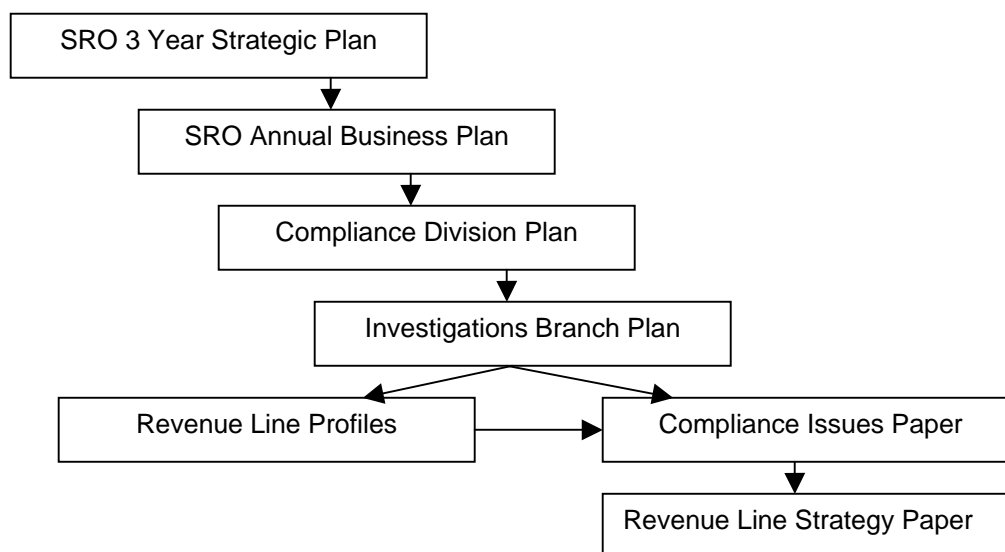
Strategic framework over stamp duty collections

9.16 Various business groups within the SRO have roles and responsibilities associated with stamp duty collection, including the Document Assessing Branch, the Returns Assessing Branch, the Compliance Division and the IT Services and Technology Branch. **Our review of the operations of these various groups found that a comprehensive risk based strategic plan co-ordinating their activities across all divisions and branches had not been prepared to ensure the effective management of stamp duty collection.**

9.17 Overall responsibility for ensuring taxpayer and agent compliance rests largely with the Compliance Division of the SRO, which has two branches: Investigations, and Recovery and Review. A key deliverable of the Division is the development of an annual Compliance Issues Paper (CIP), which outlines the SRO's overall compliance strategy and, in particular, sets out the key compliance risks and issues identified, and the strategies for each revenue line administered by the SRO. The CIP includes revenue line profiles prepared by the Investigations Branch. Strategies outlined in the CIP are detailed further in more specific Revenue Line Strategy Papers.

9.18 Chart 9B provides a brief overview of the SRO's key compliance strategy document flow, in the context of the SRO's overall strategic plan.

**CHART 9B
OUTLINE OF SRO STRATEGIC DOCUMENTATION**



9.19 Our review of SRO’s strategic documentation covering the 1999 to 2001 period disclosed that, in December 1999, the SRO had assessed that DRS agents who collect duty on land transfers and mortgages, had ‘no significant compliance issues that required corporate attention’, and Revenue Line Profiles were not prepared for the stamp duties collected by them. Accordingly, over this period the Investigations Branch did not actively target and investigate DRS agents and played a predominately reactive role, responding to referrals from the Document Assessing Branch, or tip-offs from external persons.

9.20 In preparing the CIP for the 2002 calendar year, the SRO has adopted a compliance risk management approach based on the Australian/New Zealand Standard for Risk Management (AS/NZS 4360:1999). Under this approach, the “high” and “significant” risks are identified, assessed, managed and monitored.

9.21 The current Compliance Issues Paper outlines the following key strategic initiatives:

- rationalisation of agent numbers;
- investigation of “high risk” agents existing prior to rationalisation;
- tighter control over agents by the imposition of conditions on their authority;
- increased accessibility to DRS agent transaction details through regular receipt of electronic transaction files;
- rigorous probity checking on new and existing agents; and
- a formal 3 year strategic plan for compliance and investigatory activities, including computer aided targeting programs.

9.22 A number of data matching initiatives have also been established with the Land Titles Office (LTO) in respect of land transfers and mortgages, to ensure that the correct duty has been received by the SRO on all transactions. These initiatives include:

- establishment of an agreement with the LTO to receive monthly data extractions;
- the acquisition of an appropriate data-matching tool; and

- the development of effective data-matching techniques and procedures.

9.23 While these initiatives are intrinsic to the overall strategic approach to stamp duty compliance, we identified that they were not documented in the 2001 CIP but have now been partially addressed as part of the risk management approach outlined in the 2002 CIP.

9.24 In addition, the SRO has recently developed strategies for on-going compliance activity, such as targeted investigations and educational programs, to assist in the determination of the completeness and accuracy of assessments made by DRS agents.

9.25 We recommend that the following enhancements, additional to those incorporated in recent SRO management initiatives, be implemented to address the inherent risks associated with the calculation, collection and remittance of stamp duty:

- stand alone, risk mapped strategic plans be developed for major revenue lines, such as stamp duty collections, which detail management strategies across all divisions and branches; and
- all strategies being pursued by the SRO, including those relating to data-matching of duty on land transfers and mortgages with Land Titles Office data, be included in the SRO's formal strategy documents, as their omission undermines the SRO's formal strategic framework and hence the SRO's ability to ensure all risk exposures are adequately managed.

Collection and monitoring processes

The self-assessment process

9.26 Stamp duties are classified as either "return" or "document" assessments. Return assessments are self-assessed duties, which are remitted to the SRO through regular (usually monthly) returns submitted by agents registered under the *Duties Act 2000*. Document assessments are dutiable amounts assessed by either the SRO or a DRS agent and mainly include duties on land transfers and mortgages.

9.27 Various methods are available for the receipt of stamp duties, including electronic funds transfer, B-pay, at banks, by mail, and over-the-counter at the SRO. The SRO maintains control over these receipts through various daily reconciliations. SRO officers assess the applications, including their eligibility for exemption, and record them on the *One-Stop-Shop* (OSS) revenue collection system, which calculates the value of duty payable. Complex assessments are referred to senior assessors and in some cases to a special assessing branch. Copies of the documentary evidence that is required to be presented with applications is retained by the SRO only where exemptions have been granted and for high value land transfers (where consideration exceeds \$1 million).

9.28 Given return assessments are self-assessed, the SRO's collection procedures in respect to them are designed to ensure:

- proper receipting and recording of the amount declared in returns;
- all returns have been submitted (including nil returns where required); and
- default and late payment assessments are issued where returns have not been submitted as required.

9.29 As a result of the self-assessment environment and the focus of the SRO collection procedures outlined above, the accuracy and completeness of the duty declared in returns is largely dependent on the integrity of taxpayers and agents, and the effectiveness of the SRO's compliance strategy. Accordingly, deficiencies in the previous years' SRO compliance framework, as referred to in other parts of this report, have increased the risk that inaccuracies in the amounts of duty declared in returns may have remained undetected.

The DRS agent collection and monitoring process

9.30 DRS agents remit duty collected on document assessments through regular returns. The DRS agent returns include, in aggregate, the volume of transactions processed and the amount of duty collected. Where a return includes high value land transfers, copies of the documentary evidence for those transfers are required to be presented with the return.

9.31 DRS agents are responsible for maintaining records of all documents endorsed. DRS agents are now required to maintain all records on the DRS software package and to submit to the SRO electronic transaction files generated by the software as a new condition of their authority.

9.32 As previously mentioned, the SRO ensures all returns have been submitted by the required date (including nil returns where required) and that the amount declared in returns is receipted.

9.33 All documentation for the high value land transfers is forwarded to the Investigations Branch of the Compliance Division where it is scrutinised for accuracy and for the possibility of anti-avoidance schemes such as contract splitting – that is, where taxpayers avoid declaring to the SRO dutiable non-land components of business sales by including them in separate sales contracts.

9.34 Under an agreement with the Land Titles Office (LTO), the SRO has begun receiving monthly electronic data extractions of all land transfers and mortgages recorded by the LTO on or after 1 January 2002. **Prior to this agreement, the SRO conducted manual searching of records located at the Land Titles Office as the means of identifying all dutiable land transfers and mortgage instruments endorsed by DRS Agents.** The SRO intend to electronically match, on a monthly basis, the LTO data extractions with data from the *One Stop Shop* system and the electronic transactions files it will receive from the DRS agents when the new conditions are imposed. It is intended that this data matching will enable the SRO to identify:

- duty on instruments which has not been remitted to the SRO, such as where DRS agents fail to pass on all collections or through unauthorised stamping of documents; and
- where duty has not been remitted within the required time from the date of endorsement.

9.35 **Data matching will not provide total assurance as to the accuracy of assessments made by agents, including whether the true dutiable consideration has been declared.** Accordingly, data matching needs to be considered as one element of the assessment process for duty that the SRO should consider in developing its 3 year strategic plan for compliance and investigatory activities.

9.36 At the date of preparation of this report, data matching was not possible because:

- the SRO had not yet begun collecting transaction details from all agents, given that the new conditions for DRS agents had not yet been introduced;
- the required modifications to the DRS software had not been completed and tested; and
- a data-matching tool had not yet been selected or tested.

9.37 **A target date for data matching to begin had not been set by the SRO, however, a retrospective matching process is expected to occur if possible, which will include transactions occurring on or after 1 January 2002.**

9.38 **Our evaluation of the SRO monitoring processes identified that:**

- **stamp duties for high value land transfers and mortgages are adequately scrutinised for accuracy and the existence of various tax-avoidance schemes by SRO;**
- **while SRO's monitoring of DRS agents currently focuses on ensuring that receipted amounts match the amounts declared in returns and that all returns have been submitted, these procedures should be extended to also include the detection of under-statement, collection and remittance of stamp duty; and**
- it will be critical to expedite the matching of SRO land transfer documentation with the Land Titles Office to ascertain whether this process is a viable and integral corroborative monitoring tool for the SRO in ensuring the completeness and validity of stamp duty collections.

Outsourced agent collection arrangements

9.39 As previously mentioned, other than stamp duties collected by VicRoads and the Transport Accident Commission, stamp duties are collected by two types of agent – those that are registered and are a party to dutiable transactions, and appointed agents who have been authorised by the SRO under the *Duties Act 2000* to endorse certain dutiable instruments.

9.40 Table 9C shows that 49 per cent of stamp duties, or around \$1.3 billion, was collected by agents, on behalf of the SRO during the 2000-01 financial year.

TABLE 9C
STAMP DUTY REVENUE COLLECTED BY AGENTS, 2000-01

<i>Stamp Duty</i>	<i>Agents</i>	<i>Number of Agents</i>	<i>Revenue collected (\$million)</i>
Land Transfers, Mortgages	Financial Institutions*, Legal Firms*, Other Conveyance Firms*	195	865
Motor Vehicle Transfers	Registered Used Car Dealers	2 200	137
Motor Vehicle Transfers	VicRoads	1	292
Collected by Agents		2 396	1 294
Collected directly by SRO (a)		-	1 339
Total		2 396	2 633

(a) The types of stamp duty collected directly by SRO primarily relate to land transfers and mortgages, insurance premiums, transport accident charges and commercial hire charges.

* DRS agents.

9.41 The *Duties Act 2000* provides that the Transport Accident Commission is liable for duty on transport accident charges, and that this duty is to be remitted to the SRO on a weekly basis. Under an agreement with the SRO, VicRoads collect and remit duty on motor vehicle registrations and transfers – other than where duty has already been collected by a Registered Used Car Dealer.

9.42 Under the *Duties Act 2000*, the SRO must register:

- All General Life Insurers;
- Registered Used Car Dealers on written application; and
- Commercial Hire Businesses on written application.

9.43 These registered persons are responsible for remitting to the SRO, on a monthly basis, duty payable on the various dutiable instruments they are a party to. Under section 276 of the *Duties Act 2000* the Supreme Court may grant an injunction restraining a person from carrying on an unregistered business requiring registration under the Act.

9.44 The *Duties Act 2000* also provides the Commissioner discretion to appoint persons authorised to endorse certain dutiable instruments. The conditions of the authorisation are set by the Commissioner and it is an offence under the Act if they are contravened. Currently, only DRS Agents are appointed under this provision.

Prior arrangements for DRS agents

9.45 Prior to the introduction of the *Duties Act 2000*, the Commissioner had discretion in appointing authorised persons, however had limited powers to impose and enforce conditions. **Prior to April 2001, the SRO's policy on appointing agents was non-restrictive with essentially all DRS agent applicants approved without pre-vetting procedures.**

9.46 The SRO's former arrangements placed significant reliance on the integrity of the DRS agents without undertaking appropriate probity checks to ascertain the integrity of the agents. This became particularly evident to the SRO following the results of a major fraud investigation on an organisation, offering legal and accounting services - a DRS agent withheld stamp duty collections from the SRO (further comment on this issue is included later in this Report). **As a result of this risk exposure, an internal review was undertaken and a strategy paper was developed and approved by the SRO in April 2001, under which:**

- **a more restrictive policy is to be adopted for the appointment of DRS agents, including a commitment to rigorous probity checks on, and interviews with, DRS agent applicants prior to approval;**
- **DRS agents are to be subject to strict conditions, as outlined later in this report; and**
- **the existing DRS agents are to be rationalised, based on a 'show cause' process by the agents, an analysis of the different agent risk profiles and resulting investigations on agents perceived to be in a high risk category.**

Current arrangements for DRS agents

9.47 At the date of preparation this report, the SRO was in the process of performing extensive probity checks on all its existing DRS agents, in accordance with its revised DRS agent appointment policy. Revised conditions of the DRS agent authority, enforceable under the *Duties Act 2000*, were approved by the SRO executive in April 2001, with one existing agent having been contracted based on the new conditions. The new conditions are to be incorporated into agreements between the agents and the SRO to facilitate additional control over DRS agents, primarily by:

- requiring the specification of persons authorised by the DRS agent to assist in the endorsement of instruments ('associated authorised persons'), thereby making all persons involved in the endorsement of instruments subject to the *Duties Act 2000* and to the conditions of the agreement;
- ensuring DRS agents provide to the SRO all documents and approvals necessary to perform probity checks on the DRS agent and "associated authorised persons";
- stipulating the DRS agents' responsibility for the actions of "associated authorised persons";
- providing the approved stamp for use by DRS agents and prohibiting the DRS agents from reproducing them;

- making it a condition that certain details, including the DRS agent's authorised persons number, are endorsed legibly on documents;
- ensuring the DRS agents employ the DRS software package provided by the SRO to create all records and returns required under the conditions, including a daily/weekly transaction report to be provided to SRO in an electronic form;
- ensuring that copies of supporting documents be forwarded to the SRO for land transfers with a consideration which exceeds \$1 million;
- reducing the maximum return time from a month to a week;
- detailing the records and documents to be maintained by the DRS agent; and
- requiring, if requested by the SRO, the DRS agent to provide a guarantee of the performance of the conditions.

9.48 It is pleasing to note that the SRO has since April 2001 rationalised the number and type of DRS agents, resulting in a reduction from around 195 to 45 agents assessed by the SRO as fitting a “lower risk” profile. However, at the date of preparation of this report, the new conditions had not yet been extended to all agents and the transition to electronic reporting had not been fully implemented.

9.49 We recommend that the following enhancements, additional to those incorporated in recent management initiatives, be implemented to address the inherent risks associated with the calculation, collection and remittance of stamp duty, and agent integrity:

- the introduction of a requirement for agents to provide independent assurance to the SRO of their compliance with the conditions of their authority and the adequacy of their internal controls over the calculation, collection and remittance of stamp duty; and
- targeted and “hot spot” theme investigations should be undertaken by the SRO on agents, based on an on-going risk assessed strategy and operational plan.

Result of recent DRS agent rationalisation review

9.50 The process of rationalising the number of DRS agents began in April 2001, with around 150 (77 per cent) DRS agents dealing with land transfers and mortgages being requested to ‘show cause’ as to why they should retain their authorisation, given their modest participation in the regime in terms of either volume or value of duty. These agents processed around 5.5 per cent of DRS agent transactions and collected only 2 per cent of stamp duty revenue. The majority of the requests were not responded to, and consequently the authorisation for these agents was revoked. Of the ‘show cause’ responses received, all failed to satisfy a review panel and the authorisation for those agents was also revoked. As a result of this rationalisation process, DRS agent numbers dealing with land transfers and mortgages was reduced to around 45.

Outcomes of recent compliance investigations

9.51 The SRO's Investigations Division is responsible for investigation activity targeted to detect tax evasion.

9.52 In October 2000, a major investigation commenced of an organisation authorised as a DRS Agent, offering legal and accounting services, which has since revealed that over \$10 million in stamp duty had been collected by the organisation but not remitted to the SRO. The investigation was instigated as a result of referrals from other parts of the SRO. The Supreme Court of Victoria has subsequently ordered the organisation (now in liquidation) and two of its directors (both of whom have been declared bankrupt) to repay \$5.1 million to the SRO. The SRO is also preparing further civil proceedings in an attempt to recover the additional \$4.9 million in duty not remitted by the organisation concerned.

9.53 Consistent with the SRO Compliance Strategy of April 2001, 22 investigations have been undertaken on 'high risk' DRS agents, 18 of which had been finalised at the time of this audit, with no significant issues being identified. At the date of preparation of this report, four investigations remain in progress with issues identified for two of the agents, relating to failures to remit duty to the SRO. The SRO is currently pursuing these issues.

9.54 Four further investigations have been instigated by the SRO, two of which are based on referrals and two where DRS agents were previously incorrectly assessed as 'low risk'. The cases referred for investigation have identified documents being illegally stamped by an unauthorised person with a forged stamp, and the alleged defrauding of a DRS agent by one of their own officers. The SRO is currently continuing its investigations into these matters.

RESPONSE provided by Commissioner of State Revenue

Overall Conclusion

The State Revenue Office (SRO) welcomes the Auditor-General's report on its management of stamp duty collections by agents. The SRO is pleased to note that the report acknowledges the significant advances, made during 2001 and continuing throughout 2002, in its administration of its outsourced duty collection agents, particularly those relating to the Document Return System (DRS).

Since 1995, there has been a significant increase in the use of agency arrangements in the collection of State taxes administered by the SRO. Generally, the SRO's outsourced collection agents have provided increasingly valuable services in the collection of the State's revenue at little or no cost to the Victorian taxpayer. The SRO concedes that there has been non-compliance and even fraud exhibited by a small minority of these agents. However, the SRO views these arrangements as cost effective and convenient to taxpayers and remains committed to the continuing involvement of such agents in the collection of the State's revenue. Further, with the compliance strategy currently in place, risks of further non-compliance have been minimised.

RESPONSE provided by Commissioner of State Revenue - continued

The SRO has the assistance of more than 2,200 agents in discharging its obligations involved in the collection of stamp duty of more than \$2.5 billion this financial year. The SRO has increased its level of scrutiny of these agents during the last 2 years through a variety of means including technology, legislative change and the more traditional audit and investigation activity. In only a small minority of cases, coming to the attention of the SRO, has significant non-compliance been detected on the part of agents undertaking revenue collection activities on behalf of the SRO.

The SRO accepts the comments in the report that there were some shortcomings in the management of stamp duty collection by appointed DRS agents. However, as acknowledged by the report, the SRO identified those shortcomings and developed and implemented initiatives, commencing in 2001 and continuing throughout 2002, to address those shortcomings.

These initiatives include:

- *The rationalisation of the number of DRS agents, commencing in April 2001, from 195 to 45;*
- *Extensive financial probity checks of all DRS agents, both existing and prospective, extending to the officers and key employees of corporate agents;*
- *The development of comprehensive terms and conditions of participation in the DRS regime, presently in the hands of more than 30 of the current DRS agents with the remainder to be introduced to these terms and conditions by 30 June 2002;*
- *The enhancement of existing SRO software supporting DRS agents which is a prerequisite for participation in the DRS for all but a few of the major agents which have sophisticated electronic systems. This software enables capture and transmission to the SRO of extensive DRS agent transaction details;*
- *Monthly DRS reporting obligations tightened to at least weekly if not daily reporting; and*
- *Making all persons actually involved in the endorsement of documents, for duty purposes, subject to the Duties Act 2000 and the terms and conditions of participation in the DRS regime.*

The negotiation of an agreement with the Victorian Land Titles Office (LTO) under which the SRO receives monthly electronic reports of land transfers and mortgages endorsed by DRS agents and lodged with the LTO.

The development of a database and software to enable the SRO to match data obtained from the LTO data with data collected from DRS agents' in their periodic reports.

Strategic framework over stamp duty collections

The SRO notes and accepts the comment that the SRO has not produced a comprehensive, risk based, SRO wide, strategic plan that addresses the effective management of stamp duty collection. However, the SRO does not accept that it lacks a comprehensive risk based compliance strategy for effectively administering stamp duty collection. The elements of such a strategy are to be found in existing SRO plans and strategy papers, for example the annual Compliance Issues paper. These strategies have driven the SRO's compliance activity during the 2001 and 2002 calendar years.

RESPONSE provided by Commissioner of State Revenue - continued

The SRO agrees with the comments in the report that all the elements of the SRO's strategy should be drawn together in a single SRO wide strategic plan for the administration of duty collection and is currently producing such a plan to be completed by 31 August 2002.

The SRO notes and accepts the recommendations in the report and proposes to implement them through the following initiatives, by 31 August 2002:

- production and implementation of risk based, strategic plans with detailed management and operational strategies in revenue line profile; and
- production and periodic review of a 3 year compliance strategic plan which encapsulates all the strategies being pursued by the SRO across all Divisions and Branches.

DRS agent and monitoring process

The SRO agrees with the findings of the report to the extent that SRO data-matching initiatives have not yet been fully implemented. However, considerable progress has been made to achieve the roll out, to all affected agents, of the enhanced DRS software by June 2002, full electronic reporting by those agents and data-matching commencing in July 2002.

The SRO has identified a suitable tool for matching the data collected from the Land Titles Office and that to be collected from DRS agents' periodic reports. The SRO has constructed the database in which data matching will take place. The necessary "exception reports" have been designed and programmed. Exception reports, which are not reliant on electronic data from the DRS agents, are now routinely being generated for follow-up audit and, where necessary, investigation activity.

The SRO acknowledges that data matching will not provide a total assurance of the accuracy of assessments made by agents. Accordingly, the data matching initiatives undertaken by the SRO remain the principal focus of compliance activity but are supported by the extensive probity checking activities and the SRO's continuing audit and investigations programs.

The SRO proposes to supplement those data-matching activities with targeted periodic audits of individual agents identified through the risk management methodology currently being applied in the SRO.

Current arrangements for DRS agents

The SRO accepts these recommendations. As part of the introduction of the new terms and conditions of participation, the SRO will explore with its outsourced collection agents the provision of independent assurance of their compliance with the relevant legislation and their collection authority. In exploring the provision of independent assurance of their compliance the SRO will have regard to the overall size and nature of business of individual agents.

RESPONSE provided by Commissioner of State Revenue - continued

The SRO reiterates its view that its outsourced collection agents provide significant service for all Victoria at no cost to the taxpayer. The imposition of onerous and potentially costly obligations beyond those contained within the new terms and conditions of participation may cause some of these agents to reconsider their participation in these regimes leading to higher compliance costs for taxpayers and delays in processing dutiable transactions and documents. Accordingly, the SRO proposes that the process of securing the recommended independent assurance of compliance be by negotiation rather than by direct imposition.

Outcomes of recent compliance investigations

As stated in the report, of the 22 investigations commenced following the presentation of the SRO Compliance Strategy paper in April 2001, 18 have been concluded with no significant issues having been identified. A further two investigations will be concluded in May 2002, without significant issues being identified. The remaining two investigations have identified compliance issues and are continuing.

Of the four further investigations into DRS agents commenced, two have already revealed no compliance issues and will be concluded in June 2002. The remaining two investigations have revealed compliance. Both investigations are continuing with the likelihood of criminal proceedings resulting.

Part 10

Summary of audit results

General government

SUMMARY OF AUDIT RESULTS

10.1 At 31 December 2001, the Auditor-General, under the authority of the *Audit Act* 1994 had responsibility for the conduct of the financial statement audits of around 550 public sector agencies. Approximately, 149 or 27 per cent of these agencies have a balance date other than 30 June. These agencies comprise mainly educational bodies and associated companies, cemetery trusts and alpine resort management boards which have either 30 September, 31 October or 31 December balance dates. This section of the report summarises the results of financial statement audits of public sector agencies with balance dates other than 30 June.

10.2 This Part of the report also provides an analysis of the timeliness of financial statement completion for those agencies with financial years ending other than 30 June 2001 and the nature of the audit opinions issued.

Timeliness of financial reporting

10.3 The annual reporting and audit requirements for departments and other public sector agencies are set out in the *Financial Management Act* 1994 and the *Audit Act* 1994. Under section 45 of the Financial Management Act, each department and public body must submit its annual financial statements to the Auditor-General within 8 weeks of the end of the financial year.

10.4 The Auditor-General is then required by the *Audit Act* 1994 to complete the audit of these financial statements within 4 weeks of their receipt. Accordingly, the legislative framework requires the audited financial statements of the public sector to be completed within 12 weeks of the end of the relevant financial year.

10.5 Finally, within 4 months of the end of the financial year or the next sitting day after the end of the fourth month, the relevant Minister is required to table in each House of Parliament the annual report of each entity, including the audited financial statements.

10.6 Table 10A illustrates the overall performance of public sector agencies with balance dates other than 30 June in meeting the statutory requirement associated with the completion of audited financial statements.

TABLE 10A
TIMELINESS OF FINANCIAL STATEMENT COMPLETION,
FOR PUBLIC SECTOR AGENCIES
WITH BALANCE DATES OTHER THAN 30 JUNE 2001

<i>Finalisation of audited financial statements (no. of weeks after end of financial period)</i>	<i>Entities</i>	
	<i>Number</i>	<i>Per cent (cumulative)</i>
Less than 8 weeks	4	3
8 to 10 weeks	17	14
10 to 12 weeks	43	43
12 to 14 weeks	9	49
14 to 16 weeks	42	77
More than 16 weeks (a)	34	100
Total	149	-

(a) Includes 18 entities whose financial statements had not been finalised at the date of preparation of this report. Covering all balance dates, there were 23 agency audited financial statements yet to be finalised.

10.7 Table 3A demonstrates that there is scope for improvement in the timeliness of completion of audited financial statements, with 43 per cent of entities meeting the 12 week legislated completion timeframe. The audited financial statements of 77 per cent of all agencies were finalised within 16 weeks of year-end.

10.8 Table 10B illustrates the performance of public sector agencies by ministerial portfolio in meeting the 12 week legislated completion timeframe, for both the 1999-2000 and 2000 - 2001 reporting cycles.

TABLE 10B
TIMELINESS OF FINANCIAL STATEMENT COMPLETION BY PORTFOLIO, 1999-2000 AND
2000-01 (a)

<i>Portfolio</i>	<i>2000-2001</i>		<i>1999-2000</i>	
	<i>Number of agencies with other than 30 June 2001 reporting periods</i>	<i>Number of statements finalised within 12 weeks</i>	<i>Number of agencies with other than 30 June 2000 reporting periods</i>	<i>Number of statements finalised within 12 weeks</i>
Education, Employment and Training	115	54	102	25
Human Services	18	6	15	9
Natural Resources and Environment	7	0	7	3
Premier and Cabinet	1	0	1	0
Treasury and Finance	8	4	8	3
Total	149	64	133	40
Percentage		43		30

(a) Table only includes portfolios with financial statements for periods other than 30 June 2001.

10.9 The table shows that the overall timeliness of completion of audited financial statements improved in 2000-01, with 43 per cent of entities meeting the 12 week legislated completion timeframe compared with 30 per cent in 1999-2000.

10.10 Timeliness of reporting is an essential characteristic of an effective accountability process. Accordingly, it is important that avenues are identified and pursued to improve the timeliness of the financial reporting process.

Nature of audit opinions issued

10.11 As at the date of preparation of this report, 118 clear audit opinions were issued on the financial statements of public sector agencies with balance dates other than 30 June, with qualified audit opinions issued on 13 financial statements. The November 2001 *Report on Public Sector Agencies* disclosed details of the audit opinions issued on 30 June 2001 financial statements of agencies across the Victorian public sector. Appendix A to this report provides information on the timing of the finalisation of the financial statements and the issue of audit opinions, and the nature of the audit opinions issued in respect of each agency other than those disclosed in the above report.

10.12 The major reasons for the issue of qualified audit opinions were as follows:

- A number of qualified audit opinions were issued in respect of inappropriate disclosure of grants within financial statements. These grants, which were non-reciprocal in nature, were not disclosed in accordance with Australian Accounting Standard AAS 15 - *Revenue* which requires that they be treated as income in the accounts of the recipient in the year of receipt. The majority of these qualifications were issued in respect of universities (6 instances), with one other agency within the education portfolio and one agency within the human services portfolio also subject to a qualified audit report on this issue; and
- In the case of the 8 universities, the audit opinion issued on their financial statements were qualified on the grounds that they had inappropriately recognised a receivable from the Commonwealth Government for the universities' unfunded superannuation liabilities. In our opinion, as the universities do not exercise control over the future Commonwealth Government funding associated with unfunded superannuation liabilities, a right to these funds should not have been recognised as an asset in the universities' balance sheets.

EDUCATION, EMPLOYMENT AND TRAINING

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2001 BALANCE DATES			
POST COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
AMPASC Pty Ltd	8 May 2002	✓	15 May 2002
Australasian Human Resources Institute Pty Ltd	10 April 2002	✓	16 April 2002
Australian Alpine Institute Pty Ltd	22 March 2002	✓	22 March 2002
Australian International Health Institute Ltd	25 Feb. 2002	✓	25 March 2002
Australian Music Examination Board (Vic.) Ltd	11 Feb. 2002	✓	25 March 2002
Australian National Academy of Music Ltd	8 March 2002	✓	25 March 2002
Brain Sciences Institute Trust	27 March 2002	✓	22 April 2002
Callista Software Services Pty Ltd	10 April 2002	✓	16 April 2002
Centre for Innovation and Enterprise Pty Ltd	27 March 2002	✓	22 April 2002
Institute for Innovation and Enterprise Ltd	27 March 2002	✓	22 April 2002
Citytech Pty Ltd	27 March 2002	✓	22 April 2002
Deakin Networks Pty Ltd	10 April 2002	✓	16 April 2002
Deakin University	28 March 2002	Qualified	16 April 2002
<i>Reason for Qualification of Financial Statements :Inappropriate recognition of a receivable related to unfunded superannuation liabilities.</i>			
Hawthorn English Language Centres (Canada) Ltd	24 Jan. 2002	✓	12 March 2002
Hawthorn Edinburgh Limited	6 Feb. 2002	✓	12 March 2002
Ingenko	18 March 2002	✓	29 April 2002
Inquiry Pty Ltd	31 March 2002	✓	20 May 2002
Inskill Ltd	17 April 2002	✓	19 April 2002
Institute for Innovation and Enterprise Ltd	27 March 2002	✓	19 April 2002
International Education Network Pty Ltd	21 March 2002	✓	22 March 2002
La Trobe International Pty Ltd	22 March 2002	✓	22 March 2002
La Trobe Marketing Pty Ltd	21 March 2002	✓	22 March 2002
La Trobe University	26 March 2002	Qualified	26 March 2002
<i>Reason for Qualification of Financial Statements: Inappropriate recognition of a receivable related to unfunded superannuation liabilities.</i>			
La Trobe University Housing Ltd	21 March 2002	✓	22 March 2002

EDUCATION, EMPLOYMENT AND TRAINING - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2001 BALANCE DATES			
POST COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Land and Food Services Ltd	21 March 2002	✓	25 March 2002
Meanjin Company Ltd	18 April 2002	✓	19 April 2002
Melbourne Enterprises International Ltd	6 March 2002	✓	12 March 2002
Melbourne Enterprises International (New Zealand) Ltd	8 Feb. 2002	✓	12 March 2002
Melbourne Enterprises International (Taiwan) Ltd	7 Feb. 2002	✓	12 March 2002
Melbourne Information Management Pty Ltd	27 Feb. 2002	✓	12 March 2002
Melbourne University Private Ltd	6 March 2002	✓	15 March 2002
Meltech Services Ltd	16 April 2002	✓	3 May 2002
Monash Digital Media Pty Ltd	28 Feb. 2002	✓	23 April 2002
Monash ED Pty Ltd	7 March 2002	✓	3 May 2002
Monash International Pty Ltd	7 Feb. 2002	✓	12 March 2002
Monash IVF Pathology Services Trust	10 April 2002	✓	17 April 2002
Monash IVF Pty Ltd	16 April 2002	✓	17 April 2002
Monash English Language Centre Pty Ltd	18 March 2002	✓	18 March 2002
Monash Property Management Pty Ltd	28 Feb. 2002	✓	29 April 2002
Monash Reproductive Health Enterprises Pty Ltd	16 April 2002	✓	19 April 2002
Monash Reproductive Pathology and Genetics Pty Ltd	16 April 2002	✓	17 April 2002
Monash Southern Africa Pty Ltd	8 March 2002	✓	7 May 2002
Monash Ultrasound Pty Ltd	16 April 2002	✓	17 April 2002
Monash Ultrasound Trust	16 April 2002	✓	17 April 2002
Monash Unicom Pty Ltd	14 Feb. 2002	✓	23 April 2002
Monash University	8 April 2002	Qualified	11 April 2002
<i>Reason for Qualification of Financial Statements: Inappropriate recognition of a receivable related to unfunded superannuation liabilities and inappropriate disclosure of non-reciprocal grants.</i>			
Monash University Foundation Pty Ltd	5 March 2002	✓	21 March 2002
Monash University Foundation Trust	5 March 2002	✓	21 March 2002
Monash University Foundation Year Ltd	15 May 2002	✓	15 May 2002

EDUCATION, EMPLOYMENT AND TRAINING - continued

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2001 BALANCE DATES			
POST COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Monash University South Africa	25 April 2002	✓	13 May 2002
Montech Medical Developments Pty Ltd	13 March 2002	✓	23 April 2002
Montech Pty Ltd	8 March 2002	✓	23 April 2002
MUP Services Pty Ltd	13 Feb. 2002	✓	15 March 2002
National Institute of Circus Arts Ltd	15 April 2002	✓	22 April 2002
Neurometric Systems Pty Ltd	27 March 2002	✓	22 April 2002
Prostate Diagnostics Pty Ltd	28 Feb. 2002	✓	23 April 2002
RMIT Foundation	27 March 2002	✓	28 March 2002
RMIT Innovation Ltd	28 March 2002	✓	19 April 2002
RMIT International Pty Ltd	21 March 2002	✓	22 April 2002
RMIT Resources Limited	26 March 2002	✓	28 March 2002
RMIT Training Pty Ltd	18 March 2002	✓	28 March 2002
RMIT Union	2 May 2002	✓	3 May 2002
RMIT University	27 March 2002	Qualified	2 April 2002
<i>Reason for Qualification of Financial Statements: Inappropriate recognition of a receivable related to unfunded superannuation liabilities and inappropriate disclosure of non-reciprocal grants.</i>			
School of Forestry Creswick Ltd	16 March 2002	✓	25 March 2002
School of Mines and Industries Ballarat Ltd	17 April 2002	✓	19 April 2002
Sir John Monash Business Centre Pty Ltd	4 March 2002	✓	13 March 2002
Spatial Vision Innovations Pty Ltd	3 April 2002	✓	19 April 2002
Swinburne Graduate School of Integrative Medicine Pty Ltd	27 March 2002	✓	22 April 2002
Swinburne Intellectual Property Trust	16 April 2002	✓	19 April 2002
Swinburne Ltd	27 March 2002	✓	22 April 2002
Swinburne University of Technology	27 March 2002	Qualified	18 April 2002
<i>Reason for Qualification of Financial Statements: Inappropriate recognition of a receivable related to unfunded superannuation liabilities and inappropriate disclosure of non-reciprocal grants.</i>			
Swinburne Ventures Ltd	16 April 2002	✓	19 April 2002

EDUCATION, EMPLOYMENT AND TRAINING - continued

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2001 BALANCE DATES			
POST COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Unilink Ltd	10 April 2002	✓	16 April 2002
University of Ballarat	27 March 2002	Qualified	27 March 2002
<i>Reason for Qualification of Financial Statements: Inappropriate recognition of a receivable related to unfunded superannuation liabilities and inappropriate disclosure of non-reciprocal grants.</i>			
University of Melbourne	8 April 2002	Qualified	9 April 2002
<i>Reason for Qualification of Financial Statements: Inappropriate recognition of a receivable related to unfunded superannuation liabilities and inappropriate disclosure of non-reciprocal grants.</i>			
Victoria University Enterprises Pty Limited	7 March 2002	✓	18 March 2002
Victoria University of Technology	27 March 2002	Qualified	28 March 2002
<i>Reason for Qualification of Financial Statements: Inappropriate recognition of a receivable related to unfunded superannuation liabilities and inappropriate disclosure of non-reciprocal grants.</i>			
Victoria University of Technology (Singapore) Pty Ltd	30 Jan. 2002	✓	18 March 2002
Victoria University of Technology Foundation Ltd	26 March 2002	✓	26 March 2002
Victorian College of the Arts	21 March 2002	Qualified	28 March 2002
<i>Reason for Qualification of Financial Statements: Inappropriate recognition of a receivable related to unfunded superannuation liabilities and inappropriate disclosure of non-reciprocal grants.</i>			
INSTITUTES OF TECHNICAL AND FURTHER EDUCATION AND ASSOCIATED COMPANIES AND PROVIDERS OF ADULT EDUCATION			
Adult Multicultural Education Services	20 Feb. 2002	✓	21 Feb. 2002
Angliss Multimedia Pty Ltd	25 March 2002	✓	4 April 2002
Angliss Solutions Pty Ltd	25 March 2002	✓	4 April 2002
Bendigo Regional Institute of TAFE	18 March 2002	✓	19 March 2002
Box Hill Institute of TAFE	21 Feb. 2002	✓	21 Feb. 2002
Box Hill Enterprises Ltd	21 Feb. 2002	✓	21 Feb. 2002
Central Gippsland Institute of TAFE	20 March 2002	✓	22 March 2002
Chisholm Institute of TAFE	27 March 2002	✓	28 March 2002
Centre for Adult Education	22 March 2002	✓	25 March 2002
Driver Education Centre of Australia Ltd	21 March 2002	✓	22 March 2002
East Gippsland Institute of TAFE	7 March 2002	✓	20 March 2002
Gordon Institute of TAFE	12 March 2002	✓	15 March 2002
Goulburn Ovens Institute of TAFE	2 March 2002	✓	22 March 2002

**EDUCATION, EMPLOYMENT
AND TRAINING - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2001 BALANCE DATES			
INSTITUTES OF TECHNICAL AND FURTHER EDUCATION AND ASSOCIATED COMPANIES AND PROVIDERS OF ADULT EDUCATION			
Holmesglen Institute of TAFE	8 March 2002	✓	8 March 2002
Holmesglen International Training Services Pty Ltd	8 March 2002	✓	13 March 2002
International Fibre Centre Ltd	22 Feb. 2002	✓	5 March 2002
International Training Australia Pty Ltd	3 April 2002	✓	16 April 2002
John Batman Training and Consulting Pty Ltd	20 March 2002	✓	20 March 2002
Kangan Batman Institute of TAFE	19 March 2002	✓	20 March 2002
Northern Melbourne Institute of TAFE	22 Feb. 2002	✓	27 Feb. 2002
South West Institute of TAFE	14 March 2002	✓	26 March 2002
Sunraysia Institute of TAFE	27 Feb. 2002	✓	6 March 2002
William Angliss Institute of TAFE	25 March 2002	✓	27 March 2002
Wodonga Institute of TAFE	5 March 2002	✓	12 March 2002

COMPLETED AUDITS – WITH OTHER BALANCE DATES			
EDUCATION			
Victorian Tertiary Admission Centre (financial year ended 30 June 2001)	21 Dec. 2002	✓	4 Feb. 2002
POST COMPULSORY EDUCATION INSTITUTIONS			
Deakin Prime USA (financial year ended 31 Dec. 2000)	31 Jan. 2002	✓	11 Feb. 2002
Mt Buller Educational Facility Unit Trust (a)	13 Oct. 2001	✓	7 Jan. 2002
Dovaport Pty Ltd (b)	13 Oct. 2001	✓	7 Jan. 2002

**EDUCATION, EMPLOYMENT
AND TRAINING - continued**

INCOMPLETE AUDITS – AS AT 24 MAY 2002 (c)	
Angliss Consulting Pty Ltd	<i>Audited financial statements yet to be finalised.</i>
Copyrat Pty Ltd	“ “ “
Deakin Prime (USA)	“ “ “
Maccine Pty Ltd	“ “ “
Monash Commercial Pty Ltd	“ “ “
Monash Learningfast Pty Ltd	“ “ “
MonServe Pty Ltd	“ “ “
RMIT International University Vietnam (RIUV)	“ “ “
RMIT (Malaysia) SDN BHD	“ “ “
Telematics Course Development Fund	“ “ “
Victoria University International Pty Ltd	“ “ “

(a) Final audit for the 6 months ended 30 June 2001. The Trust was wound-up on this date.

(b) Final audit for the 6 months ended 30 June 2001. The Company ceased trading on this date.

(c) Financial statements with 31 December 2001 balance dates.

HUMAN SERVICES

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 SEPTEMBER 2001 BALANCE DATES			

HEALTH

Medical Practitioners Board of Victoria	20 Dec. 2001	✓	24 Dec. 2001
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COMPLETED AUDITS – 31 DECEMBER 2001 BALANCE DATES

HEALTH

Anti-Cancer Council of Victoria	16 April 2002	Qualified	3 May 2002
<i>Reason for Qualification of Financial Statements: Unable to attest to the completeness of cash donations.</i>			
Prince Henry's Institute of Medical Research	29 April 2002	Qualified	30 April 2002
<i>Reason for Qualification of Financial Statements: Inappropriate disclosure of grants received in advance.</i>			
Psychologists Registration Board of Victoria	27 March 2002	✓	27 March 2002
Public Cemeteries —			
Anderson's Creek Cemetery Trust	26 March 2002	✓	28 March 2002
Ballaarat General Cemeteries Trust	4 April 2002	✓	10 April 2002
Bendigo Cemeteries Trust	25 March 2002	✓	23 April 2002
Cheltenham and Regional Cemeteries Trust	28 March 2002	✓	16 April 2002
Geelong Cemeteries Trust	20 Feb. 2002	✓	25 March 2002
Keilor Cemetery Trust	28 March 2002	✓	10 April 2002
Mildura Cemetery Trust	9 April 2002	✓	23 April 2002
Preston Cemetery Trust	20 March 2002	✓	26 March 2002
Trustees of the Memorial Park	27 Feb. 2002	✓	12 March 2002
Trustees of the Necropolis Springvale	22 March 2002	✓	26 March 2002
Wyndham Cemeteries Trust	13 March 2002	✓	18 April 2002

COMPLETED AUDITS – WITH OTHER BALANCE DATES (a)

Chinese Medicine Registration Board of Victoria	30 Oct. 2001	✓	5 Nov. 2001
Dental Practice Board of Victoria	14 Nov. 2001	✓	23 Nov. 2001
Austin and Repatriation Medical Centre (b)	04 Feb. 2002	Qualified	05 Feb. 2002
<i>Reason for Qualification of Financial Statements: Inappropriate disclosure of grants received in advance and an inability to attest to the provision for long service leave and the related revenue and expense items due to sufficient audit evidence not being available.</i>			
Manangatang and District Hospital	20 Dec. 2001	✓	21 Dec. 2001
Mansfield District Hospital	13 Dec. 2001	✓	20 Dec. 2001

HUMAN SERVICES - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – WITH OTHER BALANCE DATES (a) - continued			
North Western Health Care Network (c)	7 March 2002	✓	20 March 2002
Rural North West Health	4 March 2002	✓	20 March 2002

INCOMPLETE AUDITS – AS AT 24 MAY 2002 (d)			
Mildura Base Hospital (Financial year ended 30 June 2001)	<i>Audited financial statements yet to be finalised.</i>		
Templestowe Cemetery Trust	“	“	“
Trustees of the Fawkner Crematorium and Memorial Park	“	“	“
Trustees of the Lilydale Memorial Park and Cemetery	“	“	“

(a) Financial statements with 30 June 2001 balance dates.

(b) New registered agency commencing 1 July 2000.

(c) “Shell entity” of previous Health Care Network.

(d) Financial statements with 31 December 2001 balance dates unless otherwise indicated.

JUSTICE

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – WITH OTHER BALANCE DATES (a)			
Legal Practitioners Liability Committee	26 March 2002	✓	18 April 2002
Senior Master of the Supreme Court (b)	13 Dec. 2001	✓	14 Dec. 2001

(a) Financial statements with 30 June 2001 balance dates.

(b) In the absence of a statutory requirement for the audit of these financial statements they are audited by arrangement.

LOCAL GOVERNMENT

Entity	Financial statements signed	Clear opinion issued		Auditor-General's report signed
		Financial Statements	Performance Statement	
COMPLETED AUDITS – WITH OTHER BALANCE DATES (a)				
LOCAL GOVERNMENT – MUNICIPAL COUNCILS AND ASSOCIATED COMPANIES				
Gannawarra Shire Council	22 Nov. 2001	✓	✓	26 Nov. 2001
Greater Dandenong City Council	28 Nov. 2001	✓	✓	18 Dec. 2001
Hindmarsh Shire Council	27 Nov. 2001	✓	✓	28 Nov. 2001
Horsham Rural City Council	30 Jan. 2002	Qualified	✓	31 Jan. 2002
<i>Reason for Qualification of Financial Statements: Inappropriate disclosure of grants received in advance.</i>				
Regent Management Company Pty Ltd	4 Feb. 2002	✓	n.a.	8 Feb. 2002
LOCAL GOVERNMENT – REGIONAL LIBRARY CORPORATIONS				
Swan Hill Regional Library Corporation	9 Nov. 2001	✓	n.a.	23 Nov. 2001
Wimmera Regional Library Corporation	22 Nov. 2001	✓	n.a.	27 Nov. 2001

INCOMPLETE AUDITS – AS AT 24 MAY 2002 (a)

Buloke Shire Council	<i>Audited financial statements yet to be finalised.</i>
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(a) Financial statements and performance statements with 30 June 2001 balance dates.

n.a. Not applicable as agencies were not required by legislation to produce a performance statement.

NATURAL RESOURCES AND ENVIRONMENT

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 OCTOBER 2001 BALANCE DATES			
Lake Mountain Alpine Resort Management Board	5 March 2002	✓	5 March 2002
Mount Stirling Alpine Resort Management Board	25 Feb. 2002	✓	6 March 2002
COMPLETED AUDITS – 31 DECEMBER 2001 BALANCE DATES			
Veterinary Practitioners Registration Board of Victoria	17 April 2002	✓	18 April 2002
COMPLETED AUDITS – WITH OTHER BALANCE DATES (a)			
Desert Fringe Regional Waste Management Group	21 Dec. 2001	✓	8 Jan. 2002
Mildura Regional Waste Management Group	11 Feb. 2002	✓	12 Feb. 2002
Murray Valley Citrus Marketing Board	4 May 2002	Qualified	8 May 2002
<i>Reason for Qualification of Financial Statements: Unable to attest to the completeness of levy revenue.</i>			
Murray Valley Wine Grape Industry Development Committee	19 Nov. 2001	✓	20 Nov. 2001
Northern Victorian Fresh Tomato Industry Development Committee (financial year ended 30 June 2000)	31 July 2001	✓	3 March 2002
Northern Victorian Fresh Tomato Industry Development Committee	22 Feb. 2002	✓	28 Feb. 2002
Surveyors Board of Victoria	18 Jan. 2002	✓	18 Jan. 2002
Victorian Plantations Corporation (financial year ended 30 June 2000)	16 Nov. 2001	✓	26 Nov. 2001
Victorian Plantations Corporation	12 April 2002	✓	19 April 2002

**NATURAL RESOURCES
AND ENVIRONMENT - continued**

INCOMPLETE AUDITS – AS AT 24 MAY 2002 (b)	
Falls Creek Alpine Resort Management Board	<i>Finalisation of financial statements delayed until asset revaluations are completed.</i>
Mount Baw Baw Alpine Resort Management Board	“ “ “
Mount Buller Alpine Resort Management Board	“ “ “
Mount Hotham Alpine Resort Management Board	“ “ “
Victorian Strawberry Industry Development Committee(financial year ended 30 June 2001)	<i>Audited financial statements yet to be finalised.</i>
Water Training Centre (financial year ended 30 June 2001)	“ “ “

(a) Financial statements with 30 June 2001 balance dates, unless otherwise indicated.

(b) Financial statements with 31 October 2001 balance dates, unless otherwise indicated.

PREMIER AND CABINET

COMPLETED AUDITS – 31 DECEMBER 2001 BALANCE DATE			
Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
ARTS			
Cinemia Corporation (a)	3 May 2002	✓	3 May 2002

(a) Final audit.

TREASURY AND FINANCE

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 SEPTEMBER 2001 BALANCE DATES			

TREASURER

Arada Pty Ltd	12 Feb. 2002	✓	19 Feb. 2002
Property Leasing Limited	6 Feb. 2002	✓	11 Feb. 2002

COMPLETED AUDITS – 31 DECEMBER 2001 BALANCE DATES

TREASURER

Securities Finance Corporation Ltd	1 March 2002	Qualified	1 March 2002
<i>Reason for Qualification of Financial Statements: Overstatement of the carrying value of receivables.</i>			
Tricontinental Corporation Ltd	1 March 2002	Qualified	1 March 2002
<i>Reason for Qualification of Financial Statements: Overstatement of the carrying value of loan liabilities.</i>			
Tricontinental Holdings Ltd	1 March 2002	✓	1 March 2002
Twin Waters Resort Pty Limited	1 March 2002	✓	1 March 2002

COMPLETED AUDITS – WITH OTHER BALANCE DATES

Arada Trust (a)	12 Feb. 2002	✓	19 Feb. 2002
Property Leasing Limited (b)	6 Feb. 2002	✓	11 Feb. 2002

INCOMPLETE AUDITS – AS AT 24 MAY 2002

Roslin Pty Ltd (financial year ended 30 June 2001)	<i>Audited financial statements yet to be finalised.</i>		
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(a) Financial statements with 30 June 2001 balance date.

(b) Financial statements with 6 December 2001 balance date. Final audit.

Part 11

Status of matters raised in previous reports

EDUCATION AND TRAINING

Report	Subject	Status at date of preparation of this report
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF EDUCATION AND TRAINING

School Global Budget

Ministerial Portfolios, June 2001 pp. 58-71.

The Office of Schools identified that 36 per cent of all schools required transition funding in 2001 where actual salary costs were forecast to be greater than the funding allocation under the School Global Budget model. This percentage was even higher for secondary schools and for schools in provincial towns.

As outlined in the June 2001 Ministerial Portfolios Report, the Department had instigated a review and monitoring process of the School Global Budget funding model.

The evaluation and consultation process undertaken as part of that review resulted in the following refinements to the School Global Budget funding model for 2002:

- inclusion of a variable increment to recognise the needs of different sized schools;
- inclusion of a second variable increment to accommodate schools where the teaching staff cost (not including the leadership staff costs) exceeds State-wide averages.

The 2001 Indicative School Global Budget was released to Schools later than was intended.

The School Global Budget for 2002 was delivered on a timely basis.

UNIVERSITY OF MELBOURNE

Privatisation of Melbourne IT Ltd

Ministerial Portfolios, June 2000 pp. 22-51.

The University of Melbourne benefited substantially from the public sale of shares in Melbourne IT Ltd. Nevertheless, there were lessons for government and public sector entities that can be learnt from the float, including the need for independent valuations and avoidance of conflict of interest.

The Government is considering the outcome of a review of university operations, including the oversight of subsidiary entity activities, with a view to enhancing governance arrangements.

Impact of the creation of Melbourne University Private

Ministerial Portfolios, June 2001 pp. 37-46.

The adverse financial standing of Melbourne University Private (MUPL) at 31 December 2000 had significant financial ramifications for the University of Melbourne.

The University of Melbourne proposed a restructure and merger of MUPL.

In November 2001, ownership of Melbourne Enterprises International Limited (MEIL) was transferred to Melbourne University Private Limited (MUPL). MUPL has continued to incur operating losses, however its consolidated financial position was significantly enhanced as a result of the recognition of the net assets held by MEIL.

EDUCATION AND TRAINING - 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

DEPARTMENT OF EDUCATION AND TRAINING - continued

TAFE INSTITUTES

Property maintenance at TAFE Institutes

Ministerial Portfolios, June 2000, pp. 61-6.

The Department of Education, Employment and Training in February 2000 estimated that building maintenance funding requirements for all public TAFE providers were in the order of \$12.6 million per annum.

Given the quantum of maintenance backlog across the sector there is a need to focus on this issue to ensure that the TAFE facilities are maintained in a safe condition and are fit for their intended purpose.

The Department has implemented an asset management information system that will enhance the ability of TAFE Institutes and the Department to make strategic decisions in relation to maintenance works and the development of new facilities.

Financial viability of TAFE providers

Ministerial Portfolios, June 2000 pp. 52-60. Ministerial Portfolios, June 2001 pp. 47-57.

As at 31 December 2000, there were 6 public TAFE providers showing signs of financial difficulty.

TAFE Institutes are now required to report to the Office of Training and Tertiary Education on a quarterly basis. Following a review of their 2000 financial results, 4 TAFE Institutes were monitored on a monthly basis in 2001. Only one of these Institutes is required to continue to report monthly in 2002 following a review of the 2001 financial results of TAFE Institutes.

EDUCATION AND TRAINING - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
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NO ACTION TAKEN

UNIVERSITY OF MELBOURNE

Status of Bio21

<i>Ministerial Portfolios, June 2001 pp. 28-36.</i>	Consideration should be given to the level of public accountability by Bio21 Australia Limited, the company established to implement the Bio21 project.	Position unchanged. Public accountability arrangements for the Bio21 project are still under consideration.
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VICTORIAN UNIVERSITIES

Qualification of audit opinions

<i>Ministerial Portfolios, May 1999, pp. 44-6.</i>	Qualified audit opinions were issued on the financial reports of all Victorian universities for the year ended 31 December 1998 due to the inappropriate recognition, in their balance sheets, of an asset representing the funding they expect to receive from the Commonwealth Government by way of future annual grants which in part will be applied towards their unfunded superannuation liabilities.	Position unchanged. The financial reports of all universities for the year ended 31 December 2001 were qualified on this issue.
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HUMAN SERVICES

Report	Subject	Status at date of preparation of this report
MATTERS RESOLVED OR ACTION COMMENCED		
DEPARTMENT OF HUMAN SERVICES		
Rural hospital information technology alliances		
<i>Ministerial Portfolios, June 2001 pp. 90-153.</i>	The Government needs to ensure that the <i>Information, Information Technology and Telecommunications Strategy</i> (I2T2 Strategy) for Public Hospitals is fully implemented.	The Health Information Steering Committee was formed in late 2001 by the Department of Human Services and is developing a 5 year "Whole of Health" <i>Information & Information, Communication and Technology Strategy</i> for Victoria which will commence in 2003-04. The new Strategy will build on governance arrangements currently in place in all Rural Alliances, providing a more expanded and co-ordinated approach to investment in IT infrastructure in public hospitals.
Post-Acute care planning		
<i>Ministerial Portfolios, June 2001 pp. 100-53.</i>	The Department should address its inadequate monitoring of the effectiveness of the service delivery models for the provision of post-acute care services, in particular, the non-collection and/or reporting of some important performance indicators.	The Department of Human Services has developed two quality performance indicators that will be implemented and monitored in 2002-03. The indicators will measure timeliness of services and patient and carer satisfaction.
Financial viability of public hospitals		
<i>Public Sector Agencies November 2001, pp. 46-51.</i>	A number of public hospitals were operating under financial difficulties as at 30 June 2001.	The Department is undertaking ongoing monitoring of the financial viability of hospitals.
Housing rental arrears		
<i>Public Sector Agencies November 2001, pp. 52-4.</i>	The Department should closely monitor the level of rental arrears and bad debts written-off and implement strategies to ensure that further increases in these items are minimised.	An analysis to better understand the underlying influences of the level of rent arrears has been completed by the Department, which resulted in a comprehensive rent arrears action plan being developed.

INFRASTRUCTURE

Report	Subject	Status at date of preparation of this report
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF INFRASTRUCTURE

Contracting of public transport services

<i>Ministerial Portfolios, May 1997, p. 121.</i>	The Department of Infrastructure has not performed a post-implementation review of the contracting-out of the Melbourne to Warrnambool and Melbourne to Cobram public transport services and, accordingly, there is a possibility that the experiences gained from these arrangements may not be factored into future privatisation proposals.	Contracts relating to the public transport services were reviewed by the Department of Infrastructure as part of the process of developing a service proposal for replacement contracts. Original contracts, which commenced in July 1994, were due to expire on 30 June 2001. Extension of the contracts until 30 June 2004 were signed in June 2001.
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Progress with the Federation Square Development

<i>Ministerial Portfolios, June 2001, pp. 330-42</i>	Significant increases have occurred in the costs estimated for the development of Federation Square since the original estimate of \$110 million in March 1996.	Further comment on the Federation Square Development is provided in this report.
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LOCAL GOVERNMENT

Municipal business undertakings

<i>Ministerial Portfolios, May 1998, pp. 114-20.</i>	A survey in the 1996-97 financial year of the management of municipal business undertakings indicated that 12 councils, which had contract expenditure in excess of \$68 million, were unable to identify surpluses or losses generated from their business unit operations.	Further comment on municipal business undertakings is provided in this report.
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Reporting of theft, arson, irregularity and fraud

<i>Ministerial Portfolios, May 1999, pp. 158-60.</i>	Legislative amendments should be considered for local government entities requiring annual reporting to the responsible Minister and the Auditor-General of all instances of theft, arson, irregularity and fraud.	The Department of Infrastructure previously advised that amendments to the <i>Local Government Act</i> 1989 requiring annual reporting to the responsible Minister and the Auditor-General of all instances of theft, arson, irregularity and frauds would be considered as part of the update of the Act. The possibility of such amendments was canvassed in the consultation process for the update of the Act. However, the <i>Local Government (Update) Bill</i> , which was introduced to the Parliament in May 2002, does not include clauses, which would amend the Act to require the reporting of such matters to the Minister and the Auditor-General.
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INFRASTRUCTURE - 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

LOCAL GOVERNMENT - continued

Performance reporting

<i>Ministerial portfolios, June 2001 pp. 175-82</i>	Further reinforcement and clarification is required to ensure that a consistent, coherent and effective framework is in place for local government performance reporting.	The <i>Local Government (Update) Bill</i> , which was introduced to the Parliament in May 2002, includes a number of provisions which are intended to address this issue.
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City of Geelong's involvement with Geelong business and trade centre

<i>Public Sector Agencies, November 2001, pp. 57-74.</i>	The Council should finalise its review of existing arrangements with external entities and establish whether or not such arrangements are in accordance with its current corporate objectives and whether adequate representation, performance monitoring, reporting and risk minimisation strategies are in place.	The City of Greater Geelong has completed a review of Council's relationships with all incorporated entities, with the view to ensuring that adequate representation, performance monitoring, reporting and risk minimisation strategies are in place.
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INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
MATTERS RESOLVED OR ACTION COMMENCED		
DEPARTMENT OF INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT		
Regional Infrastructure Development Fund		
<i>Ministerial Portfolios, June 2001, pp. 330-42</i>	Major work is required by the Department in terms of improving its prioritisation of projects, providing timely and complete information to applicants on the outcome of the assessment process, and establishing a performance measurement framework to assess the effectiveness of the regional infrastructure development initiative.	The Department is currently implementing an improved performance measurement and assessment regime for the Fund. There has also been a significant reduction in time taken to provide information to applicants on the outcome of funding applications.

JUSTICE

Report	Subject	Status at date of preparation of this report
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF JUSTICE

Infants Investment Trust Accounts

<p><i>Ministerial portfolios, May 1998, pp. 150-1.</i></p>	<p>Enhancements to the Infants Investment Trust Accounts system should be implemented at the County Court and the Victims of Crime Assistance Tribunal to enable the regular production and issue of transaction statements to trust fund beneficiaries.</p>	<p>A consultant's report on the Court's administration of funds (both County Court and Victims of Crime Assistance Tribunal) held on behalf of persons has been finalised, with the report presenting a number of options to improve the efficiency of the administration of the Infants Investment Trust Accounts system. These options were under consideration by the Department at the date of preparation of this report.</p>
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Need for enhanced public accountability covering non-judicial functions of Victorian courts

<p><i>Ministerial portfolios, May 1999, pp. 208-16.</i></p>	<p>No performance audits have been undertaken by the Auditor-General of administrative functions within judicial bodies since June 1996 because of legal advice obtained by the Department of Justice. This situation is totally unsatisfactory in terms of the public accountability implications to the Parliament and the community. Urgent action by way of legislative change is necessary to address the position.</p>	<p>This important issue is still under consideration by the Government in consultation with the Judiciary.</p>
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Estate Agents Guarantee Fund

<p><i>Ministerial Portfolios, June 2001, pp. 229-39.</i></p>	<p>In order to improve the level of accountability over trust fund moneys, separate annual financial reports should be produced for each of the major trust funds administered by the Department, including the Estate Agents Guarantee Fund.</p>	<p>The Department has agreed that the level of accountability over trust funds be increased by greater transparency in the annual reporting on the funds. This would be achieved by the inclusion of key financial information on revenue, expenditure, assets, and liabilities in future Consumer and Business Affairs Victoria (CBAV) annual reports tabled in Parliament.</p>
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JUSTICE - continued

Report	Subject	Status at date of preparation of this report
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF JUSTICE - continued

VICTORIA LEGAL AID

Funding changes

Ministerial portfolios, May 1999, pp. 186-207.

Victoria Legal Aid (VLA) should undertake an assessment of the need for legal aid within the Victorian community to assist it in allocating scarce legal aid funding in the most effective and equitable manner, and to determine the impact of changes to legal aid guidelines on the provision of legal aid services in Victoria.

The Parliamentary Law Reform Committee undertook a review of legal services in rural and regional Victoria. The Committee tabled an extensive and detailed report containing 125 recommendations on 31 May 2001. A significant number of key stakeholders are affected by the Committee's recommendations including the courts; Victoria Legal Aid; Community Legal Centres and the Federation of Community Legal Centres; the Law Institute; the Department of Justice; the Department of Human Services; and the Office of the Correctional Services Commissioner.

The Department of Justice has actively consulted with organisations and individuals about the Committee's report and recommendations. The outcome of this process will inform the development of the Government's response, which is scheduled for tabling in the current Parliamentary session.

NO ACTION TAKEN

Estate Agents Guarantee Fund

Ministerial Portfolios, June 2001, pp. 229-39.

Given the substantial net assets held in the Fund, the Parliament could consider amendments to the Act in order to broaden the criteria for grant payments made from the Fund.

Position unchanged. The Department has advised that there are no current proposals to broaden the criteria.

NATURAL RESOURCES AND ENVIRONMENT

Report	Subject	Status at date of preparation of this report
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MATTERS RESOLVED OR ACTION COMMENCED

DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENT

Reporting framework for committees of management and trustees

<i>Ministerial Portfolios, May 1997, pp. 158-62.</i>	There is a need for the Department to review the current reporting framework relating to committees of management and trustees, to provide a proper accountability process. The receipt and review of limited financial information once every 3 years, together with the absence of an appropriate departmental program to inspect Crown land reserves, does not ensure that the Department is aware, on a timely basis, of potential problems arising in committees of management.	Committee of Management Responsibilities and Good Practice guidelines, which incorporate requirements associated with financial reporting and risk management, have been produced for distribution to Committees of Management.
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Forest management

<i>Ministerial Portfolios, May 1997, p. 156.</i>	In relation to a number of forest management areas, the Department is incurring costs to allow operators to remove native trees and wood products, with limited financial benefits accruing back to the State.	The Government has engaged a consultant to undertake a review of logging royalties and charges and to recommend appropriate methodology(s) to ensure they generate adequate returns. Comment is included in this report on the Victorian Forest Industry Structural Adjustment Package.
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Water industry reform

<i>Ministerial Portfolios, May 1996, p. 221 and May 1998, p. 175.</i>	While the water reform process envisaged the issue of licence agreements between the Government and water authorities, and the establishment of an independent regulator, these aspects of the reform process have not been implemented.	In April 2002, the Government released for public comment its proposals for economic regulation of the Victorian water industry by the Essential Services Commission (ESC). The proposals include price and service quality regulation of water industry services by the ESC from 1 January 2003. Also proposed is the development of Statements of Obligations for Melbourne Water, Regional Urban Water Authorities and Rural Water Authorities, which are to be issued and administered by the Government.
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**NATURAL RESOURCES
AND ENVIRONMENT - continued**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENT - continued		
Water quality		
<i>Ministerial Portfolios, May 1998, pp. 177-9. May 1999, pp. 227-33.</i>	<p>In 1996-97, only 57 per cent of the population supplied by non-metropolitan water authorities received water that met the guidelines for micro-biological quality. Of particular concern was that one-third of water that was treated did not meet the guidelines.</p> <p>As at 30 June 1998, 60 per cent of country Victorians were in receipt of water that met the guidelines for micro-biological quality.</p>	<p>The overall percentage of non-metropolitan customers receiving water that complies with water quality guidelines was 59 per cent for 2000-2001 (64 per cent for 1999-2000). On the 1 July 2000, the Department of Human Services introduced a requirement for a new testing methodology for analysing micro-biological drinking water samples in Victoria. The methodology allows for more rapid detection and response to contamination events, while also providing for State-wide uniformity of water quality data.</p> <p>To support improved scrutiny of water quality performance, a dedicated drinking water quality regulator is to be established.</p>
Water storage management		
<i>Ministerial Portfolios, June 2000, p. 239.</i>	<p>Given the importance of dam safety and the significant consequences of dam failure, consideration should be given to the establishment of a single independent body to oversee dam safety within Victoria.</p>	<p>Dam safety measures have been introduced through the recent <i>Water (Irrigation Farm Dams) Act 2002</i> with regard to construction, operation and maintenance of hazardous farm dams. The Department has also taken responsibility as the State's Control Agency for dam safety related incidents and emergencies and \$4 million has been allocated in the State budget for dam safety improvement works.</p>
Automation of the land titles register		
<i>Ministerial Portfolios, June 2001, pp. 253-65</i>	<p>Significant time and cost overruns have occurred in the automation of the land titles register.</p>	<p>Further comment on the automation of the land titles register is provided in this Report.</p>

PREMIER AND CABINET

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
MATTERS RESOLVED OR ACTION COMMENCED		
MUSEUMS BOARD OF VICTORIA		
Cost of construction of the Melbourne Museum complex		
<i>Ministerial Portfolios, June 2000, pp. 264-9.</i>	At February 2000, the final cost of completing the Melbourne Museum complex was estimated at \$291.8 million, compared with an original budget of \$250 million.	At May 2002, the estimated completion cost for the project was \$298.9 million. However, there were a number of claims from consultants and some relatively minor remedial works yet to be finalised, which are likely to impact on the final cost of the project.

**SPORT, TOURISM
AND THE COMMONWEALTH GAMES**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
MATTERS RESOLVED OR ACTION COMMENCED		
DEPARTMENT OF SPORT TOURISM AND THE COMMONWEALTH GAMES		
Construction of the multi-purpose venue at Melbourne Park		
<i>Ministerial Portfolios, June 2000, pp. 303-8.</i>	The projected final cost of construction of the venue could not be determined as negotiations relating to contractor's final claims and rectification of defects was not complete.	Final settlement was reached between the Department and the contractor in 2000-01 resulting in an additional payment of \$6.2 million to the contractor. The final cost of the construction of the venue was \$74.2 million.

TREASURY AND FINANCE

Report	Subject	Status at date of preparation of this report
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MATTERS RESOLVED OR ACTION COMMENCED

VICTORIAN WORKCOVER AUTHORITY

Financial performance

<i>Ministerial Portfolios, June 2001, pp. 387-99.</i>	During the 6 month period to 31 December 2000, the Authority incurred an operating loss.	The Authority's financial position has improved over the past 12 months, which was mainly attributable to the stabilisation of the common law component of the outstanding claims liability
	The Authority's consulting actuaries did not expect the WorkCover Fund to return to a fully-funded position before 30 June 2006, 3 years later than intended when amending legislation was enacted in May 2000.	At 31 December 2001, the Authority's consulting actuaries revised their forecasts and now expect the WorkCover Fund to return to a fully funded position by 30 June 2004.

DEPARTMENT OF TREASURY AND FINANCE

Motor vehicle fleet management

<i>Ministerial Portfolios, May 2001, pp. 400-03.</i>	The Department had not determined the on-going costs associated with providing fleet management services and, therefore, was not in a position to determine whether it should continue to provide such services in the future.	A review of fleet financing and fleet management has been completed by external consultants, which incorporated consideration of the costing of fleet management. The Department is currently considering its future actions in regard to fleet management in light of the findings of the consultancy review.
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State Revenue Office (SRO) information technology systems

<i>Ministerial Portfolios, May 2001, pp. 404-10.</i>	The SRO information technology development project is in the critical phases of testing and final implementation. The progress made in these final stages will ultimately determine the success of the SRO in implementing effective revenue collection systems. Any delays may also impact on both the direct costs of the project and the extent of internal resources utilised by the SRO on the project.	The total project cost as at February 2002 was \$27.4 million. While the completion of phase 1 of the project was initially envisaged for 30 June 2001, full implementation was not achieved until 16 August 2001 – some 6 weeks later than expected. As at the date of preparation of this report, the implementation of phase 2 of the project, which involves further code conversions and systems upgrade, was in progress. This phase of the project has an estimated cost of \$2.45 million and it is anticipated to be completed by 30 June 2003.
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TREASURY AND FINANCE - continued

Report	Subject	Status at date of preparation of this report
MATTERS RESOLVED OR ACTION COMMENCED		
State Revenue Office (SRO) information technology systems - continued		
<i>Ministerial Portfolios, May 2001, pp. 404-10.</i>	The SRO did not allow credit card payments by taxpayers. Given current trends towards e-commerce and the increasing usage by consumers of credit cards, the appropriateness of this policy may require review.	The SRO has introduced credit card payment options for Land Tax Clearance Certificates and for the payment of some types of Land Tax. These options are targeted towards individual customers rather than businesses. The SRO does not intend to introduce credit card payments options for other taxes given the related cost of merchant fees and the availability of other payment options such as direct payment via EFT and BPay.
Disclosure of consultancy payments in Agency Annual Reports		
<i>Ministerial Portfolios, May 1996, p. 335.</i>	There is a need for clarification within the Government's supply guidelines of the classification of consultancy and contractor services, in order to improve the disclosure of consultancy payments in public sector agency's annual reports to the Parliament.	The Department is currently examining options for reporting of consultants and contractors, and to improve the consistency of reporting across public sector agencies.