VICTORIA

Auditor-General
of Victoria

REPORT ON PUBLIC SECTOR AGENCIES

Results of special reviews and 30 June 2002 financial statement audits

February 2003

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AUDITOR GENERAL
VICTORIA

President
Legislative Council
Parliament House
MELBOURNE

Speaker
Legislative Assembly
Parliament House
MELBOURNE

I am pleased to forward this report to you for presentation to each House of Parliament, pursuant to section 15 of the *Audit Act* 1994.

This report sets out the results of financial statement audits conducted on public sector agencies pertaining to the financial year ending 30 June 2002, and the results of a number of special reviews undertaken up to the date of preparation of this report.

Yours faithfully

J.W. CAMERON
Auditor-General

27 February 2003

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SUMMARY OF AUDIT RESULTS

General government

- There is scope for improvement in the timeliness of completion of audited financial statements. Only 40 per cent of entities met the 12 week legislated completion time frame.

Paras 3.3 to 3.10

- The majority of departments and agencies have maintained relatively effective internal controls over financial and information technology systems necessary for the preparation of their annual financial reports. Opportunities do exist, however, for agencies to further improve the effectiveness of their management and internal control processes.

Paras 3.15 to 3.16

- Significant control and management issues identified during the 2001-02 financial audit cycle included:
  - inadequate arrangements for audit committees;
  - absence of effective risk management (including fraud prevention) arrangements;
  - inadequate asset management practices;
  - deficiencies in information technology management processes; and
  - inadequate account reconciliation and review procedures.

Paras 3.17 to 3.67

Local government

- There has been a slight improvement in the timeliness of completion of audited financial statements and, where applicable, performance statements by local government entities - with around 75 per cent of these entities completing their 2001-02 statements within a 3 month period.

Paras 4.4 to 4.7

- Some councils are encountering difficulties in meeting the legislative requirements associated with performance reporting. My Office continues to encourage and support initiatives intended to improve the quality of performance reporting in the local government sector.

Paras 4.12 to 4.16

RESULTS OF SPECIAL REVIEWS

Cash management in schools

- Between December 1999 and June 2002, cash levels held by schools increased from $243 million to an estimated total of $386 million.

  Paras 5.20 to 5.23

- Detailed budgeting beyond the current financial year for purchasing or replacement of equipment items and other major capital items, other than information technology equipment, was not evident in many of the schools examined.

  Paras 5.37 to 5.38

Implementation of RMIT University's Academic Management System

- In December 1999, RMIT commenced the Academic Management System (AMS) information technology implementation project. The aim of the AMS project was to integrate all RMIT's student management activities into a consolidated system to streamline processes including student enrolments.

  Paras 5.53 to 5.54

- The implementation of the AMS was largely outsourced and went "live" in October 2001. Since going "live", the AMS has suffered a number of functional and technical problems.

  Paras 5.55 to 5.56

- The anticipated cost of implementation of the AMS to the end of 2003 of $47.2 million represents 3.7 times the original implementation budget. RMIT, as part of the original budget, also allocated a further $6 million per annum for 3 years for licence fees, additional implementation work, consultancies and software upgrades.

  Paras 5.122 to 5.125

- The current system has not provided the functionality originally planned and RMIT faces significant challenges in transitioning to a high quality student administration system that is sustainable in the medium to long-term, as well as funding the activities necessary to achieve this outcome.

  Paras 5.97 to 5.117

RESULTS OF SPECIAL REVIEWS - *continued*

Implementation of RMIT University's Academic Management System - *continued*

- RMIT did not comprehensively plan for, and apply, appropriate contract and project management practices. It did not establish the required governance arrangements, including senior management involvement, or support, to ensure the implementation project was effectively managed.

Paras 5.67 to 5.69

- The AMS became operational although it was unable to satisfy a significant number of critical business needs. A consequence of this was that RMIT operations suffered disruption, including services to prospective and current students.

Para. 5.85

- While some significant progress has subsequently been made by RMIT towards stabilising and supporting the AMS to allow faculties to meet the short-term requirements of the academic calendar, much remains to be done - both in the short-term to ensure processing requirements are met, and over the longer-term if a lasting solution is to be found.

Paras 5.134 to 5.142

Austin and Repatriation Medical Centre redevelopment and Mercy Hospital for Women relocation project

- In February 2001, the Government endorsed a total projected end cost of $325.7 million for the project. This comprised $221.3 million for the main Austin and Repatriation Medical Centre redevelopment (including the car park), $6.7 million for the mental health facility, $67.7 million for the Mercy Hospital for Women relocation, and $30 million for the consolidation and upgrade of teaching, training and research facilities.

Paras 5.244 to 5.246

- The total projected end cost of the project, as endorsed by the Government in March 2002, was revised to $376.3 million. However, this does not include the deferred refurbishment works (ambulatory care and clinical support services, site consolidation, and clinical enhancement works), which will cost a further $21.4 million.

Paras 5.247 to 5.249

RESULTS OF SPECIAL REVIEWS - *continued*

Financial viability of hospitals

- The overall financial position of public hospitals deteriorated during 2001-02 with 9 public hospitals showing signs of financial difficulty and a further 15 hospitals having unfavourable results.

  Paras 5.267 to 5.278

- A major shortcoming of the current method of funding public hospitals is that by not providing the funding equivalent to the cost of depreciation to each hospital authority, the service capacity of hospitals may not be maintained.

  Paras 5.269 to 5.271

- Our review of the net cash outflows from operating activities of the metropolitan hospitals identified that while total cash payments rose by 15.2 per cent, total receipts rose by only 9.8 per cent. This means metropolitan hospitals have spent $46.8 million more on operating activities than they received.

  Paras 5.272 to 5.277

- The Department has initiated a number of actions to assist hospitals identified as experiencing financial difficulties. While we support these actions, it remains critical that the key issues affecting the likely financial performance of hospitals are identified as early as possible and strategies implemented, before they threaten the financial position of the hospital, impinge on the quality of care provided to patients and translate into reduced service capacity.

  Paras 5.279 to 5.283 and
  5.293 to 5.295

Public housing rental arrears and waiting lists

- The level of rent arrears has stabilised over the last 12 months and tenant responsible maintenance debt has declined. However, bad debts written-off increased from $3.2 million in 2000-01 to $6.1 million in 2001-02.

  Paras 5.305 to 5.309

- The total number of tenants on the waiting list, including tenants requesting transfers between public housing locations, has increased by 13.6 per cent since 1999-2000.

  Paras 5.328 to 5.332

- The Office of Housing within the Department of Human Services needs to continue to closely monitor the number of applicants and the waiting times for public housing, and the effectiveness of new strategies it has introduced to ensure that the Department's program and performance objectives are achieved.

  Paras 5.334 to 5.338

RESULTS OF SPECIAL REVIEWS - *continued*

Provision of a uniform rate rebate by Glen Eira City Council

- On 1 July 2002, the Glen Eira City Council declared its annual rates and charges for the period 1 July 2002 to 30 June 2003. The rate in the dollar of the net annual value of the land was the same as that declared by the Council for the 2001-02 rating period. At the same time, the Council also approved a general rate rebate of 8 per cent to all ratepayers.

Paras 5.342 to 5.346

- It would seem more in keeping with the rating model established by the *Local Government Act* 1989 if the Council had declared its rates and charges at a level designed to meet the revenue requirements embodied in its budget for 2002-03, rather than declaring rates at a higher level than required by that budget and then granting a general rebate to all ratepayers.

Paras 5.347 to 5.350

Former Delatite Shire Council – Management of involvement in Lakeside Community Centre Project

- The Lakeside Community Centre Project in Benalla has been under development over the past 10 years, and concerns the construction of a building for use by sporting and other community groups on the Benalla Showgrounds Reserve in the centre of Benalla. Significant deficiencies were identified in the former Delatite Shire Council's management of its involvement in this project.

Paras 5.352 to 5.402

- In October 2002, the Council was advised that its application for funding from the Community Support Fund to complete the Lakeside Community Centre had been successful and funding of $204 000 had been awarded on a matching dollar-for-dollar basis. However, the provision of such funding appears to breach the Community Support Fund guidelines.

Paras 5.403 to 5.404

- At December 2002, $723 598 had been expended by the Council associated with the design and construction of the Centre, with a further $408 000 required to be incurred to finalise the construction of a scaled-down facility no longer including the upper-level club/function rooms.

Para. 5.407

RESULTS OF SPECIAL REVIEWS - *continued*

Status of the Docklands development

- The Docklands site currently comprises 7 main precincts, the development of which is mostly being facilitated by the Docklands Authority, which are intended to be progressively developed over the next 12 to 15 years. However, the actual development timetable will be determined by market demand.

  Paras 5.415 to 5.417

- The development rights for approximately 91 per cent of the planned development, by development value, had been contractually assigned to private developers by the Authority, and approximately 23 per cent of the proposed private development had been constructed, or is currently under construction.

  Para. 5.418

Victoria Harbour Precinct

- The nature and timing of the development of the Victoria Harbour Precinct at Docklands is reactive with, and conditional upon, market cycles and demand within a 20 year time frame.

  Paras 5.430 to 5.439

- The Valuer-General has indicated that the developer's bid had reasonable prospects of producing a viable outcome for the developer. The Valuer-General's analysis projected a profit-on-cost ratio of 22 per cent for the developer. Further, the Development Agreement enables the developer to avoid the risk of earning less than the contractually specified return on the development of 15 per cent.

  Paras 5.440 to 5.448

- The Development Agreement limits the developer's maximum aggregate liability to compensate the Authority for its losses, damages and costs in the event of termination.

  Paras 5.451 to 5.455

RESULTS OF SPECIAL REVIEWS - *continued*

Docklands Film and Television Studio

- The State has substantially financed through the provision of loan funding the private development and operation of a film and television studio complex at Docklands.

  Paras 5.507 and 5.502 to 5.503

- The total outlays by the State are estimated at $46.8 million in nominal terms, which will be partly offset by proceeds received from the sale of certain land and loan principal repayments that are dependent upon the level of the developer's earnings. In addition, the State will receive annual ground lease payments for the core studio site and interest payments at a concessional rate on the outstanding loan amount after a 2 year interest-free period.

  Paras 5.508 and 5.499 to 5.501

- The successful tenderer enjoyed additional opportunities to present and clarify their proposal before achieving preferred tenderer status and participated in protracted negotiations over almost 9 months with the Department of Industry, Innovation and Regional Development, leading to new financing arrangements and design changes after achieving that status. The other tenderers were not given the same opportunities for additional presentations or to revise their tenders during that period.

  Paras 5.510 and 5.470 to 5.498

- The negotiations resulted in the final agreed arrangements, while acceptable to the State, departing in some respects from the tendering conditions, as set out in the request for tender, and/or the original tender submission.

  Paras 5.496 to 5.498 and 5.510 to 5.511

- The Department indicated that while there has been some diminution in terms of elements of the studio design, viability and commercial relationships, in their view this was more than offset by significantly higher committed equity investment, additional financial stability for the core studio, an increased overall investment in the studio complex and additional business development experience, and that the final contracts provided for delivery of the State's objectives for the project.

  Paras 5.511 and 5.496 to 5.498

Part 2

Summary of audit results

Parliament

SUMMARY OF AUDIT RESULTS

2.1 Parliament, as the law-making body of the State, provides the base from which the Government is formed. Parliament is composed of the Crown (represented by the Governor), and the Legislative Council and the Legislative Assembly, which collectively form the legislature. The scrutiny and deliberative roles of Parliament are complemented by a number of committees, the role of which is to inquire, investigate and report upon proposals or matters referred to them by either House or by the Governor-in-Council, or in certain circumstances, upon a self-initiated reference.

2.2 The administrative support services of Parliament and the associated Committees are provided by 5 parliamentary departments, namely, the Legislative Council, the Legislative Assembly, Parliamentary Debates (Hansard), the Parliamentary Library and the Joint Services Department. The primary function of these departments is to service the 2 Houses and associated committees, as well as to provide administrative support for Members and electorate offices. Under recent amendments to the *Constitution Act* 1975, the Victorian Auditor-General's Office now forms part of Parliament

Finalisation of financial statements

2.3 While no reporting requirements are established in legislation in relation to the administrative operations of Parliament, under a standing arrangement with the presiding officers of both Houses, my Office undertakes an annual audit of the financial statements of Parliament (which comprises the 5 parliamentary departments), which are prepared consistent with the requirements of the *Financial Management Act* 1994.

2.4 The financial reporting requirements of the Victorian Auditor-General's Office are set out in section 7B of the *Audit Act* 1994, which provides that, as soon as practicable after the end of each financial year, the Auditor-General must prepare financial statements which comply with section 49 of the *Financial Management Act* 1994 and provide them to the independent auditor appointed by Parliament for auditing. The Auditor-General must then, as soon as practicable, cause an annual report which includes a report of operations and the audited financial statements, to be transmitted to each House of Parliament.

2.5 During the 2001-02 financial audit cycle, confirming audit opinions were issued on the financial statements prepared by the Parliament of Victoria and the Victorian Auditor-General's Office. Table 2A outlines the timing of the finalisation of the financial statements and the issue of the audit opinions.

TABLE 2A
TIMELINESS OF FINANCIAL STATEMENT COMPLETION

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Parliament of Victoria	18 Sept. 2002	✓	23 Sept. 2002
Victorian Auditor-General's Office *(a)*	16 Sept. 2002	✓	16 Sept. 2002

(a) The Victorian Auditor-General's Office was audited by a private sector auditor.

Part 3

Summary of audit results

General government

SUMMARY OF AUDIT RESULTS

3.1 At 30 June 2002, the Auditor-General under the authority of the *Audit Act* 1994 had responsibility for the conduct of financial statement audits of 593 public sector agencies. Approximately 74 per cent, or 438 of these agencies have a 30 June balance date. The remaining agencies (comprising mainly educational bodies and associated companies, cemetery trusts and alpine resort management boards) have either 30 September, 31 October or 31 December balance dates. Public sector agencies, with 30 June 2002 balance dates, (other than those relating to the local government sector) mainly comprise:

- departments and other administrative units;
- public bodies, such as government business undertakings and public financial institutions;
- public hospitals and ambulance services;
- registration boards;
- superannuation funds;
- companies and joint ventures;
- regional waste management groups; and
- water authorities.

3.2 This Part of the report provides an analysis of the timeliness of financial statement completion for the most recent audit round, the nature of audit opinions issued, and a summary of the key issues arising from the audits.

Timeliness of financial reporting

3.3 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. In particular, 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.

3.4 Under the *Audit Act* 1994, the Auditor-General is then required to audit the 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.

3.5 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.

3.6 Table 3A illustrates the overall performance of public sector agencies with 30 June 2002 balance dates in meeting the statutory requirement associated with the completion of audited financial statements.

TABLE 3A
TIMELINESS OF FINANCIAL STATEMENT COMPLETION, ALL DEPARTMENTS AND PUBLIC SECTOR AGENCIES WITH 30 JUNE 2002 BALANCE DATES *(a)*

	Entities	
Finalisation of audited financial statements (no. of weeks after end of financial period)	***Number***	***Per cent (cumulative)***
Less than 8 weeks	34	10
8 to 10 weeks	37	21
10 to 12 weeks	65	40
12 to 14 weeks	129	78
14 to 16 weeks	32	88
More than 16 weeks *(b)*	41	100
Total	**338**	**-**

(a) Excluding Parliament and the local government sector.
(b) Includes 8 entities whose financial statements had not been finalised at the date of preparation of this report.

3.7 **The above table demonstrates that there is scope for improvement in the timeliness of completion of audited financial statements, with 40 per cent of entities meeting the 12 week legislated completion time frame. The audited financial statements of the majority of the remaining entities were available within 4 weeks of the legislated completion timeline (i.e. within 16 weeks of year-end).**

3.8 Table 3B illustrates the performance of public sector agencies within ministerial portfolios in meeting the 12 week legislated completion time frame for both the 2000-01 and 2001-02 reporting cycles.

TABLE 3B
TIMELINESS OF FINANCIAL STATEMENT COMPLETION BY PORTFOLIO

	2001-02		***2000-01***	
Portfolio	***Number of statements finalised within 12 weeks***	***Per cent***	***Number of statements finalised within 12 weeks***	***Per cent***
Education, Employment and Training	-	-	1	20
Human Services	39	35	35	31
Infrastructure *(a)*	9	53	4	27
Justice	11	52	9	47
Natural Resources and Environment	25	30	33	42
Premier and Cabinet	6	55	5	42
Treasury and Finance	41	56	37	54
Innovation, Industry and Regional Development *(b)*	-	-	n.a.	n.a.
Tourism, Sport and Commonwealth Games *(b)*	5	38	n.a.	n.a.
State and Regional Development	-	-	6	35
Total	**136**	**40**	**130**	**40**

(a) Excludes local government bodies, which are outlined in the following section of this report.
(b) New portfolios in 2001-02.

3.9 **The overall timeliness of completion of audited financial statements remained consistent with the previous financial year with 40 per cent of entities meeting the 12 week legislated completion time frame.** The performance of 5 portfolios, in meeting the legislated time frame, (Human Services, Infrastructure, Justice, Premier and Cabinet, and Treasury and Finance) improved since the previous reporting cycle. However, significant improvement is still required to be achieved in the timeliness of completion of audited financial statements.

3.10 **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.**

Summary of audit qualifications

3.11 Professional guidance on the issue of audit opinions on financial reports is drawn from Australian Auditing Standard AUS 702: *The Audit Report on a General Purpose Financial Report*. In accordance with AUS 702, the following audit opinions may be issued:

- ***Unqualified audit opinion (Clear audit opinion) -*** expressed when the auditor is satisfied that the financial report is presented fairly in accordance with Australian Accounting Standards and other relevant statutory requirements, principally the *Financial Management Act* 1994 in the case of Victorian public sector entities (*Local Government Act* 1989 in the case of agencies in the local government sector);
- ***Unqualified audit opinion with emphasis of matter -*** an emphasis of matter is included in certain limited circumstances to draw attention or emphasis to a specific matter that is relevant to the users of the audit report but is not of such a nature that it affects the audit opinion on the financial report; and
- ***Qualified opinions*** **–** issued in 3 circumstances, namely:
  - ***"Except for" opinion*** - expressed when the auditor concludes that an unqualified audit opinion is inappropriate because of:
    - a disagreement with management (including inherent uncertainty not adequately disclosed); or
    - a conflict between applicable financial reporting frameworks, e.g. between accounting standards and relevant legislative requirements; or
    - a limitation on the scope of the audit; and
    - the effects or possible effects of the above are not of such a magnitude or so pervasive or fundamental as to require the expression of an "*adverse opinion*" or an "*inability to form an opinion*";
  - "***Adverse opinion"*** – expressed when the effects of a disagreement with management or a conflict between applicable financial reporting frameworks is of such a magnitude or is so pervasive or fundamental that the financial report taken as a whole is, in the auditor's opinion, misleading or of little use to the addressee of the audit report; and
  - ***"Inability to form an opinion" -*** expressed when a scope limitation exists and:
    - sufficient appropriate audit evidence to resolve the uncertainty resulting from the limitation cannot reasonably be obtained; and
    - the possible effects of the adjustments that might have been required, had the uncertainty been resolved, are of such a magnitude or so pervasive or fundamental that the auditor is unable to express an opinion on the financial report taken as a whole.

Nature of audit opinions issued

3.12 As at the date of preparation of this report, 314 clear audit opinions had been issued on the financial statements of public sector agencies (excluding local government and related entities) with 30 June 2002 balance dates, with qualified audit opinions issued on a further 16 financial statements. Appendix A to this report provides information in respect of each agency concerning the timing of the finalisation of financial reports and audit opinions, and nature of the audit opinions issued.

3.13 The major reasons for the issue of qualified audit opinions were:

- 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 (one agency in the Justice portfolio and 4 hospitals);
- Failure to consolidate organisations that were regarded as "controlled entities" in accordance with Australian Accounting Standard AAS 24: *Consolidated Financial Reports* (3 hospitals);
- Non-compliance with the Victorian Government Policy - *Revaluation of Non-Current Physical Assets* - May 2002, which required assets not revalued within the last 5 years to be revalued for the reporting period ended 30 June 2002 (one agency in the Premier and Cabinet portfolio and one hospital);
- Failure to deem the balance of the retained surplus as at 30 June 2001 to be part of contributed capital as at 1 July 2001 in accordance with the reporting requirements set out in the Department of Treasury and Finance's Accounting and Financial Reporting Bulletin 40 : *Establishment of Opening Balances and Formal Designation for Contributed Capital* (2 water agencies in the Natural Resources and Environment portfolio);
- Inappropriate recognition of certain debtors (one hospital);
- Incorrect recognition of an expense and an associated liability (one agency in the Tourism, Sport and the Commonwealth Games portfolio);
- Inappropriate accounting for assets not previously recognised, as an increment to asset revaluation reserve, resulting in non-compliance with the requirements of Australian Accounting Standards AASB 1041: *Revaluation of Non-Current Assets* and AASB 1018: *Statement of Financial Performance* (one water agency in the Natural Resources and Environment portfolio); and

- Several audit qualifications were contained in the audit opinion issued on the Docklands Authority 2001-02 financial statements, due to the adoption of inappropriate accounting policies relating to municipal assets, certain road assets and Commonwealth Government grants for the Commonwealth Technology Port. In particular, the Authority wrote-off certain municipal assets which remained within their responsibility, retained part of the value of certain road assets which were not controlled by the Authority, and carried forward certain grants which were non-reciprocal in nature and should have been recognised as revenue.

3.14 In addition to the above, "emphasis of matter" comments were included in the audit reports on the South Eastern Medical Complex Limited and Casey's Weir and Major Creek Rural Water Authority to draw attention to significant uncertainty as to whether these entities will continue as going concerns. Comment on this issue in the respective audit reports was considered relevant for the users of the financial statements, but was not of such a nature as to affect the audit opinions.

Issues identified in the conduct of financial audits

3.15 While the principal purpose of financial statement audits is to add credibility to the financial accountability process through the expression of independent audit opinions on the annual financial report of public sector agencies, the financial audit process also incorporates a range of other activities, such as:

- assessing the adequacy of the management control environment;
- ensuring agency compliance with legislation and regulations;
- verifying the existence of management and information technology controls, and assessing the effectiveness of such controls; and
- identifying inefficient use of public resources or any lack of probity or financial prudence.

3.16 **The financial audits for 2001-02 found that departments and agencies have generally complied with relevant accounting standards and legislative requirements. The majority of these departments and agencies have also maintained relatively effective internal controls over financial and information technology systems necessary for the correct preparation of their annual financial reports.**

3.17 **Opportunities do exist, however, for agencies to further improve the effectiveness of their management and internal control processes.** During the 2001–02 financial audit cycle, we identified a wide range of issues with the potential to adversely impact on financial management and control within certain agencies, if not appropriately addressed. Significant control and management issues identified included:

- inadequate arrangements for audit committees;
- absence of effective risk management (including fraud prevention) arrangements;
- concerns over the financial viability of a number of public health services;
- inadequate asset management practices;

- deficiencies in information technology management processes (including absence of formal disaster recovery plans, information technology strategies and user password procedures); and
- inadequate account reconciliation and review procedures.

3.18 Table 3C summarises the issues identified during the 2001-02 financial audit cycle which were common to a number of agencies subject to audit review. The frequency of occurrence varied. Where they were of sufficient frequency or significance, further comment is made following this table.

TABLE 3C
AUDIT ISSUES IDENTIFIED AND REPORTED DURING THE 2001-02 FINANCIAL AUDIT CYCLE

Subject area	*Issues identified*
Governance	• Absence of or ineffective audit committees (for example, irregular meetings or members insufficiently independent of operational management). • Undeveloped integrated risk management arrangements (including fraud prevention). • Absence of internal audit functions.
Financial management and reporting	• Financial viability concerns in certain public hospitals. • Absence of financial management policy and procedure manuals or the failure to update manuals on a timely basis. • Inconsistency between financial statements published in annual reports and the financial statements audited by my Office. • Ineffective reconciliation of State Administrative Unit (SAU) receivable account which were disclosed in departmental financial statements. • Inadequate disclosure of items administered on behalf of the Crown in the departmental financial statements.
Information technology (IT) control environment	• Inadequate IT policies and procedures. • Inadequate password access security controls over IT systems. • Ineffective independent monitoring of access to IT systems. • Disaster recovery plans not formalised and associated procedures not tested. • Absence of “forward looking” IT strategy plans.
Revenue and receivables	• Ineffective independent review of amendments to debtor masterfiles. • Ineffective management review of general ledger reports and journals. • Inadequate segregation of duties in relation to receipting, banking and recording functions. • Account reconciliations not performed in a timely manner or subject to independent reviews. • Collection of outstanding debts not undertaken in a timely manner. • Absence of formal policies and procedures for the collection of outstanding debts. • Incorrect recognition of accrued revenue and grants.

TABLE 3C
AUDIT ISSUES IDENTIFIED AND REPORTED
DURING THE 2001-02 FINANCIAL AUDIT CYCLE - *continued*

Subject area	*Issues identified*
Expenditure, accounts payable and liabilities	• Ineffective independent review of amendments to creditor masterfiles. • Ineffective management review of general ledger reports and journals. • Unauthorised payments. • Breaches of expenditure authorisation limits. • Excessive annual leave entitlement balances.
Payroll	• Employee timesheets not authorised or independently reviewed. • Payroll reports not reviewed by management. • Payroll reconciliations not performed. • Poor personnel file maintenance practices. • Inadequate payroll system access controls (especially in relation to payroll masterfiles). • Lack of segregation of duties between various payroll functions.
Assets	• Bank reconciliations not performed in a timely manner or subject to independent reviews. • Unpresented cheques not investigated in a timely manner. • Asset registers not accurately maintained or reconciled to the general ledger. • Asset revaluations not performed in a timely manner. • Inadequate policies and procedures in relation to asset recording and management. • Inadequate policies for the recognition and capitalisation of assets.

3.19 The following paragraphs comment on several of the more significant issues identified.

Audit committees

3.20 The existence of an effective audit committee plays an important role in assisting boards or accountable officers (in the case of departments) to fulfil their corporate governance and oversight responsibilities. In accordance with the Better Practice Guide on Audit Committees, promulgated by the Australian Accounting Research Foundation in conjunction with other professional organisations, an audit committee provides a forum where directors, management and auditors can deal with issues relating to the management of risk and financial management obligations.

3.21 The essential features of an effective audit committee are:

- membership comprising independent, non-executive (board) members who possess the necessary skills in finance, business and industry;
- the committee formally meeting and reporting to the board (or accountable officer) on a regular basis; and

- reports of the committee to the board providing a summary of the committee's work and results, including formal resolutions, recommendations requiring action and/or approval, and information pertaining to the external and internal audit process.

3.22 Specific responsibilities of the audit committee may include:

- considering the appropriateness of an entity's accounting policies and principles;
- recommending to the board (or accountable officer) whether financial statements should be signed;
- ensuring the entity has in place, effective internal control and risk management procedures;
- liaising with external auditors, and investigating audit issues and findings;
- overseeing the activities of internal audit including monitoring management's responsiveness to internal audit findings and recommendations; and
- receiving from management, reports on all suspected and actual frauds, thefts, and legislative breaches.

3.23 The 2001-02 financial audit cycle identified numerous instances where agencies had not established audit committees. Furthermore, where audit committees were established, in several instances they were less than fully effective due to committees failing to meet on a regular basis or containing members not independent of the respective boards (or accountable officer).

3.24 **Corporate governance is enhanced by an effective and independent audit committee. Greater attention needs to be directed by a number of boards (or accountable officers) of public sector agencies to ensuring that audit committees are established and operate in accordance with better practice.**

Fraud prevention strategies

3.25 Fraud is one of many enterprise risks faced by management and, like other risks, can seldom be completely eliminated. It can, however, be managed to minimise potential loss. Development of an appropriate policy to address fraud prevention is likely to provide an effective tool for minimising opportunities to engage in fraud. In addition, establishment of sound fraud control procedures should form an integral part of an agency's risk management strategies.

3.26 Fraud prevention involves more than merely compiling carefully designed fraud control policies. It also involves establishing effective accounting and operational controls, and the maintenance of an ethical culture that encourages staff at all levels to actively participate in protecting public resources. Effective fraud prevention is expanding in importance in an environment where increased reliance is placed on information technology, such as e-commerce, which may be accompanied by a reduction in the effectiveness of traditional control mechanisms employed by agencies.

3.27 Although fraud prevention plans will obviously vary from one agency to another to meet particular needs and circumstances, effective fraud prevention strategies should, ideally, include the following:

- periodically reviewing all functions and operations to assess an agency's exposure to the risk of fraud;
- developing a comprehensive fraud management plan;
- instilling a culture of ethical behaviour in the agency;
- training management and staff in fraud awareness and prevention;
- ensuring accounting and operational controls are effective; and
- introducing mechanisms available for all staff to report fraud.

3.28 Pro-active planning for fraud prevention requires management to identify the areas more prone to the risk of fraud and to design appropriate counter measures to minimise those risks. Functions traditionally more susceptible to the risk of fraud in the public sector include grants programs, the use of credit cards, travel and other allowances, procurement, claim payments, outsourced activities, computer security, payroll, and property and other physical assets.

3.29 **During 2001-02, we generally found an increasing awareness within public sector agencies of the need to effectively identify and manage key risks, however, there remains a need to strengthen fraud prevention strategies to minimise the risk of the occurrence of fraudulent activity.**

Adequacy of disclosure of administered items in departmental financial statements

3.30 The financial reports of departments distinguish between transactions and account balances that are directly controlled by departments and those that are administered on behalf of the Crown. "Controlled" items relate to the core activities carried out by a department in its own right, while "administered" items represent those financial activities a department carries out on behalf of the Crown, e.g. the collection of State taxes.

3.31 Administered items of revenue, expenses, assets and liabilities are not recognised in the principle financial statements of a department, however they are included in the notes to the financial statements in accordance with Australian Accounting Standard AAS 29 - *Financial Reporting by Government Departments,* which establishes the minimum disclosure requirements for administered items. Specifically, the Standard provides for the following disclosures:

- *For administered revenue and expenditure,* disclosure of*:*
  - each major class of revenue/expenditure; and
  - in respect of each major class of revenue/expenditure, the amounts reliably attributed to each of the government department's activities and the amounts not attributed to individual activities.

- *For administered assets and liabilities*, separate disclosure of each major class of asset/liability.

3.32 In addition, to facilitate assessments of departmental performance and accountability, the Standard encourages the disclosure of information about administered assets and liabilities on an activity basis, where those assets and liabilities can be reliably attributed to activities undertaken by individual departments.

3.33 The requirements of the Standard have also been reflected in the notes to the *Model Financial Report for Victorian Government Departments*, issued under the “Direction of the Minister for Finance”, which prescribes the minimum content of financial reporting for all departments.

3.34 While the requirements of the Standards are generally observed by departments, our examination of the disclosures of administered items in the financial reports of departments indicated that, generally, material items were not supported by additional disclosures as to their composition and nature, and therefore resulted in inadequate reporting of significant areas of financial activity. As an example, in the notes to the 2001-02 financial statements of the Department of Treasury and Finance, $7 958 million was reported as taxation revenue (received by the State Revenue Office on behalf of the State) and $6 844 million was reported as Commonwealth grants. There was no additional disclosure of the composition of these significant balances in the Department’s financial statements.

3.35 **To achieve greater transparency of reported information, enhanced disclosure of material administered revenue, expense, asset and liability balances should be provided within the financial reports of departments in future reporting periods.**

Reconciliation of SAU receivable account

3.36 As part of the 1997-98 Management Reform Program, the Government introduced accrual output-based budgeting and management arrangements into the Victorian public sector. Under these arrangements, government departments are contracted to deliver agreed outputs to the Treasurer, acting as the purchaser on behalf of the Government, and in return upon delivery of the agreed outputs, departments receive output appropriation revenue.

3.37 To facilitate the accounting and accountability needs of accrual output-based budgeting and appropriations, the State Administration Unit (SAU) receivable account was established within the Public Account on 1 July 1998 to record the accrual-based appropriations applied by the Treasurer, and the progressive draw-down of cash from the Consolidated Fund relating to these appropriations. At any given time, the balance held in each department’s SAU receivable account represents the appropriations applied against which funds have not been drawn.

3.38 The aggregate balance for the SAU receivable account for all departments at 30 June 2002 was $1 567 million.

3.39 The major components making up departmental SAU receivable account balances are:

- *Retained surpluses* - representing the financial surpluses accruing to departments, resulting from delivering outputs at a cost lower than the appropriated revenue. The surplus can only be used to fund additional outputs or other initiatives with the Treasurer's prior approval;
- *Depreciation equivalents not yet spent* - representing output appropriations applied equivalent to the depreciation expense incurred by departments in delivering outputs since 1 July 1998 but not yet spent on asset replacement or acquisition;
- *Employee entitlements* - representing the component of output appropriations applied relating to obligations to pay employees their entitlements which have arisen since 1 July 1998, principally long service leave, but which have not been drawn; and
- *Creditors and accruals* – representing the component of output appropriations remaining undrawn relating to creditors and accruals, which are unpaid.

3.40 The importance of ensuring that the SAU components are correctly determined is reflected in the *Financial Management Act* 1994, which requires that the depreciation component is only to be spent on asset replacement/acquisition, while the established administrative framework requires that the surplus component can only be spent with the Treasurer's approval.

3.41 Since the establishment of the SAU account on 1 July 1998, departments have been required to reconcile the components of their SAU account balance at 30 June each year. The primary objective of the reconciliation has been to agree the balances recorded in departmental general ledgers with the SAU balance recorded in the Public Account (maintained by the Department of Treasury and Finance), and also to confirm the movement in the balance of each component from one year to the next.

3.42 In 2001-02, audit observed that for some departments, the focus of these reconciliations was limited to confirming movements in the components of the SAU balance for the current year and not in reconciling the components of the SAU account balance to the relevant items within the financial statements as at 30 June 2002. For example, the creditors and accruals component of the SAU was not reconciled to the account balance reported in the statement of financial position.

3.43 The need to re-assess and correct SAU reconciliations resulted in delays in the preparation of departmental financial statements and, consequently, the finalisation of the audit process.

3.44 **To improve the timeliness of the year-end financial reporting process, for future financial periods, it is important that departments undertake a full reconciliation of the SAU receivable account balance with the respective balances reported in their annual financial statements.**

Adequacy of control over the information technology environment

3.45 Previous reports from my Office have commented on the outcomes of information technology (IT) reviews, which are integral to the annual financial audit process. These reviews assess the adequacy and effectiveness of controls within the IT computer environment, focusing on systems that are relevant to the production of financial reporting information.

3.46 The reviews examine various aspects of control over the financial systems, such as information security, as well as broader components of IT governance, including the IT policies and procedures adopted by entities.

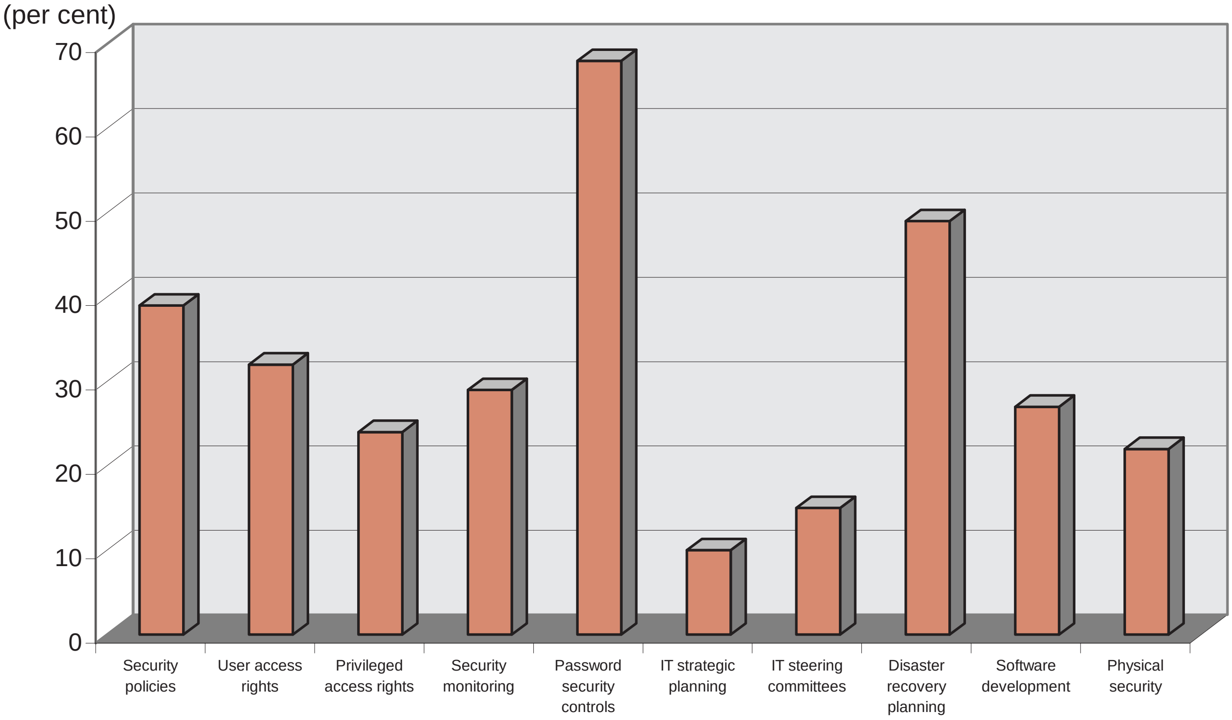
3.47 **In relation to the 2001-02 financial audit cycle, we found that there remains a need for agencies to continually examine and review controls across all critical aspects of their IT operations to ensure the security of key systems and data.**

3.48 Some agencies are still to implement appropriate arrangements for managing information security, including developing appropriate policies and procedures. The absence of such a framework increases the risk of inadequate or inappropriate computer security controls being implemented within an agency. Other issues identified included the need for improvement in the management of user access, an absence of appropriate security monitoring and auditing, and weaknesses in password security for specific applications and systems.

3.49 The IT reviews conducted also highlight the need for agencies to develop, maintain and test procedures for the recovery of critical business processes and systems. Development of a formal business continuity and IT disaster recovery plan is essential in assisting in the timely recovery of critical operations, including IT, following a disaster or major system interruption.

3.50 Chart 3D summarises key issues raised by my Office across 41 agencies in 2001-02.

CHART 3D
IT REVIEWS - SUMMARY OF ISSUES IDENTIFIED
(percentage of agencies where issues raised)



3.51 Further comment on certain of the issues identified follows.

Information security policy and procedures

3.52 Agencies should establish a framework to initiate and control information security. This framework should include the establishment of an information technology security policy which should stress the importance of information security, describe the IT security standards and compliance requirements, and provide guidance on the allocation of information security roles and responsibilities.

3.53 Our reviews observed a number of better practices within agencies including:

- the establishment of a formal information security forum consisting of representatives from throughout the agency;
- engaging independent reviews of security over specific systems and/or security management; and
- communication of information security requirements to staff through internal staff communication and staff induction programs.

3.54 However, approximately 39 per cent of agencies examined were identified as requiring improvements to their information security policies and procedures. Issues identified included:

- the absence of any formal policies and procedures in relation to information security;

- policies and procedures that had not been updated to reflect current risks and/or IT infrastructure;
- policies that were yet to be endorsed by senior management and had not been implemented throughout the organisation; and
- policies and procedures that were incomplete or did not address all relevant control areas.

Managing user access rights

3.55 Procedures should be in place to manage the registration, modification and removal of user access rights to information systems and services.

3.56 Around 32 per cent of agencies reviewed required improvements in their management of user access rights. Specific deficiencies identified included:

- the lack of documented policies and procedures for managing user registration and removal; and
- inactive and unused user accounts associated with specific information systems.

3.57 It was pleasing to note that certain agencies had implemented processes to ensure sound control over user access rights, including:

- automated interfaces between human resource systems and specific applications to identify terminated employees and remove their access rights; and
- conduct of periodic user access surveys to identify staff movements and evaluate the currency and appropriateness of access privileges.

Privileged security access rights

3.58 Privileged security access rights to information systems should be heavily restricted and tightly controlled as they provide users with extensive access to systems and related data. Extensive granting of privileged rights increases the risk of unauthorised access or changes to system software and data.

3.59 A number of agencies were found to have developed strong control processes to limit the number of personnel having privileged access. These processes included:

- the use of system routines through fixed menu options to allow user access for specific tasks while avoiding the need to provide the wider access allowed under privileged rights; and
- periodic review of users with privileged security access rights to determine if the users continue to need those access levels.

3.60 Greater control was, however, found to be necessary in around a quarter of the agencies reviewed.

Security monitoring activities

3.61 Security monitoring activities improve an organisation's ability to detect unauthorised activity within information systems.

3.62 Certain agencies had improved security monitoring controls through the automated collation of security logs from applications and systems into a central point, allowing easier monitoring and review or the reporting of summarised security related activity to senior management. However, substantial improvement is still required in around 29 per cent of agencies reviewed to implement regular monitoring of failed access attempts and privileged operations for specific applications and systems.

Password security controls

3.63 Password security controls are typically a primary form of restricting access to information systems. It is, therefore, critical that good practices are applied in the development of agency policies for the use of passwords, and in the selection and security over passwords maintained by agency personnel. Sound practices observed within agencies included:

- configuring enforced password changes on a 30 day basis within key applications and systems;
- enforcing a level of password complexity by requiring a mix of alpha, numeric and special characters;
- requiring the immediate change of user passwords after initial user account creation;
- locking of user accounts after 3 unsuccessful log-on attempts; and
- configuring the application or system to prevent the use of certain easily guessable passwords.

3.64 Despite application of these sound practices, issues related to the adequacy of password security practices were identified in 68 per cent of agencies reviewed with specific issues, including:

- a lack of requirements for users to periodically change their passwords;
- instances of users not requiring passwords to access critical systems;
- use of default passwords on user accounts;
- no limits on the number of unsuccessful log-on (access) attempts to systems;
- poor selection of passwords by users, making them "easy to guess"; and
- sharing of user accounts and passwords among staff.

Business continuity and disaster recovery planning

3.65 Business continuity and disaster recovery plans outline the process for timely recovery of critical business processes, including information systems, following a disaster or a major system interruption.

3.66 Sound practices were noted in a number of agencies, with specific practices, including:

- the development of business continuity and linked disaster recovery plans, including provision for alternative processing sites and required manual procedures;
- formal testing of disaster recovery plans in a simulated disaster environment;
- regular backup of critical data and systems; and
- the use of third party specialists to manage off-site storage of backup media.

3.67 However, in almost 50 per cent of agencies reviewed, business continuity and disaster recovery planning was found to require improvement for reasons including:

- the absence of any formal business continuity and disaster recovery plan for critical operations;
- disaster recovery plans not updated to reflect current IT infrastructure;
- failure to store backup media in a suitable off-site location; and
- failure to regularly test the operation of off-site backup arrangements.

Part 4

Summary of audit results

Local government

SUMMARY OF AUDIT RESULTS

4.1 At 30 June 2002, the Auditor-General under the authority of the *Local Government Act* 1989 and the *Audit Act* 1994 had responsibility for the conduct of financial statement audits for the following local government agencies:

- 78 municipal councils;
- 6 associated companies; and
- 15 regional library corporations.

4.2 In addition, the Auditor-General under the authority of the *Local Government Act* 1989 had responsibility for the conduct of the audit of the performance statements prepared by the 78 municipal councils.

4.3 This section of the report provides an analysis of the timeliness of financial statement and performance statement completion for the most recent audit round and the nature of audit opinions issued, and a summary of the key issues arising from audits.

Timeliness of financial reporting

4.4 The annual reporting and audit requirements for entities in the local government sector are generally set out in the *Local Government Act* 1989 and the *Audit Act* 1994. In particular, under section 126 of the *Local Government Act* 1989, each municipal council and regional library corporation must submit its annual report, including a report of operations, and audited financial statements, to the Minister for Local Government within 3 months of the end of the financial year. The annual report of municipal councils is also required to include an audited performance statement. Under the *Audit Act* 1994, the Auditor-General is required to make a report on the audit of the financial statements within 4 weeks of their receipt.

4.5 Table 4A illustrates the overall timeliness of entities within the local government sector in the completion of audited financial statements and, where applicable, performance statements during the 2000-01 and 2001-02 reporting cycles.

TABLE 4A
TIMELINESS OF AUDITED FINANCIAL STATEMENT AND, WHERE APPLICABLE, PERFORMANCE STATEMENT COMPLETION WITHIN THE LOCAL GOVERNMENT SECTOR

	2001-02		2000-01	
Finalisation of audited statements (no. of months after end of financial period)	*Number of entities*	*Per cent (cumulative)*	*Number of entities*	*Per cent (cumulative)*
Less than and up to 3 months	75	75	72	72
3 to 4 months	17	92	19	91
Over 4 months	7	100	9	100
Total	**99**	**100**	**100**	**100**

4.6 **Table 4A demonstrates that there has been a slight improvement in the timeliness of completion of audited financial statements and, where applicable, performance statements by local government entities. Around 75 per cent of local government entities completed their 2001-02 statements within a 3 month period, compared with 72 per cent in 2000-01.**

4.7 **Timeliness of reporting is an essential characteristic of an effective accountability process. Accordingly, it is important that avenues are identified and pursued to further improve the timeliness of the financial reporting process.**

Nature of audit opinions issued – financial statements

4.8 As outlined in the previous part of this report, professional guidance on the issue of audit opinions on financial reports is drawn from Australian Auditing Standard AUS 702 - *The Audit Report on a General Purpose Financial Report*.

4.9 As at the date of preparation of this report, 93 clear audit opinions had been issued on the 2001-02 financial statements of local government entities, with qualified audit opinions issued on 6 financial statements. Appendix B to this report provides information about the timing and nature of the audit opinions issued in respect of each entity during the audit cycle. The major reasons for qualified audit opinions related to non-compliance with the requirements of Australian Accounting Standards dealing with the valuation and depreciation of non-current assets.

4.10 "Emphasis of matter" comments were included in the audit reports of 2 agencies. The audit report of the Hume-Moonee Valley Regional Library Corporation contained an "emphasis of matter" relating to the post-balance date decision to dissolve the Corporation as from 31 December 2002. In the audit report of the Delatite Shire Council, an "emphasis of matter" was included to bring to attention the post-balance date decision to disaggregate the Council into 2 separate councils.

Nature of audit opinions issued – performance statements

4.11 As at the date of preparation of this report, 69 clear audit opinions had been issued on the performance statements prepared by municipal councils with 9 performance statements subject to audit qualification. The major reasons for the issue of qualified audit opinions related to:

- failure to submit to the responsible Minister a corporate plan, or that the corporate plan for 2001-04 did not include a business plan for 2001-02 and/or performance targets and measures in relation to 2001-02 (7 instances); and
- results reported in respect of certain performance measures were not supported by sufficient and appropriate evidence (2 instances).

Significant issues identified in the conduct of audits

4.12 This section of the report outlines significant issues identified during the 2001-02 financial audit cycle undertaken in the local government sector. Many of these issues are similar to those identified across general government, which are detailed in Part 3 of the report.

4.13 The particular issues identified during the course of the audits of local councils included:

- inadequate fixed asset management practices, particularly in relation to calculation of depreciation of physical assets in some councils;
- absence of fraud prevention strategies;
- lack of policies and procedures for debtor collection and long outstanding debtors;
- deficiencies in the quality of performance reporting; and
- poor IT control environments and lack of formal disaster recovery plans.

4.14 As evidenced by my commentary on the nature of audit opinions issued on performance statements in the sector, it is clear that some councils are encountering difficulties in meeting the challenge posed by the legislative requirements on performance reporting. My Office continues to encourage and support initiatives intended to improve the quality of performance reporting in the local government sector.

4.15 In relation to the issue of fraud prevention, during 2001-02 the following instances of fraudulent activity in local government were notified to my Office:

- *Brimbank City Council*

  Council identified that an employee in the Family Day Care Department had defrauded the Council over an extended period. The fraud is believed to have commenced in May 2000 and was detected in May 2002 when the staff member went on extended sick leave. The total amount inappropriately credited to the employee's bank accounts was around $360 000. The matter has been referred to the Victoria Police for action; and

- *Greater Shepparton City Council*

  Subsequent to 30 June 2001, Greater Shepparton City Council identified a misappropriation of funds of approximately $19 000. The matter has been the subject of an internal audit investigation and was subsequently referred to the Victoria Police for action. The internal audit investigation identified a number of weaknesses in the payroll control environment, including a lack of segregation of duties, management controls and authorisation procedures.

4.16 As raised in my previous reports, there is no provision under the *Local Government Act* 1989 for councils to notify the responsible Minister and my Office regarding all cases of suspected or actual theft, arson, irregularity or fraud. Legislative amendments should be considered in this regard.

Part 5

Special reviews

CASH MANAGEMENT IN SCHOOLS

5.1 Since 1993, responsibility for managing educational resources has been progressively devolved from the centralised control of the Department of Education and Training (DE&T) to individual schools. Each school has been provided with increasing freedom in the allocation of resources to achieve its educational objectives, which are complementary to those of DE&T and the Government.

5.2 The concept of greater school autonomy is known as *School Based Management* and aims to raise educational standards by improving decision-making so that the best use is made of the available funds. It is based on the delegation of responsibility for education programs, leadership, planning, finance and employment of staff to school councils and principals.

5.3 Specifically, *School Based Management* involves:

- Development by each school of a charter which sets out the school's education objectives and plans, and provides an accountability link to the school community and the Department through annual reporting and 3-yearly reviews. School charters combine many of the characteristics of a strategic plan and a business plan, and form the key accountability document against which schools demonstrate their achievement and progress; and
- The establishment of School Global Budgets (SGBs) for individual schools together with the implementation of an enhanced accountability framework. The introduction of SGBs provide schools with the flexibility to allocate their resources in line with the goals and priorities outlined in their charters.

5.4 The introduction of *School Based Management* also involves the enhanced application of information technology in schools, which included the provision of access by schools to DE&T's Computerised Administration Systems Environment for Schools (CASES) system – a full-function, schools-based administrative system supported by extensive training of school staff.

5.5 This audit examines the adequacy of financial management practices of schools in the use of their SGB and other cash resources.

5.6 Our review included an examination of information held by DE&T both on a Statewide and individual schools basis. We also examined financial data gathered by DE&T's Audit and Evaluation Division in performing its role of monitoring, controlling and reporting on the audit of 1 634 Victorian government schools.

5.7 To independently assess the quality of the financial management of schools and to confirm the reliability and accuracy of information held by DE&T, we undertook a review of 20 government secondary schools and conducted an analysis and evaluation of each school's financial management processes.

School funding sources

5.8 The key funding sources for public schools throughout the State are funds allocated by DE&T in the form of SGBs and locally-raised funds.

5.9 DE&T annually allocates around $3 billion directly to schools in the form of SGBs through the following 3 step process:

- an **indicative** SGB for each school is prepared by the Office of Schools within DE&T during the preceding year using enrolment projections advised by schools;
- a **confirmed** SGB is issued at the end of Term 1 of the school year, following the collation and confirmation of enrolment census information; and
- a **revised** SGB may be issued for specific updates or changes, e.g. following a census audit undertaken by DE&T or as a result of entitlement changes relating to student mobility.

5.10 Once allocated, SGB funds are managed by the school principals in conjunction with school councils. The total level of funds provided to schools in Victoria has increased over the past 3 calendar years as can be seen in Table 5A.

TABLE 5A
FUNDS PROVIDED TO SCHOOLS THROUGH THE SGB
($million)

School type	*2000*	*2001*	*2002*
Primary	1 354	1 444	1 493
Secondary	1 171	1 241	1 282
P-12 *(a)*	134	142	159
Special *(b)*	120	133	143
Camp *(c)*	5	5	5
Total	**2 784**	**2 965**	**3 082**

(a) Combined primary and secondary schools.
(b) Schools for students with disabilities and impairments.
(c) Schools that provide outdoor and leadership experiences.
Source: Department of Education and Training.

5.11 The above table shows that between 2000 and 2001, SGB funding increased by $181 million (6.5 per cent) due to the impact of additional teacher positions, the new funding model and the introduction of the new teacher career structure. Between 2001 and 2002 the level of funding increased by a further $117 million (3.9 per cent). Primary and secondary schools absorbed 95 per cent of all SGB funds in Victoria for each year during the period 2000 to 2002.

5.12 The SGB is provided to schools in 2 components, namely a credit component (88 per cent) and a cash component (12 per cent):

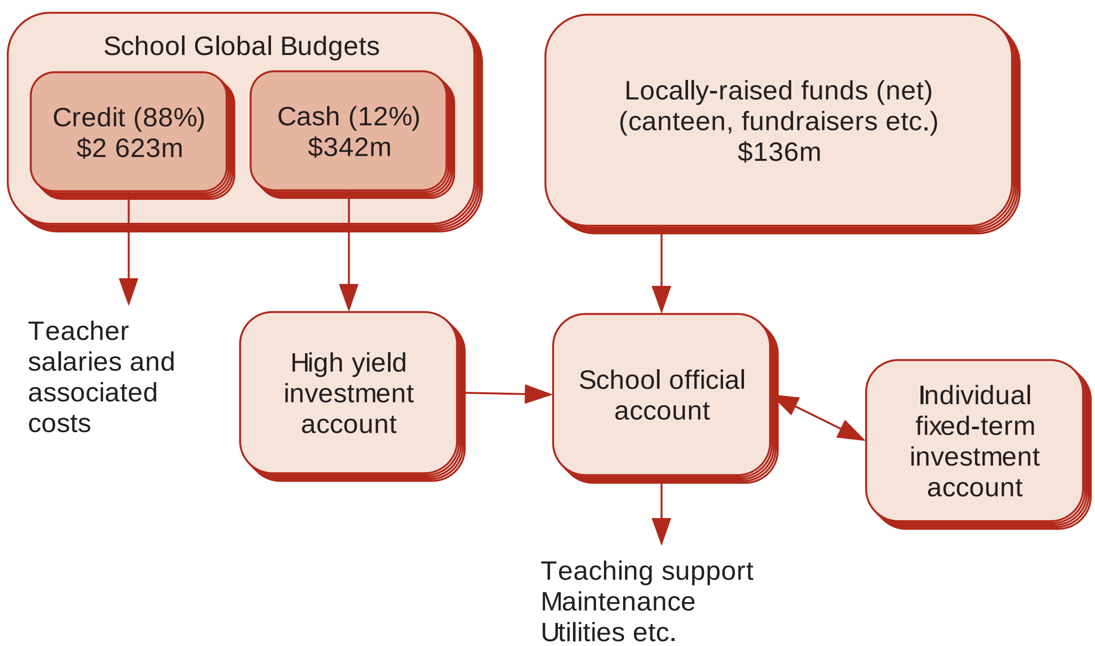
- **Credit component** - Most funds for teaching staff are provided to schools as a credit allocation. This funding is held and administered by DE&T and may be drawn-down by the schools on a fortnightly basis. Credit allocations can also be drawn-down and paid to school councils if staffing expenses are less than the available credit component; and
- **Cash component** - These funds are initially paid by DE&T into a high yield investment account, managed on behalf of all schools, on a quarterly basis at the commencement of each school term. On the request of individual schools, funds are transferred into individual schools' official accounts and are used for such purposes as teaching support, maintenance and utilities. When it appears likely that there will be insufficient credit funds to pay for salaries and on-costs, school councils are responsible for establishing appropriate deficit management strategies. The schools may choose to inject additional funds into their SGB credit by undertaking a cash-to-credit conversion.

5.13 Funds held in a schools' official accounts can be transferred into fixed term investment accounts at the discretion of the school council.

5.14 Schools also raise funds known as "locally-raised funds" through activities such as canteens, uniform shops and parents' club activities. A net total of $136 million was raised from this source in 2001.

5.15 Chart 5B outlines the flow of funds through school bank accounts.

CHART 5B
SCHOOL FUNDING, INCLUDING CASH MANAGEMENT ARRANGEMENTS, 2001
($million)



Expenditure of credit component of SGB

5.16 Table 5C below shows the expenditure of the credit component of the SGB (not including credit to cash transfers) on teachers' and non-teaching staff salaries and on costs in 2001.

TABLE 5C
EXPENDITURE ON SALARIES FUNDED FROM CREDIT COMPONENT, BY SCHOOL TYPE, 2001
($million)

School type	*Total salaries*	*Total on-costs (a)*	*Total expenditure*
Primary	1 066.3	177.4	1 243.7
Secondary	939.3	161.8	1 101.1
P-12	101.6	18.2	119.8
Special	90.4	16.2	106.6
Camp	2.5	0.4	2.9
Total	**2 200.1**	**374.0**	**2 574.1**

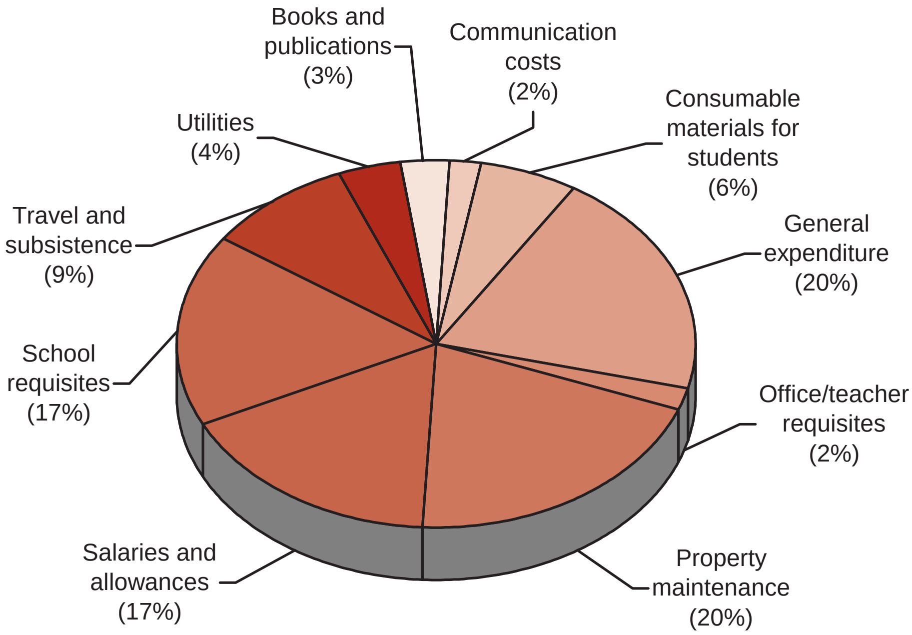
(a) Include superannuation, long service leave etc.
Source: Department of Education and Training.

5.17 The table illustrates that teacher and non-teacher staff salaries accounted for 85.5 per cent of the expenditure of the credit component of the SGB with salary on-costs accounting for 14.5 per cent.

Expenditure of cash resources

5.18 The use of cash resources available to schools (cash component of the SGB, conversions of the credit component of the SGB to cash and locally-raised funds) in 2001 is illustrated in Chart 5D. The 2002 figures were not available at the date of preparation of this report.

CHART 5D
EXPENDITURE OF CASH RESOURCES BY NATURE
(per cent)



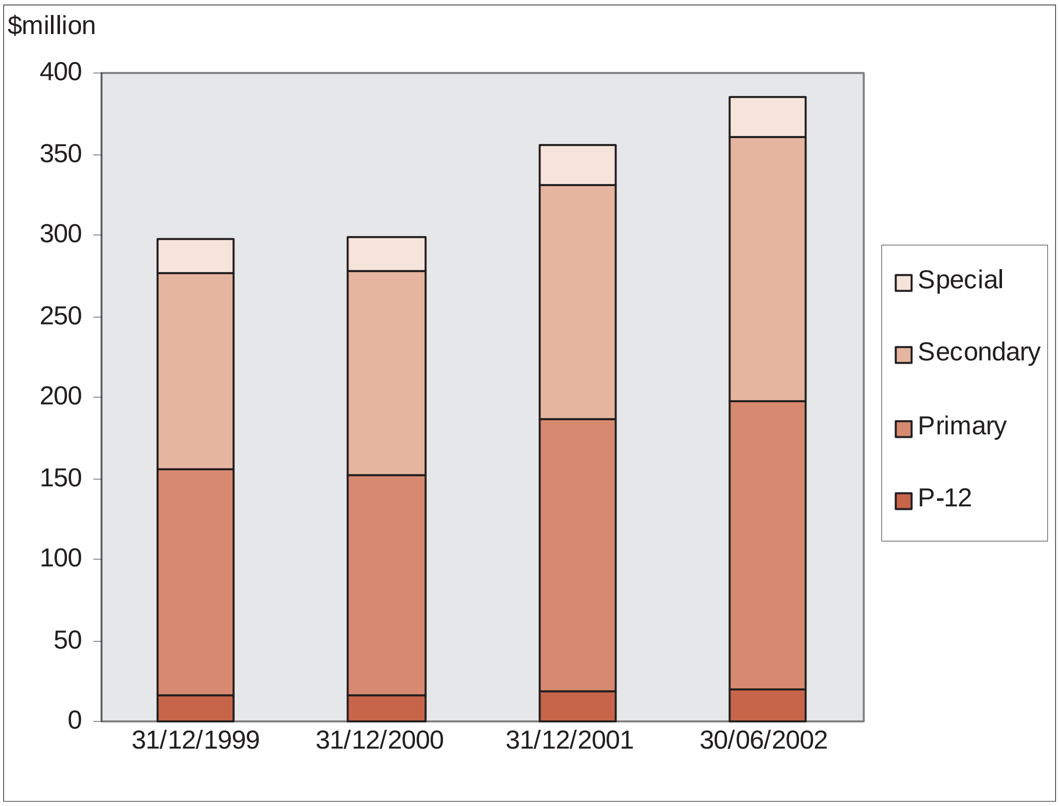
Source: Department of Education and Training.

5.19 As indicated in the above chart, 54 per cent of all expenditure of available cash funds by schools in 2001 was directed towards property maintenance, school requisites, and non-teaching salaries and allowances. The remaining 46 per cent was utilised on a broad range of general expenditure, including travel and subsistence, and consumable materials for students.

Level of cash account balances

5.20 As previously mentioned, cash resources held by individual schools may be retained in a high yield investment account managed on behalf of all schools, the schools' official account and/or in a fixed-term investment account. Chart 5E shows the total cash resources controlled by schools (cash account balance) during the period 31 December 1999 to 30 June 2002.

CHART 5E
SCHOOL CASH ACCOUNT BALANCES (BY SCHOOL TYPE) *(a)*
($million)



(a) Cash account balances of camp schools were not material.
Source: Department of Education and Training.

5.21 Between December 1999 and June 2002, the level of cash resources held by schools increased from $243 million to an estimated total of $386 million.

5.22 Each school type has seen an increase in cash balances of over 20 per cent for the period December 2000 to June 2002, with the amount held by secondary and primary schools increasing by $37 million and $41 million, respectively, in this 18 month period. The key reasons for the increase were:

- the additional funding made available to schools through the SGB; and
- the increasing use made by schools of credit-to-cash conversion, rising from $62.3 million in 1998 to $97.1 million in 2001.

5.23 **At 31 December 2001, $17 million of the cash account balances related to creditors (i.e. a legal obligation to pay existed as a result of the prior receipt of goods and services), with a balance of $340 million available to fund future acquisitions of assets, and goods and services.**

Investment of funds

5.24 As previously mentioned, the cash component of a school's SGB is deposited at the start of each school term into a "high yield investment account". This account is a facility available to all schools to maximise the rate of return earned on available funds. The account was established by the Government in April 2000 following a competitive banking tender process.

5.25 The cash component of the SGB is electronically transferred into the account at the start of each school term and individual schools are able to transfer funds from this account to their official account at any time. The interest earned by the account is based on the wholesale market cash rates and accrues to the school based on the balances held on their behalf. Schools, therefore, have the advantage of earning a competitive interest rate while their funds are at call, with the knowledge that the account forms part of the schools' total resources.

5.26 Although schools receive all interest derived from balances held within the account, bank charges amounting to around $100 000 per annum are paid directly by DE&T to the bank. The associated banking arrangements entitle DE&T and the schools to an unlimited number of transactions relating to this account.

5.27 The level of funds held by schools in the high yield investment account has steadily increased between 2000 and 2002 from $102.7 million to $202.2 million, respectively.

5.28 DE&T advised that the account earned an average rate of return of 4.07 per cent for 2001, and 4.37 per cent for 2002. Schools visited as part of our audit indicated that funds invested by the individual schools into fixed-term investment accounts earned an average rate of return of around 5 per cent during 2001 and 5.5 per cent during 2002.

5.29 **Given the higher rates of interest earned by schools from funds invested outside the high yield investment account, it is recommended that the arrangements associated with this account be re-assessed by DE&T.**

Examination of 20 selected secondary schools

5.30 Our June 2001 *Report on Ministerial Portfolios*, commented on the operation of SGBs and the provision by the Office of School Education within DE&T to 590 schools of transitional funding in 2000, due to actual salary costs being forecast as greater than the funding allocation available through the SGB. These included 45 secondary schools which each required transitional funding of more than $50 000. As part of this review, we selected 20 of these schools for detailed examination to determine how well they manage their SGBs.

Operation of School Global Budgets

5.31 The level of transitional funding provided to schools decreased from $28 million in 2001 to $22 million in 2002. Table 5F details the total number of schools receiving transitional funding and the average amount provided to each school in 2001 and 2002.

TABLE 5F
TRANSITIONAL FUNDING PROVIDED TO SCHOOLS

Transitional funding	*Schools funded*	*Average funds per school*	*Total funds*
	(no.)	*($)*	*($'000)*
2001 *(a)*	590	47 458	**28 000**
2002 -			
Salary Profile Factor Funding (SPF)	818	23 107	18 901
Workforce Planning Adjustment	84	41 667	3 500
			22 401

(a) Dissection not available.
Source: Department of Education and Training.

5.32 While the value of transitional funding reduced in 2002, the number of schools receiving such funding increased significantly. Of the 20 schools examined that received transitional funding of over $50 000 in 2001 (average $136 400 per school), the amount of transitional funding provided to these schools in 2002 ranged from zero to $247 000 (average $96 111 per school).

5.33 The major factor contributing to the need for transitional funding was the impact of changes to the SGB introduced in 2000 at the same time as the introduction of a new staffing agreement. Where there has been natural attrition and/or staff turnover and enrolment growth, the need for transitional funding has been reduced.

5.34 Notwithstanding the effective use by schools of DE&T's budgeting tool, to estimate their SGB funding entitlement, most schools relied on the receipt of their indicative SGB from DE&T in order to commence their budgeting for the next financial year. For 2003, indicative SGBs were provided to schools in October 2002 allowing 10 weeks for budgets to be completed before the end of the school year. The SGB processes could be improved through earlier notification by DE&T of the extent of funding to be provided to schools to enable them to establish meaningful and realistic budgets.

School budgeting

5.35 Our examination of school planning processes included consideration of key documents such as school charters and budgets.

5.36 Our review found clear and direct links between the school charters and budgets, with schools generally operating balanced budgets. However, our examination of the budgetary processes disclosed areas where further improvement could be achieved. These included cases where:

- budgets presented to school councils could incorporate a more complete coverage of available funds and provide greater disclosure of budget items;
- new budget commitments could be subjected to a greater level of school council involvement and input;

- uncommitted funds could be more clearly identified for consideration by school councils; and
- more frequent updating of budgets could be undertaken to incorporate subsequent events impacting on budget outcomes.

5.37 Our overall impression was that the budget documents had a cash focus with a balanced result covering the current calendar year, but generally excluded the major area of school expenditure (staffing) - they did not include the credit allocation of the SGB.

5.38 **In addition, detailed budgeting beyond the current financial year for purchasing or replacement of equipment items and other major capital items, other than information technology equipment, was not evident in many of the schools examined. However, schools advised that cash balances were earmarked for purposes such as:**

- **building projects;**
- **contingencies and commitments;**
- **maintenance and asset replacement, particularly for computers; and**
- **special projects.**

5.39 For the 20 schools examined, cash balances controlled by schools ranged from zero to over $1 million, with an average balance of $439 000.

5.40 **The above deficiencies and variability in the quality of school budgeting support the need for DE&T to issue appropriate guidance to schools to assist in establishing budget management arrangements which facilitate effective decision-making at the school level in relation to their total operations.**

Investment policy for cash account balances

5.41 In September 2000, DE&T requested all school councils to formally minute and annually review their investment policy for cash account balances. School councils were also required to monitor investments for compliance with their policy and approve all investments, or changes to investments.

5.42 We found that of the 20 schools reviewed, only 14 had established investment policies - 9 of which had been endorsed by the respective school council.

5.43 **It is considered prudent that schools establish appropriate investment policies to inform investment decisions, and ensure that related returns are optimised and investment periods match expected patterns of ultimate use of these funds.**

Issues identified by school audits conducted on behalf of DE&T

5.44 The financial statements of all government school councils are audited annually (between January and May each year) by contracted auditors appointed by DE&T, utilising a standard audit program, with these audits monitored by DE&T's Audit and Evaluation Division. The audit contracts cover all school council accounts but do not extend to the audit of separate accounts of bodies such as co-operatives and parents' clubs, which are subject to separate audit arrangements established by school councils.

5.45 To provide our Office with an insight into the internal control and financial management practices of schools, we also reviewed the annual audit reports of the 20 selected secondary schools for the period 1999 to 2001.

5.46 It was pleasing to find that 75 per cent of the reports indicated that matters reported and recommendations made in the previous year's report had been satisfactorily acted upon by the schools.

5.47 While the reports identified various financial management issues consistent with our own findings, including the need to enhance budget management processes by school councils, they also raised a number of other issues in regard to financial management, such as the need to:

- improve cash management practices, by reducing the incidence of days when school accounts are in overdraft, optimising returns when there are significant credit balances, and improving control of "offshoot" activities such as canteens and uniform shops, and related cash handling and security;
- enhance the accuracy of general ledger postings during the year and financial statement preparation at year-end through better account classification;
- improve recording in council minutes of deliberations associated with such things as the tabling of audit reports and financial statements, the formal adoption of investment policies, and the ratification of payments and investment transactions; and
- increase compliance with DE&T requirements such as ensuring the conduct of annual audits of schools accounts by qualified accountants, annual stock takes of school assets, and closer monitoring of trading activities.

5.48 **It is important that these issues are addressed as a matter of priority to ensure the effective management of school finances.**

Level of administrative and other support

5.49 For many schools, a key barrier to the effective management of their resources is the quality and quantity of available human resources and administrative systems.

5.50 The effectiveness of administrative support within schools is influenced by the quantity of training provided to staff. In this regard, inquiries made by our Office at DE&T indicated that significant effort has been recently made in enhancing the level of administrative support and training available to schools, including:

- business manager groups being established, with meetings held monthly;
- newsletters relating to school financial administration being sent to all schools every 2 months;
- various professional development programs being provided; and
- a financial management website established.

5.51 **Notwithstanding the above initiatives, our review of the selected schools, supplemented by the comments made in audit reports by auditors of schools, suggest that further training is warranted, particularly for principals, school support officers and business managers to further enhance their financial management skills.**

***RESPONSE** provided by Secretary, Department of Education and Training*

Level of cash account balances

Issue (para. 5.23) - At 31 December 2001, $17 million of cash account balances related to creditors (i.e. a legal obligation to pay existed as a result of the prior receipt of goods and services), with a balance of $340 million available to fund future acquisitions of assets and goods and services.

Response – The $357 million in school bank accounts as at the end of December 2001 can be tabulated as follows:

Total school bank account balances	$357m
Creditors – existing	-$17m
Balance	**$340m**
School planned expenditures	-$264m
Cash reserves	-$76m
Total	**-$340m**

Based on the results of a DE&T survey of 103 schools conducted in 2002 and using 31 December 2001 cash balances, it was revealed that schools had plans for $264 million of balances. Schools planned to expend funds on grounds, buildings and equipment, buses/motor vehicles, additional student programs, student welfare and casual relief teachers.

***RESPONSE** provided by Secretary, Department of Education and Training - continued*

The remaining $76 million of funds were dedicated to maintaining appropriate cash reserves in accordance with DE&T policy. DE&T, in consultation with school council and principal associations, has developed policies to improve the management and accountability for these funds. Expert advice recommended that the appropriate level for uncommitted funds to be retained by schools is 25 per cent of the annual cash component of the SGB, or $10 000, whichever is greater. Refer - Executive Memorandum No. 2002/052 Benchmark for School Cash Reserves.

Reasons for the growth in bank account balances from 2000 and 2001 are:

- *Prior to 2001, schools were penalised 10 per cent for converting SGB credit funding to cash. To avoid the 10 per cent penalty, schools accumulated carry-forward surpluses. Removal of the penalty in 2001 resulted in a one-off significant conversion of the carry-forwards to cash;*
- *Provision of $33.7 million capital funding in the second half of 2001, with approximately $10 million unspent at year-end;*
- *Payment of information technology grants totalling $4 million to schools in the last week of December 2001; and*
- *Increase in locally-raised funds of $6 million.*

Since 1997, school bank account balances have consistently represented 10 to 12 per cent of the total school global budget.

Investment of funds

Issue (para. 5.29) - Given the higher rate of interest earned by schools from funds invested outside the high yield investment account, it is recommended that the arrangements associated with this account be re-assessed by DE&T.

Response - Arising from a whole-of-government tender, the high yield investment account is used as a common deposit point for the transfer of funds to schools. It is then the responsibility of individual school councils to determine appropriate investment strategies in accordance with investment policy guidelines such as "Investment of School Funds" that outline the Prudent Investor Test. Executive Memorandum No. 2002/052 Benchmark for School Cash Reserves issued in October 2002, will assist schools to maximise the return on their long and short-term investment opportunities.

Action - As part of its financial management training program, DE&T will continue to advise schools to seek the best rates of return using the prudent investor test.

Operation of School Global Budgets

(a) Transition funding

Issue (paras 5.31-5.33) The report acknowledges the reduction in the level of transition funding, while indicating that it is being provided to a greater number of schools.

Response – Transition funding was provided in 2001 to schools that were able to demonstrate a financial disadvantage due to the cost of the school's existing staff profile compared with the funding model. In conjunction with key stakeholders, DE&T developed a revised mechanism for 2002 known as Salary Profile Factor (SPF) funding, which measures a school's salary average against the Statewide benchmark. From 2002, SPF funding replaced Transition funding.

***RESPONSE** provided by Secretary, Department of Education and Training - continued*

The table included in the report covered the years 2001 and 2002. The estimated 2003 figures demonstrate a significant reduction in funding from Transition to Salary Profile Factor funding:

TRANSITIONAL/SALARY PROFILE FACTOR FUNDING, 2001 TO 2003

Funding	*Number of schools funded*	*Average funding per school*	*Total funds*
	(no.)	*($)*	*($)*
2001	590	47 458	**28 000 000**
2002			
Salary Profile Factor funding	818	23 107	18 901 550
Workforce Planning Adjustment	84	41 667	3 500 000
2002 Total SPF funding			**22 401 550**
2003			
Salary Profile Factor funding	552	16 104	8 889 342
Workforce Planning Adjustment (estimate)			3 500 000
2003 Total SPF funding			**12 389 342**

Similar to SPF, schools with lower cost salary profiles are compared with the Statewide benchmark salary rate. Schools with lower cost profiles have their gain from having a low cost profile capped at $85 000. In 2002 this amounted to a reduction of $2 million and $6 million in 2003.

(b) Earlier notification of the SGB

Issue (para. 5.34) – The SGB processes could be improved through earlier notification by DE&T of the extent of funding to be provided to schools to enable them to establish meaningful and realistic budgets.

Response – Release of the indicative SGB is dependent on the school census that is completed in August. In preparing the indicative SGB for release in September, DE&T recognises the need for a balance between early planning and maintaining a high level of accuracy.

Through the SGB website, a budget and staff planning modelling tool, known as the Ready Reckoner, is available to schools to assist in forecasting the effect of enrolment changes on their indicative SGB and the cost of different staffing scenarios.

Action - DE&T is presently reviewing the school audit process, including the school census. The outcome of the review may identify opportunities available to review the production and release timelines for the indicative SGB.

School budgeting

Issue (para. 5.40) - It is recommended that DE&T issue appropriate guidance to schools to assist in establishing budget management arrangements, which facilitate effective decision making at the school level in relation to their total operations.

Response - DE&T acknowledges that improved budget management arrangements in schools will enhance decision at the school level.

***RESPONSE** provided by Secretary, Department of Education and Training - continued*

Action - In order to enhance this capacity, DE&T will strengthen the budget management aspects of its financial management training programs that are conducted across the State for principals and business managers. In addition, the CASES Finance system that is currently being redeveloped, will further strengthen schools' budgeting and reporting capacities when it is released in 2004.

Investment policy for cash balances

Issue (para. 5.43) – It is considered prudent that schools establish investment policies to inform investment decisions, and ensure that related returns are optimised and investment periods match expected patterns of ultimate use of these funds.

Response - Through Executive Memorandum No. 2002/052 Benchmark for School Cash Reserves issued in October 2002, schools have been provided with policy guidelines for the development of investment strategies. The benchmarks have been developed by DE&T based on expert advice and include indicators such as the appropriate level for uncommitted funds. These guidelines have also placed additional responsibility on the school for the reporting of its financial position.

Schools have also been issued with policy guidelines such as "Investment of School Funds" that outline the "Prudent Investor Test". The test requires schools to ensure that investments are made with institutions, which are prudentially sound and secure, professionally managed and have strong financial status in their reserves, liquidity and profitability. The need for cash flow budgeting is emphasised as an essential part of funds management. Procedural matters are also highlighted within these guidelines.

Action - DE&T will provide support through training programs such as the Financial Reporting and Internal Control modules of the Dollars and Sense Financial Management Program, which are continually updated to reflect current issues and through website and telephone help lines.

Issues identified by school audits conducted on behalf of DE&T

Issue (para. 5.48) – It is important that these issues are addressed as a matter of priority to ensure the effective management of school finances.

Response - Points raised and schools highlighted by school audits are considered and acted upon as necessary. Schools may be contacted by central or regional office staff to assess the situation and to ensure that corrective action is being implemented.

The DE&T internal report on "Financial Audits of Schools 2001" released on 30 August 2002 and covering the 2001 calendar year reported a favourable increase in the number of schools with fewer internal control weaknesses raised against them in 2001 compared with 2000 and 1999. This is the latest available information.

Financial management training programs and support services will continue to be made available to all schools through programs such as Dollars and Sense Financial Management Program – Internal Control, Financial Reporting and Program Budgeting modules and principal and business manager network meetings. The CASES management and administration system is currently being redeveloped taking into account matters raised through school audits with the intention of strengthening internal controls within schools.

RESPONSE *provided by Secretary, Department of Education and Training - continued*

Level of administrative and other support

Issue (para. 5.51) – The findings of this report plus those of the school audits program suggests that further training is warranted, particularly for principals, school support officers and business managers to enhance financial management skills.

Response - DE&T has identified the need for training of school principals and business managers to improve school budgeting and financial management as stated in the report. Training programs and resources to support schools include:

- *Dollars and Sense Financial Management Program (covering SGB, financial reporting, internal control and program budgeting for school leaders);*
- *Business Manager Training Program, a web-based facility being developed by the School Support Officer Accreditation Unit in conjunction with the South Western TAFE. This program will incorporate finance and administration modules for SSOs;*
- *Systems development through the upgraded CASES system;*
- *Regional CASES (schools administration system) Training Centres;*
- *Various website training programs and information services covering policy, publications and guidelines;*
- *Telephone help lines;*
- *Regular business manager meetings and newsletters;*
- *Annual SGB briefing and training sessions; and*
- *Principal networks.*

Action - Financial management training programs such as the Dollars and Sense and the accredited Business Manager Training Program, with their emphasis toward principals and business managers, respectively, will be refined to incorporate emerging issues.

IMPLEMENTATION OF RMIT UNIVERSITY'S ACADEMIC MANAGEMENT SYSTEM

5.52 RMIT University provides education and training programs to Australian and international students across academic levels ranging from TAFE apprenticeships, certificates, diplomas, bachelor degrees, graduate certificates and diplomas, masters degrees by research or course work, to professional or research doctorates.

5.53 In December 1999, RMIT commenced the Academic Management System (AMS) information technology implementation project. The objective of the AMS project was to replace the existing student administration management system and the Semaphore international student system. The main student administration management system had been in use since 1982. The Semaphore system for recording international student information had been progressively developed since 1990 as student numbers increased.

5.54 The aim of the AMS project was to integrate all RMIT's student management activities into a consolidated system, using *PeopleSoft*[1] software while taking the opportunity to exploit technologies, such as the internet, to streamline processes including student enrolments. *PeopleSoft* was chosen in part because it could provide a single integrated software platform as opposed to multiple systems.

5.55 The implementation of the AMS was largely outsourced and went "live" in October 2001. The original implementation budget, established in 1999, was $12.6 million and a further $6 million per annum over the following 3 years for licence fees, additional implementation work, consultancies and software upgrades.

5.56 Since going "live", the AMS has suffered a number of functional and technical problems, including:

- difficulties in billing fee paying students;
- difficulties in issuing Higher Education Contribution (HECs) statements;
- delays in processing and advising enrolment details;
- problems with meeting statutory and legislative reporting requirements;
- interface difficulties between the AMS and the RMIT general ledger; and
- shortcomings relating to systems performance of both the hardware and software.

5.57 In early 2002, RMIT undertook 2 reviews of the implementation of the AMS:

- a complete review of the project to identify underlying causes of the problems being encountered with the aim of proposing remedial actions; and
- a review of the AMS systems architecture, with the aim of proposing recommendations to address technical and performance issues.

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[1] PeopleSoft is the registered trademark of PeopleSoft Inc. USA, developers of the PeopleSoft software for HRMS and Student Administration systems.

5.58 As a result of these reviews, RMIT decided to put the remaining remediation work and implementation of future phases to tender. The results of these reviews are referred to later in this report.

5.59 As part of the audit of RMIT's 2001 financial statements we undertook a preliminary audit of the implementation of the AMS and a report was provided to RMIT and the Minister for Education and Training. A further audit review was undertaken following a request from the Minister for Education and Training in the period May to June 2002, the results of which were also provided to RMIT and the Minister. As part of the preparation of this report, the earlier audit work was brought up-to-date to assess progress made by RMIT in addressing the issues previously identified by our Office and in implementing the recommendations arising from reviews undertaken by RMIT. This report details the results of our audit examinations.

What did the audits cover?

5.60 The objectives of the audits were to identify, assess and report on the issues associated with the implementation of the AMS project and make recommendations to address the issues identified.

5.61 The audits examined:

- implementation of the AMS, including the project management arrangements;
- functionality of the implemented system - particularly the student registration and invoicing systems;
- financial impacts, including the initial estimate, and costs estimated to undertake necessary remedial action and complete the project; and
- other implementation issues.

5.62 In undertaking the audits, we had to place significant reliance on the representations made by key project personnel and our high level review of available project documentation to support the findings due to the absence of key documentation on processes and governance arrangements.

5.63 As a result of our audits, a number of recommendations were made to RMIT. These recommendations and the subsequent actions taken RMIT are detailed later in this report.

5.64 The report also highlights the key lessons learnt from the AMS project experience that would apply to any large IT system implementation project.

Audit findings

Project management of the implementation

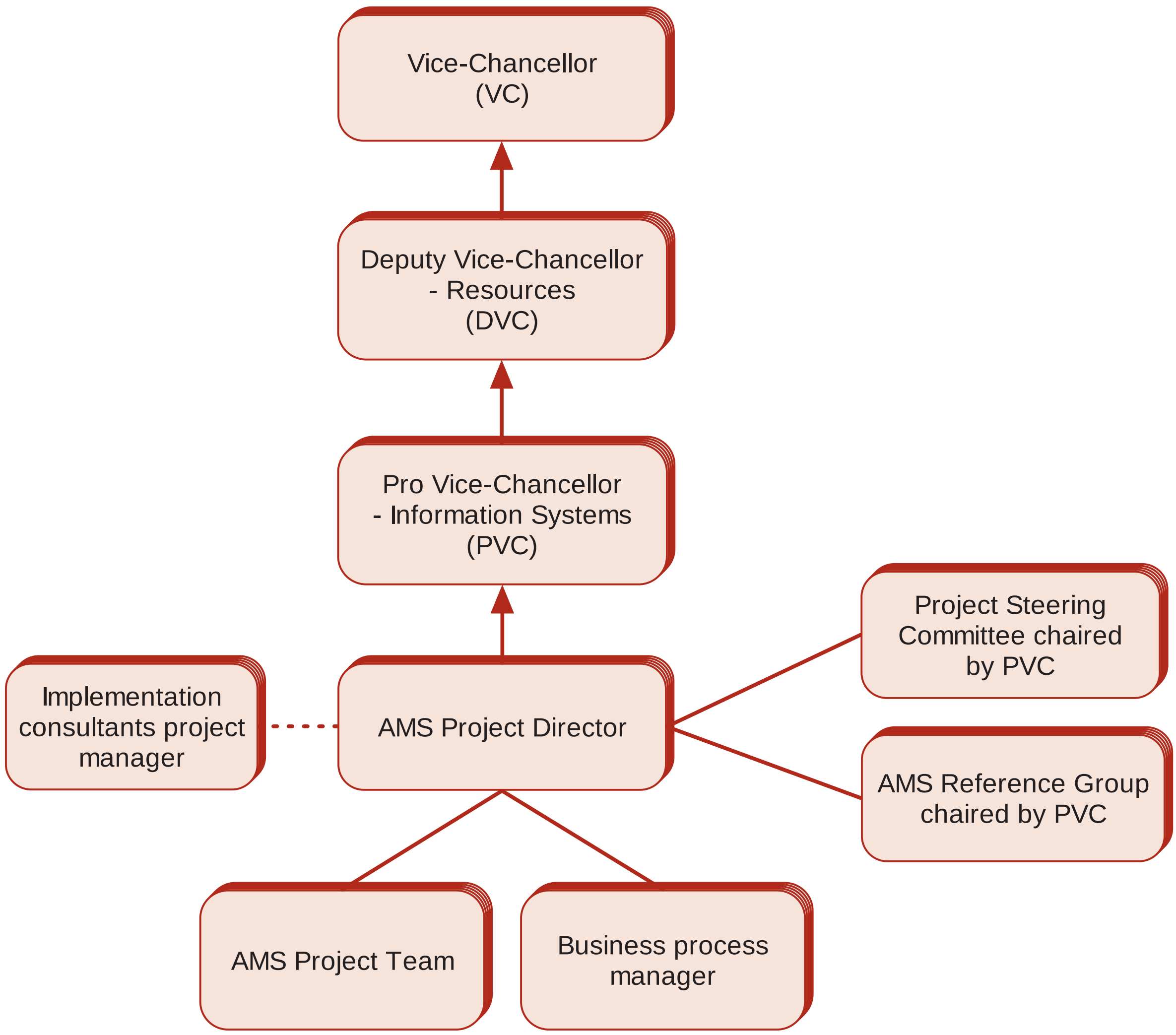
5.65 The implementation of a new IT system, or the replacement of an existing one, is a major initiative for most organisations. It is likely to be resource intensive, both in respect of internal and external costs, and time critical. Effective project management is essential to the successful completion of the project. This section examines the senior management involvement, and project management of the implementation of the AMS.

Senior management involvement

5.66 It is important for the successful implementation of a business-critical system that the project is driven by, and has the commitment of, senior management. Without this support, implementation teams will be unable to secure the necessary resources or commitment from other areas of the organisation. In addition, as the ultimate owners and users of the business system and information managed by the system, senior management should devote sufficient time to acquire an understanding of what is involved in the implementation and the impact it will have on operations. This understanding will assist management to steer the implementation process to ensure that the organisations' needs are satisfied.

5.67 Based on RMIT documentation the following Chart 5G outlines the RMIT elements of the AMS implementation management structure during the period 1999 to 2001.

CHART 5G
AMS IMPLEMENTATION MANAGEMENT STRUCTURE, 1999 TO 2001



5.68 It was difficult during the course of our review to identify clear and concise documentation on the governance processes in place during the early period of implementation of the AMS. Following discussions with relevant RMIT personnel, we were advised that the components of the governance structure were as follows:

- The project team reported to 2 project managers. The RMIT staff reported to the RMIT AMS project manager and the implementation consultants staff reported to their project manager;
- The RMIT AMS Project Manager and Business Process Manager reported to the AMS Project Director;
- The Project Steering Committee, chaired by the Pro Vice-Chancellor – Information Systems, was responsible for the overall management of the project and consisted of the implementation consultants engagement partner and their project manager, the *PeopleSoft* engagement partner and their project manager, the RMIT technical manager and business process manager, the AMS Project Director and AMS Project Manager;
- The AMS Reference Group, also chaired by the Pro Vice-Chancellor – Information Systems, was the key mechanism for university-wide communication and user input to the project. The AMS Reference Group consisted of the AMS Project Director, nominees of the Deputy Vice-Chancellor - Resources and representatives from all faculties, resource groups and RMIT companies; and
- The Deputy Vice-Chancellor - Resources reported to the Vice-Chancellor on the overall implementation of the system.

5.69 Overall, the audits found limited documentation to demonstrate an adequate level of project governance. Specifically, the following concerns were identified:

- There appeared to be a lack of a structured approach or suitable project methodology to guide the project. For example, documentation of formal sign-off of project functionality by relevant stakeholders was not evident. There appeared to be no formal sign-off of key project deliverables such as business requirements, specifications, and testing and data conversion strategies;
- There appeared to be a general lack of communication and consultation between the AMS Project Team and business users during the implementation of the project. For example, business users did not appear to be aware of key project deliverables. While monthly meetings of the AMS Reference Group were held, insufficient information was available on progress, issues outstanding and plans for progression of the project;
- Weekly project status reports to the Project Steering Committee were inadequate. For example, there was an absence of information on the overall status of the project, milestones and key deliverables, details of the status of remediation activities and the impact of any delays on the academic calendar, and a lack of prioritisation of issues needing to be addressed and the actions required; and

- At the commencement of remediation activities in 2002, there appeared to be a lack of concise and definitive documentation on the current problems with the AMS and the activities required to address these problems.

Project management

5.70 Effective project management is essential for a successful IT implementation. It involves a number of key processes including project sponsorship, resourcing, quality planning and management, project reporting and user involvement. This section considers each of these and outlines the results of RMIT's reviews and our audits.

RMIT reviews

5.71 Following the system going live in October 2001 and the functional and technical problems experienced, in late December 2001, RMIT engaged an external consultant to provide advice on the remediation of the system. The consultant was to perform a status review of the AMS project and provide a report on the findings with recommendations to rectify the identified deficiencies. During January 2002, external resources were also brought in by RMIT from the same consultancy firm to assist with the resolution of critical problems. As this work continued, RMIT decided that a complete review of the project was required to identify the underlying causes of the problems encountered and to propose a plan for going forward.

5.72 The review initiated by RMIT commenced in late February 2002, and was to be completed by mid-March 2002. Overall, the review's key findings were that the project lacked overall project management rigour and a framework that would have been expected on a project of this size and cost.

5.73 In parallel with this review, RMIT engaged a second consultant to analyse the technical aspects of the system. During February/March 2002, this consultant performed a review of the AMS systems architecture and provided recommendations to address technical and performance issues. Overall, the review's key findings were that the implementation of the AMS displayed a lack of essential rigour, a lack of effective risk management and that the performance problems encountered were related to the extensive modifications made to the core propriety software to meet RMIT requirements.

5.74 It was clear from these reviews that substantial work was required to address the significant functional and technical problems associated with the AMS. As a result, RMIT decided to put the remaining remediation work and implementation of future phases out to tender, closing at the end of May 2002.

5.75 In the interim, RMIT engaged the consultant who provided the initial advice on the remediation of the system to implement a formal project structure and to manage the interim remediation activities until the end of May 2002.

5.76 The successful tenderer arising from the abovementioned tender process was to be appointed to complete the remaining remediation activities and be responsible for delivering other known functionality requirements deferred from the initial implementation, as well as further enhancements to the system. However, as a result of our audit review reported to the Minister for Education and Training in June 2002, the Minister recommended to RMIT that remediation activity not proceed until the full extent of the problems with the AMS were identified and comprehensively documented. Based on this advice RMIT subsequently decided not to proceed and officially closed the tender.

Project sponsorship and management

5.77 As indicated previously, senior management involvement is imperative to a successful IT implementation. Senior management involvement can be formalised through assigning project sponsorship to an appropriate senior manager or through the creation of a steering committee that comprises senior management representation from across the organisation.

5.78 At the next level, an appropriately skilled project manager who is empowered and has the support of senior management, is also fundamental to ensuring the successful implementation of a system. The project manager should have project management skills, experience with student administration systems and be familiar with the principles of systems implementation.

5.79 Based on the results of RMIT-initiated reviews and the result of audits undertaken by our Office, the following key weaknesses in project sponsorship and management were identified:

- From its commencement, the AMS project lacked a clearly defined governance structure;
- The AMS Project Steering Committee was viewed as ineffective. No formal acceptance criteria had been defined and no critical evaluation of contractors engaged appeared to have been performed based on the perception of the lack of *PeopleSoft* software skills among some of the contractors engaged to implement the system;
- An appropriately skilled internal Project Director and Project Manager were not part of the project team until mid-2002. RMIT could, therefore, not ensure that the organisation’s interests and needs were being appropriately met;
- Proven and recognisable project management and system development methodologies were not adhered in relation to the AMS project;
- The AMS project lacked a strong and effective change management focus to ensure that all affected areas of RMIT received adequate training, communication and support;
- A clearly and tightly defined scope and time frame was not established for the AMS project resulting in scope creep occurring;
- Changes made to the AMS focus and/or scope were not clearly defined in concise and definitive documentation; and

- The AMS project did not identify and obtain the buy-in of key stakeholders throughout RMIT. This led to stakeholders feeling that change was being forced and made them resistant to the change.

Resources

5.80 A key factor of a successful project is the availability of, and access to, adequate resources. It is the responsibility of the project sponsor and project manager to work together to ensure the availability of resources. Adequate resources include:

- sufficient and appropriately skilled internal resources;
- access to sufficient and appropriately skilled contractors/experts; and
- adequate funds to maintain the project and support the project team.

5.81 The skills base should include internal staff with human resource systems implementation skills. Contractors should have relevant industry experience, preferably be experts with the product and have student administration systems implementation qualifications and experience.

5.82 Based on the results of RMIT-initiated reviews and the result of audits undertaken by our Office, the following key weaknesses in the AMS project were identified:

- Initially, the project was staffed with many RMIT staff in key project positions, however they lacked relevant project management and/or implementation experience;
- The AMS project's use of contractors and third parties was not tightly controlled to ensure that their role was understood, their performance measured and appropriate contractual mechanisms were in place;
- The AMS Project Team had been diverted from the implementation of the system to work on outstanding system-related issues such as the ability to enrol and invoice students for the 2002 academic year. As resources were diverted to work on these issues, the implementation of the Web portal designed to support initiatives such as student enrolment via the Web had to be postponed;
- One of the justifications for the AMS project proceeding was that it would deliver administrative cost savings. This placed stress on RMIT's administrative staff who were assisting in the implementation;
- A significant level of external resources were used on the project, however the lack of documentation which clearly outlined the scope and specific tasks assigned to these resources made any assessment of their adequacy difficult. In addition, a significant level of external resources were applied to management roles; and

- The lack of effective project governance and lack of clarity regarding the operational problems impacting the AMS also limited RMIT's ability to effectively manage their outsourced arrangements. For example, a letter of agreement was entered into with the consultant engaged to provide the initial advice on remediation of the AMS and subsequently to implement a formal project structure and to manage the interim remediation activities based on a hourly charge rate. As a result there was no clear definition of overall expectations, including roles and responsibilities, key deliverables, acceptance criteria, quality control and overall cost.

Time frame and planning

5.83 A project manager is responsible for establishing and managing the project time frame. The success of a project is dependent on establishing a realistic time frame for achieving project objectives. Risks associated with imposing unrealistic limits on project time frames include:

- placing the project manager and project team under unreasonable pressure;
- not comprehensively establishing the foundation and direction for the project; and
- not completing key steps during the project resulting in objectives not being met.

5.84 Management of the project time frame requires monitoring the project's progress against the project plan. The project manager may consider that it is necessary to adjust time frames during the project to better reflect current circumstances.

5.85 Based on the results of RMIT-initiated reviews and the result of our audits, key weaknesses in time frame management and planning included:

- The AMS "go-live" decision did not consider whether all features required of the system had been fully delivered or that a clear post-implementation plan existed which set out time frames for their achievement;
- The AMS implementation was based on a student administration solution that had neither been proven nor accepted elsewhere, within Australia. The Web portal version of the software had not been formally implemented within Australia or overseas;
- The AMS "go-live" decision was not based on assessing the readiness of the entire organisation with input from all stakeholders, rather input was only sought from the AMS Project Director and contractors engaged to implement the system;
- The AMS went live during a critical RMIT processing period, therefore, burdening staff with the AMS, while they attempted to issue academic results, organise graduations and commence taking enrolments; and
- The whole AMS project went live at the one time rather than as a pilot or using a parallel running approach. This prevented RMIT from being able to roll back to its existing student information management system, after difficulties began to emerge post the system going live.

Quality planning and management

5.86 Quality planning and management are critical to the success of a project. Quality planning involves identifying the required outputs and outcomes, and the processes necessary to achieve the outputs and outcomes. At the completion of a significant project phase, a review should be conducted to establish the degree to which the process achieved its specified objectives and to identify areas that could be improved. Quality management includes signing-off a process, output or outcome when it has achieved an organisation's specified objectives.

5.87 Based on the results of RMIT-initiated reviews and the result of our audits, the following key weaknesses in quality planning and management were observed:

- There appeared to be no formal comprehensive independent quality assurance role on the project. An effective quality assurance function ensures that basic project structures, processes and deliverable schedules are in place and operating;
- The AMS project's culture was viewed as being one of blame rather than one which aimed to resolve problems. This reduced the AMS project's ability to effectively resolve implementation and project issues; and
- Key AMS milestones and deliverables were not defined upfront, resulting in status reports being clouded by the AMS Project Manager's understanding of the project's progress which was not supported by the achievement of milestones and/or deliverables.

Project reporting

5.88 Regular meetings of a project team should be held to ensure that progress against project plans is being monitored and, where necessary, action to alter the project plan is taken. A steering committee should also meet regularly to:

- provide direction and oversight to the project team;
- ensure that issues are addressed in a timely manner;
- gather information and report back to the project sponsor and/or senior executive; and
- review and update the project plans in line with changes to the specified objectives.

5.89 Based on the results of RMIT-initiated reviews and the result of our audits, the following key weaknesses in project reporting were observed:

- Project documentation was inadequate. While status reports and action lists existed, they lacked prioritisation. As a result, it was difficult to identify what the status of current work, what issues existed and what progress has been made;
- Thorough and structured testing was not performed and full sign-off was not obtained prior to the AMS going live; and

- Weekly project status reports to the Project Steering Committee were inadequate. As stated previously, there was an absence of overall status of the project, milestones and key deliverables, details of the status of remediation activities and the impact of any delays on the academic calendar, and a lack of prioritisation of issues needing to be addressed and the actions required.

User involvement

5.90 User involvement is critical to implementing a system that satisfies an organisation's needs. Users should be involved in designing the system and specifying the required outcomes. Effective change management is critical in ensuring appropriate involvement.

5.91 Based on the results of RMIT-initiated reviews and the result of our audit inquiries, key weaknesses in user involvement were:

- The time spent on testing was insufficient. Given the complex business requirements and new functionality to be implemented, more time should have been spent on testing to ensure that critical business processes functioned as required and achieved agreed acceptance criteria; and
- The AMS project was seen as being used to force change within RMIT, leading to poor buy-in by the various faculties and limited user take up of the system.

Conclusion

5.92 **The implementation of the AMS project was always a high risk strategy given its importance to the operation of RMIT and, as such, required robust project management controls. Implementation projects that are based on solutions untested in similar environments that require major modifications to the propriety software, without effective fall-back positions, such as parallel running, and which have poorly planned and executed acceptance testing magnify the risks significantly.**

5.93 **Audit findings indicate that there were a significant number of fundamental failures in the project management structures and processes put in place that directly contributed to the difficulties experienced at the time the system went live in October 2001. These problems have contributed to some of the functional problems and deficiencies (discussed later) and delayed RMIT from achieving the desired functionality.**

5.94 **Changes to the implementation scope also meant that RMIT did not sufficiently define its business requirements or allow adequate time to plan and manage the quality of the implementation outcome. Significantly, one of the conclusions reached by the consultants appointed by RMIT was that the implementation of the AMS displayed a lack of essential rigour, a lack of effective risk management and that the performance problems encountered were related to the modifications to the core propriety application to meet RMIT requirements.**

5.95 **RMIT did not actively manage risks as they arose by applying planned risk treatments or documenting new risks and developing appropriate treatment plans. As a consequence, when risks arose they were either not addressed in a timely manner or not addressed at all, which ultimately affected project time frames and the success of the project outcome.**

5.96 **RMIT did not undertake adequate user acceptance testing of the system to ensure the support of users once the system was operational.**

Functionality of the AMS

5.97 The success of an information technology (IT) implementation should not be judged by performance against time and cost budgets alone. Ensuring that the product meets the organisation's needs, is a critical success factor for an IT implementation. The following key functionality aspects of the AMS implementation were examined:

- tuition fee calculation;
- international student fees;
- student results; and
- interface with other IT applications.

Tuition fee calculation

5.98 A fundamental component of the AMS implementation project was the development of a system that would record student enrolment details and calculate university and TAFE course student fees. The proposed system was intended to calculate fees based on the variable charges applying to the different courses undertaken. This information would then be uploaded into the general ledger and used as the basis for invoicing students.

5.99 The audit report to RMIT and the Minister following the routine annual audit of RMIT's 2001 financial statements indicated that:

- The AMS functionality to perform a tuition fee calculation process was not working for a considerable period after the system went live. The tuition fee calculation is important as this is used as a basis for recognising revenue in the accounts of RMIT. The failure of the AMS to perform the tuition calculation resulted in delays in invoicing, a loss of university funds and year-end audit adjustments to increase tuition fee revenue. A subsequent calculation in March 2002 indicated that the amount of revenue not recorded as at 31 December 2001 in relation to the summer school was approximately $800 000; and

- At the time of the AMS implementation, a significant number of international student debtors were also uploaded into the AMS from the Semaphore system. At balance date (31 December 2001), RMIT International Pty Ltd then sent RMIT University a listing of international student debtors for semesters 1 and 2 in 2001 to be recorded in the financial system. However, no reconciliation was performed between the student debtors loaded into the AMS and the student debtors on this listing. As such, approximately $174 000 of international student debtors were "double-counted". This amount was written-off at year-end as an audit adjustment.

5.100 The tuition calculation for a student can be a complex process, particularly given the rules surrounding the charging of international and TAFE students which can involve a number of variables. However, it is a critical process as it directly results in the cash flow of RMIT. Any ongoing failure to undertake these calculations and issue the resultant invoices places RMIT's financial viability at risk.

5.101 Since the completion of the audit of the 2001 financial statements we have continued to monitor progress in rectifying the issues associated with the tuition fee calculation. A number of issues remained outstanding during 2002, including:

- **Problems with the AMS (that have subsequently been rectified) which resulted in tuition calculations not being performed in a timely manner. For example at June 2002 tuition calculations had not been performed for approximately 5 000 students;**
- **Continuing user difficulties experienced with operating the system to undertake tuition calculation in the AMS; and**
- **The AMS did not accurately calculate tuition fees for many TAFE students due to data conversion issues.**

5.102 The significant implications of these issues will be further examined as part of the audit of the 2002 financial statements.

International student fees

5.103 RMIT International Pty Ltd, a subsidiary of RMIT, has historically managed, on behalf of RMIT, international students. RMIT International Pty Ltd used the AMS, but ceased using it shortly after its implementation and reverted to their previous student management system known as Semaphore. RMIT International Pty Ltd indicated that implementation of the new system occurred at a crucial time when offers were being sent to international students and that problems with the AMS meant that many letters of offer could not be sent.

5.104 As part of our audit, in May 2002 the issue of international enrolments was further examined. The audit found that letters of offer to prospective international students were delayed by approximately 4 weeks**. Although the impact of this delay cannot be quantified, a number of faculties indicated that international full fee-paying student enrolments were down on budget in a number of faculties by between 6 per cent and 18 per cent. RMIT believe that this is a result of a national downturn in demand for certain courses rather than being caused by enrolment difficulties.**

5.105 RMIT International Pty Ltd has performed a reconciliation of all student accounts where the balance at October 2002 differed between the Semaphore system and the AMS by more than $100. The results indicate that approximately 85 per cent of international student debt balances were required to be reconciled.

5.106 Although this reconciliation of debtors is expected to be completed by the end of February 2003, recent discussions with the RMIT Financial Services Group indicated that they had reviewed a sample of reconciliations and have a number of queries which they have communicated to RMIT International Pty Ltd for further investigation.

Student results

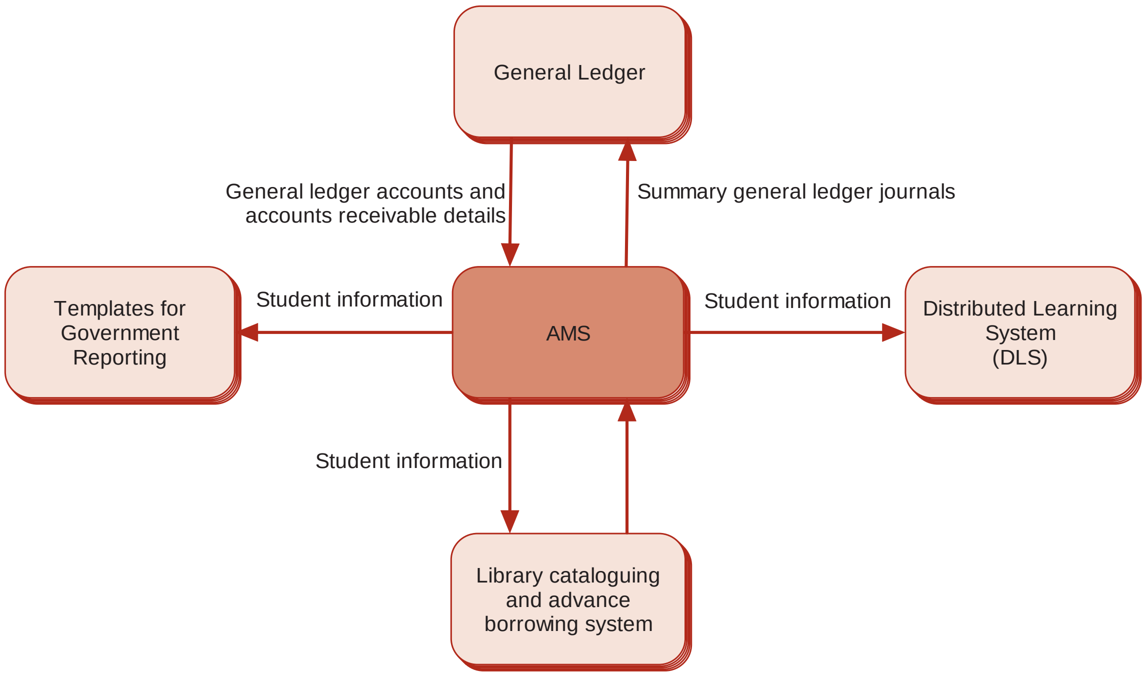
5.107 **The audit review disclosed that some students who had received final transcripts of results had not paid their outstanding debts. Some faculties decided to issue unofficial transcripts of results to students prior to establishing whether students had fulfilled their financial obligations because of problems with the AMS. It is understood that manual processes were subsequently put in place to overcome the shortcomings and continue to be in place.**

Interface with other IT applications

5.108 The AMS is the core IT system within RMIT and provides information to a number of other IT systems that operate activities including bank payment gateways, graduation records, student email and computer network access, and research facilities.

5.109 Chart 5H outlines the relationship and interfaces between the AMS and key IT systems at RMIT where problems have been experienced.

CHART 5H
AMS INTERFACES WITH KEY IT APPLICATIONS WITHIN RMIT



5.110 These interfaces include:

- General Ledger - relies on data recorded in the AMS concerning student enrolments, course registrations and the tuition fee calculation for the issue of invoices;
- Distributed Learning System (DLS) (centralised online learning environment offered to students around the world) - relies on data on students and student registrations processed in the AMS;
- Library Cataloguing and Advance Borrowing system - extracts student data from the AMS to enable students to use RMIT library facilities; and
- Templates for Government Reporting - relies on data in the AMS to provide regular reports to the Commonwealth Department of Education, Science and Training in regard to HECS and the student loan scheme, accountability data for the Office of Training and Tertiary Education within the State Department of Education and Training, Centrelink etc.

5.111 The AMS is a complex system which has been significantly modified to meet the needs of RMIT. The complexity and potential number of variables associated with a student transaction, combined with the lack of software functionality, has resulted in a number of system configuration issues. The most significant of these was the inadequate interface between the AMS and the General Ledger. The AMS and General Ledger interface relies on a series of processes to complete the interface via summary journal entries.

5.112 A notable system configuration issue experienced in 2001 and 2002 was the lack of an effective interface between the AMS and the General Ledger. During the period between October 2001 when the AMS went live and November 2002, the General Ledger interface was not operating**.** During this period, the general ledger had to be updated manually using estimated revenue figures because reliable actual data was not available.

5.113 In November 2002, the interface between the AMS and the General Ledger was activated. All transactions processed in the AMS to November 2002 were uploaded into the general ledger via one journal entry. Audit testing indicated a number of issues surrounding this upload which primarily relate to the accuracy and completeness of the upload.

5.114 **There are also a significant number of duplicate student identifications (ID) recorded within the AMS. This may result in instances where a student has an amount raised as owing recorded against one ID and a cash receipt against another ID. Preliminary assessments made by RMIT indicated the existence of approximately 4 000 instances of duplicate IDs**.

5.115 The significant implications of these issues will be further examined as part of the audit of the 2002 financial statements.

5.116 Other interface difficulties identified as part of the audits included:

- between the DLS and the AMS - limitations on the number of records that could be transferred and the format of the data;
- between the AMS and the Library Cataloguing and Advance Borrowing system - which required manual intervention to complete, occasionally creating duplicate records and not all students records (approximately one per cent) being transferred to the library system; and
- between the AMS and templates for regulatory reporting to the Department of Education, Science and Training - which resulted in a backlog in statutory reporting.

5.117 All interfaces between the AMS and the other systems will require more work to improve their robustness, reliability and integrity, and to reduce the reliance on manual intervention or manual processes.

Conclusion

5.118 **The objectives underlying the AMS project were always ambitious, particularly with the number, extent and critical nature of the interfaces required with other systems. These interfaces did not effectively operate at the time the AMS went live and continue to be a significant issue for RMIT.**

5.119 **A major objective of the project was the integration of all RMIT student administration activities into a consolidated system and replacing the existing student administration systems. The audit was unable to definitively identify the impacts of problems with the implementation of the AMS on RMIT's educational delivery, however, based on discussions with various stakeholders within RMIT the following impacts were identified at the commencement of 2002:**

- **delays in issuing student cards resulted in some students being unable to access university services, such as the library, until several weeks into the first semester;**
- **significant problems were experienced with on-line enrolments which resulted in the need for the establishment of centres to handle one-on-one enrolments for the first semester;**
- **due to the inability to produce class lists, lecturers and tutors did not know who was intended to be in their classes;**
- **delays in issuing first semester results for students in some faculties; and**
- **delays were encountered in responding to students wanting to change courses.**

Financial budget implications

5.120 It is important to ensure that the product selected, and the costs associated with implementing the system represents value-for-money when undertaking a major project such as the AMS. As part of this process, it is necessary that the whole-of-life costs for the product, including ongoing management and maintenance costs, are considered.

5.121 An assessment of budgeting and cost monitoring is dependent on the identification of all relevant costs associated with the project and establishment of a realistic budget. Where the magnitude of some costs cannot reasonably be estimated some contingency is normally included in the budget. The budget should be used by the project team as a tool to monitor the progress of the implementation and by the system administration team to monitor the cost-efficiency of the system.

5.122 The original implementation budget, established in 1999, was $12.6 million (not including internal costs).

5.123 The actual cost of the implementation as at 31 December 2001 was $13.5 million, with a further $18.2 million being spent to the end of 2002 on remediation, data management and other support activities. The estimate of the likely AMS expenditure for 2003 is $15.5 million for both the maintenance of the existing AMS solution and implementation of the approved remedial action. This figure includes $7.4 million for consultancy services.

5.124 The total AMS expenditure to the end of 2003 is currently estimated to be $47.2 million. As indicated previously, RMIT as part of the original budget for the AMS allocated a further $6 million per annum for 3 years for licence fees, additional implementation work, consultancies and software upgrades.

5.125 The audit found that:

- The original cost estimate did not consider the full cost of implementation. Costs not adequately provided for included internal resources to be applied to the project and the cost of consultancies required;
- In the initial stages of the project there was limited reporting against the budget to the respective management committees established to monitor and manage the project occurred;
- Limited evidence of reports being prepared on the financial progress of the project and resultant decisions taken; and
- **The anticipated total cost of the implementation of $47.2 million represents 3.7 times the original budget. While the initial estimates did not include internal costs, later estimates have more adequately estimated these costs. As a result, the actual cost of the project to RMIT is likely to significantly exceed this amount, however, due to the absence of records identifying the extent of the use of internal resources in the early years on the project this additional cost cannot be fully estimated.**

5.126 **There is also potential for additional costs and delays in moving forward with the remaining remediation and implementation work due to a lack of documentation on both outstanding operational issues and documentation of the work already performed. RMIT advise that as a result of the likely project expenditure in 2003, as well as other capital commitments and unfunded enterprise bargaining obligations, there is currently an anticipated cash shortfall for 2003.**

5.127 RMIT is considering ways to meet this projected shortfall by implementing a number of measures including a freeze on the employment of new staff, tightening of controls over expenditure, disposal of property and surplus assets, and committing to only necessary capital expenditure. RMIT is also assessing its future financing options.

5.128 We understand that the Commonwealth Government has already made a $7.5 million cash grant in advance to RMIT.

Conclusion

5.129 **The implementation of the AMS has been, and continues to be, a significant cost burden on RMIT. The lack of attention and importance placed on the initial project cost estimation and the initial monitoring of the project's costs has contributed significantly to the current financial position of RMIT. Additional funds will be required for further remediation work or for a replacement solution in late 2003 or early 2004. Better financial management and reporting by all concerned was unlikely to have avoided the technical implementation problems that emerged, but it would have improved the ability of RMIT to respond earlier**.

Other issues arising from the implementation

5.130 An important component of an IT implementation project is to ensure that the IT environmental, operational and application controls are robust and reflect the requirements of the new system. As part of our ongoing review of the AMS implementation we monitored progress in relation to the establishment of appropriate operational and application controls.

5.131 As a result of the issues identified in our work to June 2002 and through the reviews undertaken by RMIT, we did not undertake a detailed review of operational controls over the AMS at that time. In light of the issues raised previously in this report, it can be concluded that the controls were not operating effectively. RMIT internal audit reports identified issues associated with application controls, security, significant operational problems, unstable systems and unclear resolution of remedial action. While manual work undertaken around the system and other control processes put in place by RMIT may mitigate these exposures, they were not long-term solutions and a detailed review of the control environment needed to be undertaken.

5.132 Application controls are a fundamental requirement of any IT system because, if effective, they provide assurance that the information input into the system is accurate. The subsequent audit work since 2002 has found that the implementation of a robust AMS application control environment remains outstanding. Controls that had yet to be addressed included error detection, validation and cross matching of records. We acknowledge that RMIT has undertaken considerable work in identifying and documenting the application controls to be implemented for enrolment processes, however these controls have not been implemented. This increases the risk that progress achieved to date may be undermined by the need to perform further data cleansing and validation activities due to the uncontrolled manner in which data input was managed within the AMS.

Audit recommendations made in June 2002

5.133 In the light of the issues identified by my Office as a result of the audits undertaken, the following recommendations were made to RMIT in June 2002:

- Priority should be given to ensuring a controlled handover to whoever is assigned responsibility to finalise the project. This should include defining, as far as possible, the scope and extent of current problems with the AMS and the other development phases of the project;
- Fundamental issues relating to governance and contract management should be resolved together with the other problems relating to project management, and the problems with the AMS, application controls and security;
- Documentation should be prepared which outlines the financial impacts including actions to mitigate these impacts;
- Additional work should be undertaken to assess the full impact of current AMS problems on educational delivery, including the approach to be taken to address these impacts;

- The effectiveness of the internal audit activities should be reviewed, including the need for more effective reporting to the audit committee and timely follow-up of outstanding issues;
- A post-implementation review of controls should be undertaken as a matter of priority;
- Key AMS operational controls should be identified and implemented to improve the ongoing integrity of the system;
- A robust testing strategy and approach should be adopted; and
- Formal quality control processes should be implemented.

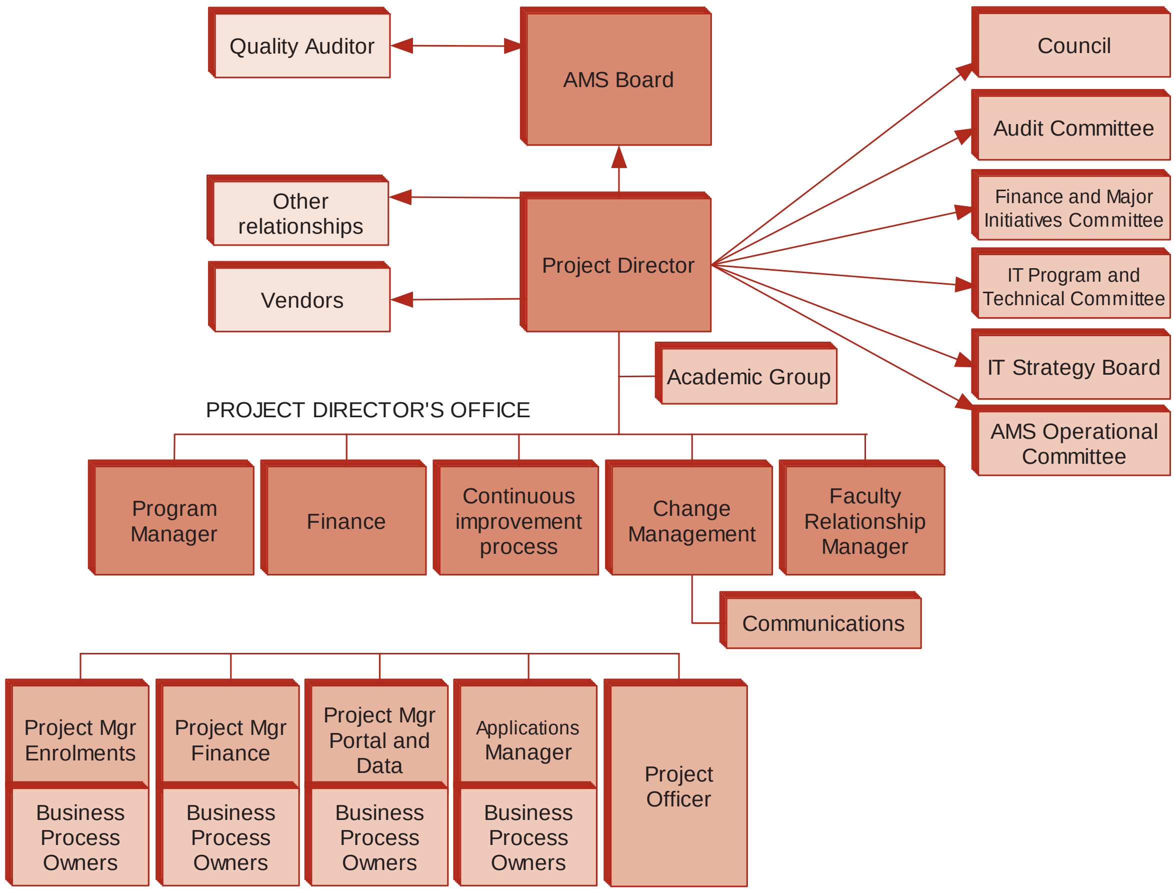
RMIT action

5.134 In July 2002, RMIT instituted a number of further reviews of the AMS implementation project. As a result of the findings and recommendations of these reviews, fundamental changes were made to the project by RMIT. These are as detailed below.

Current AMS project structure

5.135 Improvements to the project management framework and structure were made, including the appointment of a dedicated RMIT Project Director and Project Manager, and the establishment and resourcing of a Project Director's Office. In conjunction with this, a restructure of the Project Board was also completed, including changes to reporting on the status of the project, and the associated reporting structures. Chart 5I outlines the reformed AMS project structure.

CHART 5I
REFORMED AMS PROJECT STRUCTURE



Source: RMIT AMS project.

5.136 Important aspects of the project structure include:

- RMIT appointed a dedicated AMS Project Director from within RMIT. The Project Director is assisted by an RMIT Project Manager and a dedicated AMS Project Office;
- An AMS Operational Committee was established that meets weekly to discuss and prioritise project activities, and resolve or escalate project issues to the AMS Board;
- An AMS Board was established consisting of the Vice-Chancellor and representatives from executive management across RMIT and members of the AMS project team. This structure significantly improves the balance between RMIT users and the implementation partners;
- A project-wide status reporting process was implemented which provided regular reports to both the AMS Board and AMS Operational Committee to give a high level overview of the project's progress;
- A project financial tracking and monitoring process was established;
- An AMS independent quality auditor was appointed; and

- A Change Evaluation Group (CEG) was established that focuses on ensuring only necessary enhancements are made to the AMS. As part of the introduction of the CEG, the project has developed a change management approval process which included the completion of formal change request forms and the maintenance of a change request log.

5.137 The reviews undertaken by the 2 firms of consultants short-listed through RMIT's subsequently abandoned tender process independently concluded that RMIT needed to re-implement a student administration solution, as the implemented *PeopleSoft*-based AMS solution had been heavily configured resulting in significant technical and functional problems. The reviews also concluded that it would not be cost-effective to attempt to rectify the existing AMS solution.

5.138 In the light of these reviews, RMIT researched the student administration systems currently used by a number of other universities throughout Australia, as well as, identifying their implementation partners and implementation costs. The outcomes of the research enabled RMIT to identify future options which include:

- continuing to maintain the existing solution;
- re-implementing *PeopleSoft* with limited configuration changes; and
- implementation of an alternative academic management platform.

5.139 RMIT again commissioned the consultants who had performed the initial analysis of the technical aspects of the AMS system to perform a detailed review of the current configuration of the AMS *PeopleSoft* solution, against RMIT's initial requirements and representations made by PeopleSoft Inc. The outcome of the review has facilitated subsequent discussions with PeopleSoft Inc. regarding their support in working with RMIT on the difficulties being encountered with AMS.

5.140 The consultants who undertook this technical landscape review assessed and evaluated the original request for tender requirements for AMS and identified all of the documented business requirements. The review identified a 50 per cent match of the current AMS which is operating to RMIT's business requirements and an overall 54 per cent fit to RMIT's business critical requirements.

5.141 In addition, RMIT has refocused project activities to concentrate on maintaining the AMS to support critical operational activities in the academic calendar. This resulted in the establishment of a number of sub-projects that were assigned specific support to ensure the integrity of key operations such as enrolment, billing and cash collection.

5.142 **We have been advised that RMIT's current strategy is to maintain and support the existing AMS solution for at least the next 18 months to enable RMIT to identify and implement an appropriate replacement solution in late 2003 or early 2004. This is largely driven by the advice RMIT received that it was not cost-effective to attempt to rectify the issues associated with the current implementation of AMS. Sustaining AMS in its current form is not feasible in the long-term given the high level of customisation to the system, the issues of the integrity of the data contained within it and the extensive work that would be required to bring the system as currently implemented at RMIT up to standard.**

Overall conclusion

5.143 The implementation of the AMS has been, and continues to be, a significant cost and operational burden on RMIT. Additional funds will be required for remediation work and for a replacement solution in late 2003 or early 2004. The current system has not provided the functionality originally planned and RMIT faces significant challenges in transitioning to a high quality student administration system that is sustainable in the medium to long-term, as well as funding the activities necessary to achieve this outcome.

5.144 RMIT did not comprehensively plan for, and apply, appropriate contract and project management practices. RMIT did not establish the required governance arrangements, including senior management involvement, or support, to ensure the implementation project was effectively managed. As a result, the AMS became operational although it was unable to satisfy a significant number of critical business needs. A consequence of this was that RMIT operations suffered disruption, including services to prospective and current students.

5.145 While some significant progress has subsequently been made by RMIT towards stabilising and supporting the AMS to allow faculties to meet the short-term requirements of the academic calendar much remains to be done - both in the short-term to ensure processing requirements are met, and over the longer-term if a lasting solution is to be found.

Better practice

5.146 The results of our review of the implementation of AMS by RMIT highlight the need for learning from this experience. While recognising that, in a devolved environment, each chief executive officer is responsible for the effective and efficient use of resources, the issue of the need for guidance and how organisations can learn from the experience of others needs to be addressed. It is inherently inefficient and of questionable cost-effectiveness for mechanisms not to be put in place where experiences can be shared. To this end, the following section of this report provides an introduction to some better practices in the implementation of IT systems. It acknowledges material drawn from Audit Report No. 12, 2001-2002, *Selection, Implementation and Management of Financial Management Information Systems in Commonwealth Agencies* prepared by the Australian National Audit Office.

5.147 In March 2001, the Organisation for Economic Cooperation and Development (OECD) released a management brief[2] that addressed the problems with implementing large IT projects in both the public and private sectors. It reported that *"… budgets are exceeded, deadlines are over-run and often the quality of the new system is far below the standard agreed when the project was undertaken"*. As few as 28 per cent of IT projects undertaken in the United States in 2000 were successful in relation to budget, functionality and timeliness. An equivalent number of IT projects were cancelled. The OECD recognised that problems with IT projects represented a significant economic, political, efficiency and effectiveness risk to government. More concerning is that IT implementations that do not achieve their objectives put at risk e-government initiatives.

5.148 The OECD identified some key factors that contribute to public sector organisations "getting it right" in relation to IT projects. These key success factors included:

- Establishing appropriate governance structures. To do so when establishing IT projects it should be recognised that rapid policy change, higher standards of accountability and short deadlines are common place in the public sector. These risks to the IT implementation project should be identified and better managed by organisations;
- Thinking small. This involves only undertaking projects that can be reasonably completed within 6 months, offer technical simplicity, have modest ambitions for business change and involve teamwork-driven business goals;
- Using known rather than new technologies, and minimising customisation of standard software. If new technologies are unavoidable, a rigorous testing program should be undertaken prior to establishing an implementation contract;
- Identifying and managing risk. Independent review programs can assist with the identification of risk. However, for these programs to be effective, organisation management then needs to address problems immediately and thoroughly;
- Ensuring compliance with better practices for project management;
- Holding business managers accountable. IT system implementations must be led by senior management and not IT experts. Senior management leadership, responsibility and accountability are critical to the success of an IT project. In planning the project it is necessary to identify who will be held accountable for delivery, how performance will be measured and when performance can be measured;
- Recruiting and retaining talent. Frequently, the public sector has a lack of relevant IT skills and this created a high level of reliance on contractors;
- Prudently managing knowledge. Knowledge management initiatives include training staff, arranging seminars, and collecting and managing IT-related information in databases;

[2] The Hidden Threat to E-Government. Avoiding large government IT failures, OECD Public Management Brief No.8. 2001.

- Establishing environments of trust with private vendors. This could involve offering rewards for good performance such as bonuses rather than just focusing on penalties for poor performance. It also involves partnering and particularly sharing your organisation's vision and objectives in relation to the project with vendors so that they have a better understanding of your business requirements; and
- Involving end-users.

5.149 The OECD concluded that public sector organisations should not take risks, instead they should identify risks, determine which risks they are willing to take and manage those risks within appropriate governance structures.

5.150 In the context of the comments above, this section highlights the key lessons learnt from the AMS project, which are applicable to any large system implementation project. The findings are grouped under what we believe are the 7 key focus areas for any project as outlined below.

- Right sponsor is engaged
- Regular steering committee meetings held and discussions minuted
- All stakeholders groups are represented effectively
- Actions/decisions taken in a timely fashion

- Establishing, agreeing and monitoring the delivery of organisation benefits, e.g. financial, knowledge and skill development

- Benefits are identified
- Benefits realisation strategy is documented
- Benefits are monitored

- Risks are appropriately identified
- Appropriate efforts are in place to manage these risks

- Milestones are clearly agreed
- An appropriate approach is being used
- There is confidence in the accuracy of progress reports and estimates to completion

- Delivery commitments are feasible
- Project boundaries are appropriately defined
- Roles and responsibilities are clearly agreed
- Proposed/agreed changes to terms are appropriately reflected in proposed/agreed costs, schedules and responsibilities

- Project is appropriately and fully staffed
- Morale is healthy
- Productive and effective environment

Source: Victorian Auditor-General's Office.

Scope is realistic and managed

5.151 A project needs a clearly and tightly defined scope and time frame to prevent scope creep from occurring. This is important when multiple stakeholders, such as faculties, have differing opinions regarding the solution to be delivered. In the AMS project it was noted that each faculty had differing views on the AMS solution, resulting in each faculty having its own software requirements implemented.

5.152 Any changes to the scope or focus of the project should be clearly defined in concise and definitive documentation to ensure that a record is maintained of approved changes and that such changes are appropriately approved at the highest level since they could jeopardise the entire project. This will enable an organisation to determine whether the solution delivered matches what had been previously requested. This was a prime factor causing difficulty in rectifying the problems with the initial AMS implementation.

5.153 A "go-live" decision should only happen after extensive testing or piloting, and should include ensuring that either all scope items have been fully met or that clear post-implementation plans exist which set out time frames for their achievement. This would have ensured that the final solution delivered to RMIT met the required outcomes. Alternatively, it would have highlighted problems prior to going live and enabled more informed decision making regarding the AMS implementation.

Business benefits are realised

5.154 The implementation of a solution that is proven and accepted within the market, reduces the risk of implementation failure, than would otherwise be the case when a software package is selected that is yet to establish a strong market reputation. In the case of the AMS, the project was built around a combination of versions which had yet to be proven in the market.

5.155 A comprehensive independent quality assurance (QA) function will play a major role in assisting to ensure that a project successfully delivers benefits. This is achieved by QA ensuring project structures, processes and deliverables are in place and operating throughout the project. QA is particularly important at the start of the project to ensure that appropriate project structure and risk management mechanisms are in place to protect the funds invested in the project. RMIT has only recently introduced this QA function for the AMS project.

5.156 Effective business transformation is a key focus for any major business change project. A well planned and resourced project will ensure that transformation occurs as part of the implementation of a system. However, the project should not be used to force change in an organisation. This was seen at RMIT and resulted in both poor faculty buy-in and limited user take up of the AMS.

5.157 Business change projects should be justified on delivering wider benefits than simply administrative cost savings as these may not be realised until the medium to long-term after the system has been appropriately "bedded down". Administrative cost savings initially had a significant focus in the AMS project and this placed additional stress on administrative staff.

Stakeholders are committed

5.158 Identification and buy-in of key stakeholders is required upfront to ensure that the necessary support is obtained throughout the organisation. If this support is not obtained, key stakeholders feel that a change is being forced on them and are, therefore, resistant to the change being delivered. This was cited in a number of reports as a key issue in the early stages of the AMS project.

5.159 A go-live decision should be based on the readiness of the entire organisation with input from all stakeholders. This will prevent incorrect decisions such as the original go-live decision made by RMIT, which was based on obtaining input from only the Project Director and the outsourced implementers, rather than from the faculties who were in a more appropriate position to assess readiness.

Team is high performing

5.160 A clearly defined governance structure must be implemented prior to the commencement of the project as it is far more difficult to attempt to establish this after the project has commenced. This was evident on the AMS project when effective governance arrangements only became a major focus post go-live, after significant problems had been encountered.

5.161 The use of contractors and third parties must be tightly controlled to ensure that their role is understood, their performance measured and appropriate contractual mechanisms are in place. This will ensure that payments made to contractors or outsourcers are supported by clearly identifiable deliverables and outcomes.

5.162 Organisations should draw, as much as possible, from their existing staff to resource major projects, as they have greater organisational knowledge and experience than any third party. This is also normally a more cost-effective solution. Where project tasks are outsourced there should be a clear need either due to internal resource constraints or the need to obtain particular technical expertise.

5.163 While the track record and expertise of a consulting organisation are valuable, it is the skills and capabilities of the individuals working on the project that will decide the success of the project. Significant effort should be made to validate individuals' experience and expertise before accepting them onto the project. In the case of the AMS, there were concerns about the relevant *PeopleSoft* experience of some of the contractors engaged.

5.164 The reviews of the AMS project identified that a blame culture initially existed within the project. A project culture which aims to solve problems rather than assign blame, will assist to ensure that an effective resolution of implementation issues can occur. The impact of this culture on the AMS project was that it demoralised the project team and impacted both the progress and quality of rectification work performed.

5.165 Critical roles such as Project Director and Project Manager require full-time commitment to large business change projects, to ensure that the project is adequately managed and monitored. There were concerns on the AMS project that the Project Director, until recently, did not have a full-time commitment to the project and, therefore, could not effectively manage the rectification activities.

5.166 Where project activities are substantially outsourced, an appropriately skilled internal Project Director and/or Project Manager must be appointed to ensure that the organisation's interests and needs are being effectively met. No matter how strong the outsourcing contract is, there must always be strong management and monitoring of outsourcer activities. An organisation can outsource the development and implementation of a solution, however, they can never fully outsource the risk, as ultimately, the organisation rather than the outsourcer will be held accountable for the success of the project.

5.167 A critical part of any implementation team is an independent QA function that can provide feedback and recommendations regarding a project's status, its structures and processes. The adoption of a QA function provides early warnings to the steering committee and management of potential problems. The AMS project has only recently implemented an effective QA function.

Work and schedule is predictable

5.168 Strong project planning ensures that when a system goes live, it does not occur during an organisation's critical processing period. This was not the case with the AMS which initially went live in October, when academic results needed to be issued, graduations organised and enrolments taken.

5.169 Pilot and parallel running rather than the whole system going live at the one time is a more risk averse approach to IT system implementation. The whole AMS was implemented at the one time which prevented RMIT reverting to its pre-existing systems after it appeared that the implementation had been unsuccessful.

5.170 Key milestones and deliverables must be defined up front, so that a project's progress can be monitored against these time frames and deliverables. The absence of this definition upfront, increases the risk that status reporting can be clouded by a project manager's understanding of the project's progress which may not be supported by the achievement of milestones and/or deliverables. This was the case in the initial AMS implementation, as well as during the rectification, when it was found that status reporting was inadequate as it did not provide a clear indication of the position of the project in relation to key milestones.

Risks are mitigated

5.171 An effective steering committee will ensure that a project has the appropriate risk management focus. For example, a steering committee must ensure that a clearly defined set of acceptance criteria exist to enable a structured go-live decision to be made. It would also be critically involved in the selection of outsourcers to ensure that appropriate checks have been made on skills and experience.

5.172 Low risk projects will generally not result in radical changes to an organisation's underlying IT infrastructure. Where new infrastructure is implemented, significant planning is required in the areas of training and resourcing to ensure that an organisation can effectively support the new infrastructure. RMIT implemented a version of Windows 2000 that, at the time, was not consistent with RMIT's policy for application servers that operated on Unix or Windows NT. RMIT consequently did not have sufficient internal skills to support the new operating environment.

5.173 A fixed price implementation reduces the spending risk that a time and materials approach can create, as additional expenditure over the agreed budget amount can be tightly controlled. Furthermore, it prevents an organisation having to fund inefficient outsourcer performance. On the AMS project, the rectification phase was being performed under a time and materials approach rather than a formal contract, with no formalised agreement specifying the outcomes to be delivered. This resulted in significant RMIT expenditure which could not be matched to any clearly identifiable deliverables.

5.174 Successful projects adhere to proven project management and system development methodologies. It was only after RMIT resumed full-scale management of the project and commenced implementing a project management framework, that positive results began to be clearly seen from the project.

5.175 Significant system implementations require a strong change management focus to ensure that the affected areas of the organisation receive adequate training, communication and support. This ensures that users are prepared for a change that may significantly modify the way they perform day-to-day activities and, therefore, provide a level of comfort that they are ready to accept the change. In relation to the AMS, it was found that this did not satisfactorily occur and resulted in significant resistance from users who felt they were ill equipped to use the AMS.

5.176 Planning to ensure that thorough testing and full sign-off is obtained prior to going live prevents premature or inappropriately timed deployment. A number of reports regarding the AMS implementation identified that inadequate testing had been performed prior to going live, resulting in significant and fundamental errors occurring.

Delivery of organisation benefits are realised

5.177 A number of the lessons identified above highlight that an organisation can never totally outsource the implementation risk, when undertaking major business change projects. Therefore, organisations must effectively manage outsourcers by addressing the lessons discussed above if organisational benefits are to be realised.

RESPONSE *provided by the Vice Chancellor, RMIT University*

Much of the history in relation to the development and implementation of the AMS system, and the analysis of the deficiencies in the management of this process were the subject of the earlier audits you have referenced. RMIT staff have co-operated fully with your office during these audits and have progressively adopted recommendations from yourself, other external advisors and our own quality auditor. We will continue to do this as any issues are identified.

The management failures associated with the AMS project are serious and the financial and administrative consequences have been significant. Our focus with the project during 2002 was to ensure that we met our administrative commitments to our students while the educational service delivery continued. This was achieved only with enormous commitment from many RMIT staff.

RMIT moved quickly to strengthen project management, to examine thoroughly the causes of the failures and to identify and put in place remedial measures expeditiously. In December 2001 when the first problems were identified a contract project manager was hired to supplement the resources of the existing AMS team. Based on his advice we contracted an external firm to conduct a full review of the project and then to provide interim project management services to help stabilise the project and start implementing the required project controls. These interim project management services ceased when the new RMIT project director was appointed in May 2002.

Our current AMS Project Director immediately moved to implement the findings of our reviews, the substance of which was echoed in your mid year audit and subsequently communicated to the University. These actions significantly strengthened governance and management in relation to the AMS project. We are therefore pleased that your report acknowledges the positive steps RMIT has taken to introduce a robust project environment with strong governance and management controls.

Successfully implementing a fully functional academic management system is a critical and complex issue for the University and, within the time constraints of our academic calendar, we continue to work assiduously towards achieving a full resolution. Whilst remediation activities can only be undertaken within the constraints of the University's academic calendar, we continue to make positive progress. RMIT students can now check their results and enrolment details via the University website; academic transcripts for 2002 have been successfully produced and 2003 invoicing for TAFE and Higher Education students is up to date.

I would also like to take this opportunity to summarise for the readers of this report, the major initiatives we have taken at RMIT since last June:

- *Implementation of a new AMS project structure, with the Vice Chancellor as the sponsor of the project. The structure includes the appointment of a Project Director and Project Manager with substantial experience in large-scale implementations;*
- *Creation of the AMS Board. The membership, which includes the VC and senior members of the University, meets fortnightly to monitor progress and set future priorities;*
- *Formation of the AMS Operational Committee. This group, which meets weekly, has representation from all faculties, resource groups and RMIT companies;*
- *The appointment of business process owners for critical streams of AMS functionality, for example enrolments and financials;*

RESPONSE *provided by the Vice Chancellor, RMIT University - continued*

- *Appointment of Ernst & Young to undertake project quality assurance;*
- *Introduction of a comprehensive and detailed project charter, risk and issues management and communication strategy;*
- *Introduction of an industry recognised project methodology and project office to manage and control all AMS related activity. This includes the program of work, application control environment, a thorough testing regime and procedures for user acceptance and approval of new AMS functionality;*
- *Extensive consultation with University stakeholders, including operational users, regarding AMS issues; and*
- *Substantial improvement in the quality, and timeliness of documentation, particularly in relation to change controls and project reporting.*

It is important that all those interested in RMIT be assured that the University has done everything which could have been done to date to deal with the situation and that you are satisfied with the plan we have in place for dealing with the remaining matters. I therefore feel it would be beneficial to provide an update on progress made and to explain some of the challenges that lie ahead.

RMIT's vision for the Academic Management System was ambitious. The University's aim was to deliver a functionally rich and highly flexible integrated learning and administration platform. This included a web based, self service system designed to enhance service to students, improve administrative efficiency and release academic staff for research and other related teaching and learning activities.

Whilst complex in nature, we believe an integrated solution is fundamental to managing the student learning experience and providing a richer, more productive environment to underpin the academic teaching process.

The AMS development and implementation was made more challenging by the size and diversity of RMIT's student population. Integrated Higher Education/TAFE functionality with web access did not exist in the PeopleSoft application, or any other student administration system commercially available. Thus, the objectives of the AMS project could only be delivered by a student management system that was supported by groundbreaking technology. If the implementation had been successful, RMIT would have been the first educational institution in Australia to have a totally integrated, dual sector, web enabled student information system.

While substantial progress has been made by way of remediation, considerable challenges remain. At the risk of being repetitious, it is worth stating once again that these challenges could not have been addressed before now because the AMS must continue to meet the demands of the academic calendar and operate as a fully functional production system throughout the remediation process.

***RESPONSE** provided by the Vice Chancellor, RMIT University - continued*

October to February is a critical time of the year and it would not have been prudent to undertake further remediation until the peak enrolment period was completed. This has occurred smoothly and we are now in a position to undertake the next phase of the remediation process, that is to refresh and refine our business requirements and match these against the PeopleSoft system in its current form. From this analysis, decisions will be taken in relation to the application technologies and academic management processes the University will adopt moving forward. If we conclude that the PeopleSoft application does not meet the needs of the University moving forward, other systems will be evaluated. However, it is important to note that the options are limited.

Finally, whilst acknowledging that the failure of the AMS had significant consequences for the University, I would like to clarify the financial position with regard to the implementation and ongoing costs of the system. The original budget for the 2001 implementation of the AMS was $12.6 million. This compares to the first year actual expenditure on the system of $13.5 million. The original plan for the AMS system always included an expenditure of around $6 million per annum in subsequent years for the ongoing system costs such as hardware leasing, depreciation, software licences, consumables, salaries and wages etc. In addition, a further $1.2 million of business operational costs including the production of invoices, transcripts and confirmation of enrolments were planned for within the AMS 2002 budget. In previous years, these costs were captured within the faculties and/or resource groups. This means that the cost for stabilisation and remediation of the AMS in 2002 was $11 million (versus the total spend of $18.2 million). The budget for 2003 of $15.5 million also includes a similar amount to cover the normal costs associated with maintaining such a system and the business operational costs noted above.

The failure of the AMS implementation is regrettable and we have learned much from our experiences. As previously indicated, we will be consulting widely going forward to ensure we benefit from the experience of others and we will provide you with further updates in relation to our progress.

AUSTIN AND REPATRIATION MEDICAL CENTRE REDEVELOPMENT AND MERCY HOSPITAL FOR WOMEN RELOCATION PROJECT

5.178 The Austin & Repatriation Medical Centre (A&RMC) is one of Australia's leading teaching hospitals and medical research centres. It provides an extensive range of general and specialist services including treatment for heart conditions, spinal and head injuries, cancer and neurological disorders, liver and bone marrow transplants, psychiatry, and rehabilitation services.

5.179 The A&RMC was formed in January 1995 following the amalgamation of the Heidelberg Repatriation Hospital and the Austin Hospital (including the Royal Talbot Rehabilitation Centre).

5.180 Plans for the redevelopment of the A&RMC were first announced in mid-1994 with a proposal to eventually consolidate the hospital operations on the Heidelberg Repatriation Hospital site. These plans were endorsed in the Government's 1996 Metropolitan Heath Care Services Plan, along with the proposed transfer of the Mercy Hospital for Women (a campus of Mercy Public Hospitals Inc.) from East Melbourne to the Heidelberg Repatriation Hospital site with the aim of improving access to hospital services.

5.181 It was originally intended that the redevelopment would be undertaken by the private sector through the implementation of a "build, own, operate" scheme. However, these plans were subsequently revised by the Government's policy known as *Investing not Selling* and in October 1999 it was announced that the project would be publicly funded and operated.

5.182 At the same time, a review was established to investigate options for the redevelopment of the A&RMC and advise on the proposed relocation of the Mercy Hospital for Women to Heidelberg.

5.183 The review included an assessment of both financial and socio-economic factors and considered the following options:

- redevelopment on either the Austin or Repatriation site, with immediate consolidation of all services on one site;
- redevelopment on either site, with staged consolidation of all services on one site; and
- redevelopment across both sites, with consolidation of some of the services on one of the sites.

5.184 The results of the review, which was finalised in April 2000, were as follows:

- both the Austin and Repatriation sites were suitable for the redevelopment, although the Repatriation site was considered to be superior because it offered greater long-term flexibility due to its larger size, which would enable the redevelopment to proceed with less impact on existing services;

- the option of a complete redevelopment and immediate consolidation of services on the Repatriation site was considered to deliver the highest socio-economic benefits, although at a greater financial cost due to the additional infrastructure required to be provided on the site;
- the cost of a complete redevelopment on either site would greatly exceed the Government's intended capital commitment of $155 million;
- given the funding constraints, the preferred development option would be a consolidation of all acute inpatient and surgical services to the Austin site followed by maintenance of infrastructure and retention of services across both sites;
- teaching, training and research facilities should also be upgraded to provide closer integration with clinical services; and
- the Mercy Hospital for Women could be accommodated equally well within any A&RMC development option.

5.185 It was estimated that the preferred option of consolidating acute inpatient and surgical services on the Austin site and maintaining both sites would have a total end cost of $190 million, plus an additional $25 million for the creation of car parking and an additional $65.2 million for the relocation of the Mercy Hospital for Women.

5.186 The review also recommended that the Government contribute $15 million towards a consolidation and upgrade of teaching, training and research facilities at the Austin site which is to cost $30 million, with the balance of funding to be sought from other sources including the Commonwealth Government, the University of Melbourne and independent research institutes.

5.187 A master plan was prepared as part of the review process to provide a conceptual framework for the redevelopment of the A&RMC. In July 2000, the dual site redevelopment option was approved in-principle by the Government pending the submission of a detailed investment evaluation report to confirm the key concepts of the project as outlined in the master plan.

5.188 **In August 2000, the Government announced the redevelopment of the A&RMC, incorporating:**

- **reconfiguration of the Austin Hospital site to accommodate all acute inpatient services and surgery including 400 new acute inpatient beds, 32 new mental health beds in a purpose-built facility, a new emergency department, new intensive and critical care units, and 2 additional operating theatres;**
- **a 1 200 space car park with direct lift access to patient services;**
- **consolidation of the ambulatory, non-acute and mental health services on the Heidelberg Repatriation Hospital site;**
- **construction of a new Mercy Hospital for Women on the Austin Hospital site with 128 beds, 60 neonatal cots, 17 delivery rooms and 4 operating theatres; and**

- **upgraded teaching, training and research facilities, and the development of a dedicated training and research precinct.**

Project management arrangements

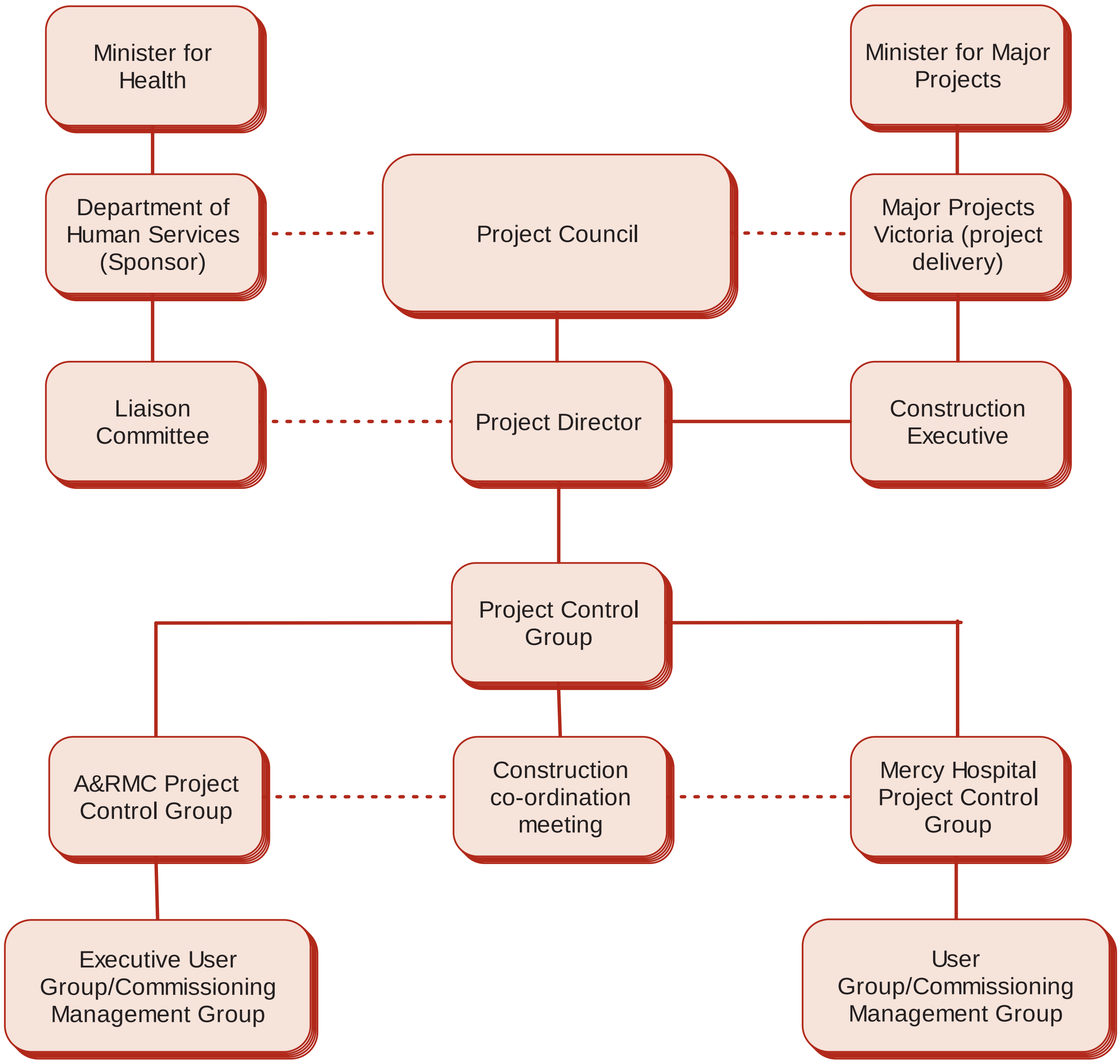
5.189 The Department of Human Services managed the redevelopment of the A&RMC until the beginning of August 2002, when upon completion of the project design phase, responsibility for the delivery of the project was transferred to Major Projects Victoria.

5.190 The decision to transfer the responsibility to Major Projects Victoria was made primarily on the basis that:

- Major Projects Victoria has greater experience in managing major construction programs; and
- the separation of project management and construction responsibilities from core Department of Human Services business responsibilities will enable project delivery to be more clearly delineated from Department of Human Services policy, ownership, sponsor and funding decisions.

5.191 The commencement of the construction phase of the project and the transfer of management responsibility to Major Projects Victoria required a review of the project governance arrangements to be undertaken. The revised governance arrangements for the project are shown in Chart 5J.

CHART 5J
PROJECT GOVERNANCE ARRANGEMENTS



Source: Department of Human Services.

5.192 The key features of the governance arrangements include:

- Project Council – chaired by the Secretary of the Department of Human Services and comprised of representatives from that Department, the Department of Treasury and Finance, the Department of Premier and Cabinet, and Major Projects Victoria. The Project Council is responsible for monitoring and reviewing the progress, expenditure and management of the project, and approving scope and budget changes;
- Liaison Committee – chaired by the Director, Metropolitan Heath & Aged Care Services within the Department of Human Services and comprised of Chief Executive Officers and Board Chairs from the A&RMC and Mercy Health and Aged Care. The Liaison Committee provides a forum to discuss and resolve policy issues and review project management and budget performance relating to the project construction, commissioning and implementation, and ensure that any concerns are conveyed to the Project Council;

- Project Control Group – chaired by the Project Director from Major Projects Victoria and comprised of representatives from that Department of Human Services, the A&RMC, Mercy Hospital for Women and project consultants. The Project Control Group has overall responsibility for the delivery of the project within the timelines and budget agreed by Government; and
- individual A&RMC and Mercy Hospital for Women Project Control Groups, chaired by the Chief Executive Officers of the respective hospitals, which receive significant input from user groups and are responsible for the design and functionality of the project within the parameters set by the Project Control Group.

5.193 **The project management arrangements provide a clear separation of responsibilities between the sponsoring department (Department of Human Services), project director (Major Projects Victoria) and end-users (A&RMC and Mercy Hospital for Women). The role and function of the Liaison Committee should also ensure that the end-users have adequate representation and involvement in significant project decisions.**

Probity

5.194 **As part of the control framework over the project, in November 2000 an external probity advisor was appointed to independently provide advice and monitor the procedural integrity of the project. The probity advisor reports directly to the Project Council at monthly meetings.**

5.195 The key elements of the probity process have included the:

- preparation of a high level probity plan for the project and detailed probity plan for procurement;
- conduct of probity briefings for all those involved in the tendering and evaluation process;
- attendance of the probity advisor at all tenderer briefings, closure of the tender process, interviews with tenderers, selection panel meetings, workshops, and oversight and review of the commercial negotiations;
- review by the probity advisor of all documentation from the tender process;
- provision of advice by the probity advisor on issues arising during the tender process; and
- sign-off by the probity advisor on the probity of the tender process.

5.196 While the probity advisor was appointed after the commencement of tendering for the initial consultancies (architect, structural and civil engineers, building surveyor and building service engineers), the probity advisor undertook a review of the tender procedures and processes which took place prior to appointment.

5.197 Probity audit reports that were sighted in relation to the appointment of the initial consultancies and the managing contractor did not outline any outstanding issues. However, the reports identified the following issues:

- The sending, in error, of a confidential file to all short-listed tenderers for all of the initial consultancies (being approximately 21 organisations). The file contained the names of the short-listed candidates, the expressions of interest, the selection criteria and associated weightings, and an assessment of the short-listed candidates against the selection criteria;
- Minor departures from the Victorian Government Purchasing Board Polices and Guidelines in relation to the documentation on the file supporting decision-making by the evaluation panel for the architectural tender; and
- The submission of a late expression of interest by an organisation for the managing contractor appointment, resulting from the submission being mislabelled by the organisation and incorrectly placed in the submission box for the bulk earthworks contract expressions of interest, which closed at a later date. The Department of Human Services was unable to identify the exact date and time the submission was received, and was, therefore, unable to determine whether it was actually eligible for consideration despite being placed in the wrong box. The organisation was invited to provide evidence to verify that the submission had been lodged on a timely basis, however it was subsequently agreed that it was in fact late and was, therefore, not considered as part of the tender process.

Risk management

5.198 As a further element of the control framework over the project, a risk management consultant was engaged to develop an overall framework for the identification and management of project risks and to prepare a risk management plan for the project. The plan was based on interviews with all key stakeholders and a separate risk management workshop, and broadly outlines the risk management process and risk treatment strategies for each of the specific risks identified.

5.199 The risk management plan identified a large number of risks, across a range of categories, which have been progressively addressed by the project team. Key project risks are primarily monitored at project meetings and through monthly project reports, which incorporate cost and progress reports.

5.200 The risk management plan was revised at the end of the design development phase to provide a more focused list of current and future risks and, following the transfer of the project to Major Projects Victoria, a monthly report on risk and contingency management is provided to the Department of Human Services and the Project Council.

5.201 **The risk management plan covers both the redevelopment of the A&RMC and relocation of the Mercy Hospital for Women, but excludes the consolidation and upgrade of the teaching, training and research facilities as this component was not considered to be sufficiently advanced to enable the planning of risk treatment solutions.**

Project implementation

Selection of architect

5.202 In early September 2000, expressions of interest were publicly sought from architects to be involved in the project. The selection of the architect was conducted concurrently with the selection of consultancies for the building surveyor, building services engineer, and structural and civil engineers.

5.203 A selection panel, comprising managers and senior officers from the Acute Health Division (now incorporated within the Metropolitan Health and Aged Care Services Division) and the Capital Management Branch of the Department of Human Services, A&RMC, Mercy Public Hospitals Inc., the consulting project director and a representative of the Royal Australian Institute of Architects was established in mid-September 2000 to undertake the selection process.

5.204 Expressions of interest were received from 12 interested parties and evaluated against the selection criteria, which included the capacity to complete the project, and experience in government and similar projects. Weightings were applied to all the selection criteria except the mandatory requirements of financial capacity, insurance and registration.

5.205 Following the evaluation of expressions of interest, 7 companies were invited to submit tenders for the architectural consultancy, which closed in mid-October 2000.

5.206 We reviewed the process for the selection of the preferred tenderer.

5.207 All applicants were invited to attend a first interview, after which the 2 highest ranked applicants were selected for a second interview. The preferred tenderer was determined in late October 2000, following an evaluation of each tenderer's performance at the second interview and the tender submissions against the selection criteria.

5.208 **The proposed fee was assigned a weighting of 20 per cent in the selection criteria. It is our view that the fee should not have been weighted when conducting the tender evaluation. Instead it should have been considered separately to the other criteria and used to carry out an assessment of the value-for-money provided by each tenderer.**

5.209 In December 2000, the Minister for Health announced the appointment of the architects for the redevelopment. The architectural fee is set at an upper limit of $10.5 million and comprises:

- $8.1 million, representing 3.43 per cent of the estimated lump sum costs for the schematic design, design development, contract documentation and contract supervision/ administration phase of the development;

- $2.2 million, representing the costs for additional specified services and a contingency sum of $868 000; and
- $173 800, representing a fixed lump sum for the master planning review and feasibility studies, and post-occupancy evaluation phase of the development.

Completion of investment evaluation and master plan review

5.210 The Investment Evaluation Report for the project was completed by the Department of Human Services in February 2001 and included the results of a detailed review of the master plan for the development, an examination of opportunities for private sector involvement in the project and options for procurement.

5.211 The architects were required, as part of their appointment, to undertake a review of the master plan. The review confirmed the overall scope and strategy of the master plan, but recommended some minor changes to enhance the design of the redevelopment. The design changes were adopted, which required the acquisition of a piece of Crown land on the north-eastern corner of the Austin site held by Vic Roads as a road reserve, and the removal of former council chambers and an associated hall located on the land.

5.212 The Investment Evaluation Report indicated that:

- there was potential for the State to benefit from the involvement of the private sector in leasing the new car parks;
- while it would be beneficial to relocate radiotherapy services from the Repatriation site to the Austin site, redirection of funds to meet the cost of the relocation from other project priorities would not be sufficiently justified;
- tight deadlines for the commencement of car park construction ruled out procurement options that needed a substantial amount of time, to define and document client requirements, prior to the commencement of construction; and
- and a “managing contractor” approach was the preferred procurement strategy for the main component of the project.

Selection of managing contractor

5.213 The managing contractor option was assessed as providing the best balance of risk, incentive and cost, with the key features being the delivery of the project within a fixed budget and involvement of the construction contractor in the design development phase. This approach has been widely adopted for a number of large hospital developments in Queensland and New South Wales.

5.214 Under the managing contractor approach, a contract is entered into on the basis of a Total Constructed Cost (TCC), which is the maximum price payable for the documentation and construction of the agreed works. Under such an approach, tenderers are required to provide details of preliminaries (on-site establishment costs), overheads, and design fees – known collectively as the managing contractor fee – and a profit margin. The TCC is then confirmed and agreed with the appointed managing contractor once the project design phase is complete and pricing can be accurately determined.

5.215 **For this project, the managing contractor tender is for the main component of the project on the north-east corner of the Austin site only. This includes the construction of a car park, new clinical services block, associated refurbishments of adjoining buildings (principally the Harold Stokes Building) and the new Mercy Hospital for Women. It did not include site excavation, the consolidation and upgrade of teaching, training and research facilities, construction of a new mental health unit, or refurbishment and infrastructure replacement on the Repatriation site**.

5.216 We examined the process followed for the selection of the managing contractor.

5.217 The panel chosen to undertake the selection process comprised managers and senior officers from the Acute Health Division and the Capital Management Branch of the Department of Human Services, the A&RMC, the Mercy Public Hospitals Inc., the consulting project director, and representatives of the Department of Treasury and Finance and Department of Premier and Cabinet, construction industry and the Capital Works Branch of Queensland Health.

5.218 Expressions of interest were publicly sought in late March 2001, with a total of 8 expressions of interest received by the deadline in early May 2001. Subsequently, 5 firms were short-listed and requested to submit tenders by mid-July 2001.

5.219 Tender submissions were received from 4 of the 5 short-listed firms and evaluated in accordance with the following criteria, all of which were weighted except price:

- financial capability;
- experience and capability of the firm;
- suitability of the proposed methodology and approach;
- demonstrated understanding of the issues that may arise during the project;
- the extent to which the tenderer's proposed team would complement the existing members of the project team; and
- pricing/value-for-money.

5.220 Separate sub-panels were established to examine the financial, methodology and industrial relations components of the tender submissions (with access to pricing information restricted to the financial sub-panel) and prepare a report for subsequent review by the selection panel. Interviews were held with all tenderers in late July 2001, following which the selection panel completed a preliminary assessment based on the tender submissions, interview performance, and sub-panels and referee reports. The selection panel then assessed the value-for-money of each tender submission based on the financial sub-panel report.

5.221 Two tenderers were short-listed to participate in evaluation workshops, following which final rankings to determine the preferred tenderer were agreed by the selection panel in early August 2001. Commercial negotiations were subsequently conducted with the preferred tenderer.

5.222 A report to the Project Steering Committee was prepared at the conclusion of the selection process and signed by all members of the selection panel. **Although the report documented the steps in the selection process, it did not incorporate the details of panel findings at each stage, reasons for panel decisions, or tenderer rankings and scores. It is our opinion that this information should have been included to ensure the transparency of the selection process.**

5.223 A Letter of Intent was issued to the preferred tenderer in October 2001, and in early November 2001 the Government announced the appointment of the preferred tenderer as the managing contractor.

Changes in scope of the redevelopment

5.224 The schematic design for the main component of the project was completed in August 2001, during the period of tendering for the managing contractor. Based on the identified requirements, the appointed quantity surveyor determined that the project would cost $45.3 million more than previously anticipated primarily as a result of an increase in the scope of refurbishment works.

5.225 A series of value management workshops were held during August and September 2001 to identify cost savings in order to bring the project back on budget. The cost reduction process was completed by the end of October 2001, and a revised schematic design and cost plan issued in late November 2001.

5.226 The revised cost plan contained net savings totalling $36.8 million, with savings primarily achieved though:

- Rationalising the design and costs for the new building areas without reducing the functional area;
- Reducing the building upgrade budget from $13 million to $5 million; and

- Limiting the extent of refurbishment works to $14.8 million, with only Stage 1 refurbishment works ($13.3 million on the Austin site and $1.5 million on the Repatriation site) included in the project budget. **The remaining 3 Stages, estimated to cost $21.4 million, being refurbishment works for the consolidation of ambulatory care/clinical support services, site consolidation works, and respiratory and further radiology clinical enhancement works, were deferred for later consideration. Design development was carried out for the ambulatory care/clinical services and site consolidation refurbishment works to enable those works to be readily accommodated within the project should funding become available.**

5.227 The savings identified above have been partially reduced by an increase in the:

- cost of areas associated with patient arrival/departure and plant/machinery resulting from the addition of separate entrances for the A&RMC and Mercy Hospital for Women, a new hospital front entrance off Studley Road, and the inability to use existing A&RMC plant to service the new facilities ($5.1 million); and
- scope of the project to increase the size of the neonatal intensive care unit at the Mercy Hospital for Women from 60 to 62 cots ($300 000).

5.228 **Mercy Public Hospitals Inc. expressed a strong desire throughout the cost reduction process to retain the essential planned scope and functionality of the new hospital design in order to preserve the range and volume of services to be offered. As a result it was not possible to further reduce the cost overrun on the budget for the Mercy Hospital for Women to below $6.7 million. A change in the scope to provide additional retail and cafeteria space was also incorporated into the A&RMC hospital design on the Austin site at a cost of $1.7 million, resulting in a revised plan $8.4 million above the approved project budget.**

Cost escalations

5.229 At the time the revised cost plan was issued in November 2001, the project quantity surveyor advised that the Victorian market conditions were changing as a result of the large volume of construction activity being undertaken and the limited number of subcontractors available for major projects. As a consequence, the 3 per cent provision in the cost plan for cost escalations was no longer considered to be adequate and required review.

5.230 **As extensive cost reductions had already been incorporated into the project, few options remained to further reduce the cost without adversely impacting on the scope of the project and service delivery. Many of the options would require replanning substantial components of the project and result in significant project delays**.

5.231 It was originally intended that the TCC would be agreed with the managing contractor during April and May 2002, following the completion and approval of the project design. However, given the impact of the abnormal increase in market prices, in December 2001 the Government instructed that it required the TCC to be determined by March 2002 to enable the revised cost of the project to be considered in the 2002-03 Budget.

5.232 To provide independent advice on the allowances that should be made for the abnormal cost escalation, and design and construction contingencies, 2 additional quantity surveying firms were appointed in January 2002.

5.233 These firms estimated that the managing contractor would add a margin on the estimated cost of the main component of the project to cover the risks associated with:

- abnormal cost escalation (margin of between $29 million and $35 million); and
- providing a price for the associated works based on incomplete project design documentation (margin of between $5 million and $10 million).

5.234 Project documentation available as at the end of January 2002, estimated to be approximately 80 per cent complete, was issued to the managing contractor to determine the cost of construction of the main component of the project. An initial first offer of the TCC was received from the managing contractor in late February 2002. At that time, the following options were available to the Government:

- accept the first offer;
- negotiate with respect to cost, scope and risk, leading to a second offer;
- call for tenders from other contractors, while retaining the first offer; or
- reject the first offer, terminate the contract with the managing contractor, continue to completion of the project design phase, and then tender the contract as a lump sum.

5.235 The first offer, which was subsequently adjusted downwards, was at the lower end of the expected cost increase provided by the independent quantity surveyors and considered to be fair and reasonable by the Project Council. The Government accepted the adjusted offer as an upper limit, subject to the ability to negotiate an improved outcome upon completion of the design development, agreement of the construction program, transfer of the contractual obligations with the consultants to the managing contractor, and finalisation of other arrangements with the managing contractor.

5.236 **A detailed project design was approved in July 2002 and, following negotiations, the contract with the managing contractor for the cost of construction of the main component of the project was signed in mid-September 2002, broadly in line with the managing contractor's first offer.**

Components of the contractual arrangements with the managing contractor

5.237 The managing contractor has total responsibility for the delivery of the main component of the project from design development to completion of construction, including appointment of trade contractors, furniture and equipment procurement, and installation and commissioning. While the agreement with the managing contractor only covers the main component of the project, flexibility has been incorporated into the agreement to add additional works in the future.

5.238 At the time the agreement with the managing contractor was signed, all existing contracts associated with the design and construction of the project were novated to the managing contractor. As a consequence, the managing contractor has assumed all risks associated with the completion of design development and contract documentation, together with all tendering and construction risks including extensions of time for inclement weather and industrial relations. **The risks that remain with the Government are those such as client initiated design variations and the discovery of latent conditions on the construction site.**

5.239 **Under the agreement with the managing contractor, the Government is only required to pay the actual cost of construction up to the amount of the agreed maximum Total Construction Cost (TCC**). The managing contractor must fund all costs above the TCC unless, as indicated previously, they have resulted from client variations or latent conditions.

5.240 A project performance pool arrangement has been incorporated into the Managing Contractor Agreement that will reward or penalise the managing contractor according to their performance against a set of performance criteria. The performance pool has been created from equal contributions by the Government and the managing contractor. The managing contractor nominated in its tender the proportion of the total profit it would contribute to the performance pool ($1.4 million). The Government is to contribute an equal amount from the construction contingency, to provide a total incentive of $2.8 million. A weighted assessment criteria and monetary allocation apply to the awarding of funds from the performance pool. This is outlined in Table 5K.

TABLE 5K
PROJECT PERFORMANCE POOL ASSESSMENT CRITERIA AND MONETARY ALLOCATION

Criteria	*Weighting*	*Value*
	(%)	($'000)
Recurrent cost	10	280
Disruption to hospital operations	10	280
Service performance	50	1 400
Quality	20	560
Safety	10	280
Total	**100**	**2 800**

5.241 The managing contractor may either be assessed as achieving “outstanding”, “business as usual” or “failure” for each performance criteria, with the funding distributed in the following manner:

- “outstanding” for all criteria – the managing contractor will receive all of the $2.8 million funding in the performance pool;

- "business as usual" for all criteria – the managing contractor will receive its contribution of $1.4 million and the remaining $1.4 million will be returned to the Government; and
- "failure" for all criteria – the Government will receive all of the $2.8 million in funding in the performance pool.

5.242 **The project performance pool arrangements also include provision to share capital cost savings. In accordance with these arrangements, if the actual construction cost is lower than the TCC, the Government and the managing contractor will equally share the difference.**

5.243 **The managing contractor approach, while being newly adopted for government projects in Victoria, has been utilised on a number of interstate hospital redevelopments and provides a means of transferring the major risks associated with the project away from the Government to the managing contractor. The inclusion of project performance pool arrangements provides an additional incentive to ensure that the project is completed on a timely basis. We commend this approach and await with interest the outcome of these procurement arrangements.**

Car park construction works on the Austin site.
(*Source*: ARM Project team.)

Project cost and completion

5.244 **At the time the redevelopment plans were approved in-principle by the Government in July 2000, it was expected that the project would cost approximately $315 million to complete.**

5.245 **In February 2001, the Government endorsed a total end cost of $325.7 million for the project. This comprised $221.3 million for the main A&RMC redevelopment (including the car park), $6.7 million for the mental health facility, $67.7 million for the Mercy Hospital for Women relocation and $30 million for the consolidation and upgrade of teaching, training and research facilities.**

5.246 This initial increase in the cost of the project resulted from:

- a 3 month delay in the anticipated initiation of the project from May 2000 to August 2000 ($4.6 million – $3.1 million for the A&RMC development and $1.5 million for the Mercy Hospital for Women relocation); and
- the introduction of the *Victorian Building and Construction Industry Compact* 2000, which provides for a 15 per cent wage increase over 3 years and the phasing-in of a 36 hour working week for employees in the construction industry ($6.1 million).

5.247 **The total end cost of the project, as endorsed by the Government in March 2002, was $376.3 million. However, this does not include the deferred refurbishment works (ambulatory care and clinical support services, site consolidation, and clinical enhancement works) as mentioned earlier in this report, which will cost a further $21.4 million.**

5.248 This later increase in the cost of completing the project is attributed to:

- the abnormal escalation in the market cost of construction associated with increased demand in the construction industry and margin to cover the risk related to incomplete design documentation at the time the TCC was agreed ($35 million);
- design requirements associated with the Mercy Hospital for Women retaining desired scope and functionality ($6.7 million) and the A&RMC's retail and cafeteria space ($1.7 million); and
- the allocation to the project of project management costs ($5 million).

5.249 **At the end of August 2002, expenditure commitments for the project totalled $102 million, representing 27.1 per cent of the total project cost.**

Project funding

5.250 **At the date of preparation of this report, the Government had committed funding of $310.7 million to the project. A further $40 million is to be sought through the Budget process to cover the escalation in construction costs and allocation of project management costs with the potential for an estimated $20 million to be returned to the Government through proceeds from the lease of the car park's operations to a private provider from 2004-05.**

5.251 We were advised that the balance of the funding is to be provided as follows:

- Contribution from research and training organisations for the consolidation and upgrade of teaching, training and research facilities ($15 million to match the amount of government funding provided). To date, the University of Melbourne has committed $5.5 million, Latrobe University $2.0 million and Neurosciences Victoria $1 million;
- Department of Human Services' recurrent and program funding ($2.7 million);
- Austin Hospital ($1.3 million); and
- Mercy Hospital for Women ($6.7 million).

5.252 The funding of $6.7 million, to be provided by the Mercy Public Hospitals Inc. to retain the scope and functionality of the hospital design, comprises:

- a cash contribution of $6.6 million upon completion of the hospital construction in 2004-05; and
- the assumption by the Mercy Hospital for Women of risks associated with private sector fit-out of the pathology space estimated at $136 000.

5.253 In accordance with this arrangement, if the furniture, fittings and equipment or hospital design do not meet the Mercy's functional requirements the Mercy Hospital for Women will be responsible for any costs over the reduced provisional sums. The Mercy is solely responsible for fitting-out the pathology space at a later date either from its own funds or as part of commercial terms agreed with the supplier.

Construction timetable

5.254 The construction timetable requires the redevelopment to be managed around existing services, with a fully functional hospital to be maintained at all times. The current timetable for the main construction works is shown in Table 5L.

TABLE 5L
CONSTRUCTION TIMETABLE – MAIN CONSTRUCTION WORKS

Activity	*Original forecast (Oct. 2000 master program)*	*Revised forecast (Sept. 2002 master program)*
Main construction works		
A&RMC car park (Separable Portion 1) -		
Start	July 2001	March 2002
Finish	January 2002	October 2004
Mercy Hospital Tower (Separable Portion 2) -		
Start	January 2002	April 2003
Finish	January 2004	November 2004
A&RMC Tower (Separable Portion 3) -		
Start	January 2002	March 2003
Finish	August 2004	December 2004
Refurbishment of Harold Stokes Building (Separable Portion 4) -		
Start	February 2004	November 2004
Finish	April 2005	January 2006

5.255 **Based on this timetable, after allowing for contingencies and hospital commissioning and decanting/relocating, it is anticipated that the Mercy Hospital for Women will be fully operational by May 2005 and the A&RMC new clinical block by June 2005. It is currently anticipated that the project will be completely finalised by March 2006 following the refurbishment of the Harold Stokes Building.**

5.256 Major Projects Victoria has indicated that the time frames outlined in the above table represent the worst case scenario and that potential exists to achieve time savings through the re-sequencing of construction activities, together with the integration and overlapping of hospital commissioning, decanting and relocation activities.

5.257 Reasons for the delays to date in the construction timetable include:

- industrial relation concerns over the preferred demolition contractor, resulting in a delay in the awarding of the contract and commencement of demolition works;
- an extended process for the selection of the bulk earthworks contractor, including an extended expressions of interest phase due to poor initial response;
- latent conditions following the discovery of additional asbestos during demolition works and bulk earthworks;
- further time required for additional scope of bulk earthworks;
- inclement weather;
- the design program falling behind schedule as a result of the need to identify cost savings and revise the schematic design of the project (schematic design and design development phases completed 3 and 6 months later than anticipated, respectively); and
- tendering for the construction of the car park being delayed until after the appointment of the managing contractor had been finalised, to enable the successful tenderer to be directly accepted as a sub-contractor.

5.258 We were advised that the managing contractor intends to utilise the car park area for amenities and storage during construction, thereby delaying the handover of the car park until near the completion of these facilities.

Other construction works

5.259 The mental health and teaching, training and education facilities are currently in the planning stages, along with the refurbishment and infrastructure works on the Repatriation site. As at the end of September 2002, the schematic design of the teaching, training and education facility had been completed, and master plans had been prepared for the mental health facility and Repatriation site refurbishment works. A detailed Teaching, Training and Education Strategy Plan for 2002-2007 had also been prepared.

5.260 The current indicative forecast completion date (including all contingencies and commissioning) for the mental health facility is December 2004, while it is anticipated that the teaching, training and education facility will be operational by June 2005 to match the A&RMC completion date.

Risks impacting on future recurrent cost savings

5.261 The Department of Human Services' investment evaluation of February 2001 envisaged that once the project was completed, the redevelopment of the A&RMC would allow for significant annual operating savings ($9.6 million for the A&RMC and $1 million for the Mercy Hospital for Women) through service amalgamations, rationalisation of buildings and sharing of facilities.

5.262 A significant portion of these recurrent savings would be made within the A&RMC nursing budget arising from the consolidation of clinical departments onto one site, rationalisation of nursing supervision and efficiency improvements in the use of nurse time.

5.263 **However, the nurses' Enterprise Bargaining Agreement, introduced in August 2000, requires additional administrative and management nursing positions to that planned in the redevelopment, resulting in a reduction in the anticipated annual cost savings by around $1 million.**

***RESPONSE** provided by Secretary, Department of Human Services*

The Department thanks the Auditor-General for the opportunity to comment on the Audit report. The audit has addressed the scope of the ARMC redevelopment project as proposed to Government in the April 2000 Review and subsequently confirmed in the February 2001 Investment Evaluation Report.

The capital investment in the project has been the largest single investment made in a Victorian hospital site and achieves collocation of the vast majority of ARMC acute services on the Austin site, with a complete reorientation of the Austin Hospital and a completely new Mercy Hospital for Women. During the project, cost pressures identified in the audit report were addressed through cost reduction exercises, that prioritised new works over refurbishment of existing spaces that could be addressed over time and within annual capital budget provisions.

The scope of the project has addressed priority issues for the ARMC. Clearly, this project has not attempted to include funding for all ARMC refurbishment requirements and long-term strategic objectives. The Department's intention is to manage these requirements within the overall priorities and funding available for the Department's infrastructure portfolio.

Selection of architect

Para. 5.206

The selection process was a 2 stage tender process consisting of publicly advertised Expression of Interest (EOI) followed by a selective Request for Tender (RFT).

The EOI stage was assessed on a range of selection criteria and did not include a fee submission. Short-listed firms were invited to tender for the RFT stage and include fee submissions.

RESPONSE *provided by Secretary, Department of Human Services - continued*

The selection process was to:

- *confirm the selection criteria and weightings;*
- *use non-financial criteria to short-list the tenderers (EOI stage);*
- *refine the short-list for a further detailed interview (RFT stage);*
- *base final selection on all criteria; and*
- *financial criteria were then considered to assess the final two tenderers and determine value-for-money.*

Final selection was based on all criteria with a weighted fee incorporated in the assessment to assess the value for money provided by each tenderer.

The Department accepts the audit recommendation and will amend procedures accordingly.

Selection of the managing contractor

Para. 5.222

The selection process and documentation was undertaken in accordance with the process and documentation agreed with the probity advisor and consistent with the Steering Committee's delegations to the Selection Panel. The detailed information and assessment associated with reasons, ranking and scores has been fully documented and retained on file, and was available at the Steering Committee's request.

The Department accepts the audit recommendation and will amend procedures accordingly.

Changes in scope of the redevelopment

Para. 5.227

The increase in the size of the neonatal unit from 60 to 62 beds was agreed by the Department following a Department of Human Services review of neonatal service demand and was funded from annual Department of Human Services capital funding allocations. It should be distinguished from achievements in cost reduction.

Para. 5.228

The additional retail and cafeteria space was funded by the ARMC on the basis of a commercial business case.

Cost escalations

Para. 5.247

The Ambulatory Care and Clinical Support Services works will be subject to approval of a separate Investment Evaluation.

***RESPONSE** provided by Secretary, Department of Human Services - continued*

Project funding

Para. 5.253

Audit correctly reports the arrangements with Mercy at the time of the audit. Subsequently, the funding arrangements have been simplified so that Mercy furniture, fittings and equipment are fully-funded from a provisional sum. In the event of a requirement for additional funds for furniture, fittings and equipment or design modifications, Mercy will first access contingency funds on an equitable basis with ARMC. Mercy is responsible for all costs incurred above the existing project contingency funds.

Risks impacting on future recurrent cost savings

Paras 5.261 to 5.263

The Department acknowledges that over the time frame of the project, a number of the recurrent funding assumptions current at the time of the investment analysis will change. Nevertheless, the Department's expectation is that recurrent savings achieved by the ARMC will be commensurate with the scope of the redevelopment.

Department of Human Services and Mercy Health and Aged Care subsequently negotiated an upfront capital contribution in lieu of future reductions in Mercy's operating budget arising from the projected $1 million per annum savings estimate. This contribution is included within the Mercy funding contribution of $6.6 million referred to in paragraph 5.252. Mercy is required to meet sector productivity requirements.

***RESPONSE** provided by Chief Executive Officer, Austin and Repatriation Medical Centre*

Para. 5.186

The Government's contribution of $15 million, to be match from other sources, will fund Stage One of the full development plan for Teaching, Training & Research at the A&RMC. The full development plan has been costed at $84 million with the research component being $75 million.

Para. 5.188

The major change since the August 2000 announcement has been the decision to consolidate non-veteran acute mental health services on the Austin site. The original funding provided for the relocation of only part of this service. A funding submission to cover the balance of the works has been prepared and is currently being considered by the DHS.

While it is planned for some "ambulatory" services (i.e. the general outpatient service) to be transferred to the Repatriation site, we are still awaiting funding to enable this relocation to take place and the subsequent redevelopment of the vacated area into an Acute Ambulatory Services Centre.

Para. 5.226

The second dot point relates to the reduction of the building upgrade budget from $13 million to $5 million. Previous analysis of the existing building infrastructure has indicated that upward of $30 million is required to bring the existing building stock back to their original standard.

***RESPONSE** provided by Chief Executive Officer, Austin and Repatriation Medical Centre - continued*

The third dot point provides commentary on the remaining 3 stages of the refurbishment works. The cost estimate of $21.4 million referenced by the Auditor-General, was based on Schematic Design and formed part of the Investment Evaluation Report prepared for the DHS in late 2001. Subsequent to this Investment Evaluation Report, a revised Investment Evaluation has been completed and submitted to the DHS in December 2002 that updates these costing based on the most recent and accurate cost estimates. The revised costings make allowances for fire and hazardous material removal, infrastructure upgrades and the more detailed design of the areas. The preferred option in the most recent Investment Evaluation has been costed at $58.7 million. The Report is currently with the DHS for consideration.

Para. 5.228

This Section makes reference to a cost over-run associated with the A&RMC retail and cafeteria space. It should be noted in this paragraph that the A&RMC has funded a $1.3 million contribution to increase the retail area size.

Para. 5.247

Based on past experience, the costs associated with fire and infrastructure upgrades, hazardous material removal and the interconnecting of services to new buildings are difficult to determine without detailed investigation. Given that some of the refurbishment cost estimates are based on general allowances, and not interventional studies, it maybe that the current cost estimate of $21 million is understated.

Para. 5.258

The A&RMC will require access to the new car park as soon as is possible. During the construction period, the A&RMC will lose a further 250 spots on and around the campus and hence early access to part of the car park will help to offset this loss and provide the hospital with a continued revenue stream.

Para. 5.260

It should be noted that while Stage One of the Teaching & Training facility will be completed by June 2005. A component of this, the refurbishment of our main lecture theatre, will be completed in early 2003.

Paras 5.261 to 5.263

We note and agree with the comment made in para. 5.263 regarding the impact of the nurse's EBA on the operating savings target of $9.6 million.

The new A&RMC facility has been designed to ensure that its efficient operations will maximise savings. However, the extent to which achieving the target savings translates into improved operating results depends on a number of factors, including government funding levels to the A&RMC.

Furthermore, some of the savings are dependent upon capital investment decisions, which are still to be made. These decisions include the provision of additional capital funding to enable the consolidation of acute services on the Austin site, the closure and demolition of excess building stock, upgrades to existing plant infrastructure in those building being retained, and the installation of building management systems that enables the efficient and effective management of building and infrastructure assets.

***RESPONSE** provided by Chief Executive Officer, Mercy Public Hospitals Inc.*

Mercy's concerns with the report relate primarily to 2 areas: the lack of comment in relation to the reduction of scope in the project, and a stated ongoing expectation for savings arising from the project.

Para. 5.238 states that the bulk of the risk within the project now lies with the managing contractor and "The risks that remain with the Government are those such as client initiated design variations and the discovery of latent conditions on the construction site". Given the remaining risk with Government is now minimal, it is difficult to understand why such a large contingency is still required by Major Projects Victoria and why project scope continues to be reduced to build this contingency. Mercy believes that failure to comment on this matter is a significant omission from the report.

Para. 5.261 states that the Department of Human Services envisaged that once the project is completed it "… would allow for significant annual operating savings ($9.6 million for the A&RMC and $1 million for Mercy Hospital for Women) through service amalgamations, rationalisation of buildings and sharing of facilities". This expectation of savings was stated by the Department at the inception of the project, however, soon thereafter it was agreed with the Department that Mercy would capitalise the projected savings and provide a cash contribution on taking up occupancy of the new building. Furthermore, it was agreed that no further savings were anticipated beyond the sector wide productivity targets. This point is significant for future reference.

FINANCIAL VIABILITY OF HOSPITALS

5.264 In previous reports to Parliament, we have commented on the financial position of public hospitals and outlined measures taken by the Department of Human Services to address financial difficulties faced by hospitals.

5.265 My November 2001 *Report on Public Sector Agencies* identified that, while the overall financial performance of hospitals had improved in 2000-01 compared with the previous financial year, there were 2 hospitals that were considered to be operating under financial difficulty as at 30 June 2001.

Review of results for 2001-02

5.266 We again reviewed the financial position of public hospitals for the financial year ended 30 June 2002, using the following financial indicators:

- operating result for the year, prior to transactions of an extraordinary nature;
- operating result prior to revenue grants provided to finance asset renewals and replacements, and extraordinary items;
- net cash flows generated from operating activities during the year; and.
- the working capital position at year-end.

Public hospitals operating under financial difficulties

5.267 **Our review disclosed that 9 public hospitals are now showing signs of financial difficulty across all 4 financial indicators.** Table 5M provides details for these public hospitals.

TABLE 5M
PUBLIC HOSPITALS DISPLAYING SIGNS OF FINANCIAL DIFFICULTY, AS AT 30 JUNE 2002 *(a)*
($'000)

	Operating result prior to extraordinary items		*Operating result prior to funding for capital purposes and extraordinary items (b)*		*Net cash inflows (outflows) from operating activities (c)*		*Positive (negative) working capital position*	
Hospital	*2000-01*	*2001-02*	*2000-01*	*2001-02*	*2000-01*	*2001-02*	*2000-01*	*2001-02*
Metropolitan hospitals -								
Austin and Repatriation Medical Centre	(6 464)	**(8 477)**	(18 781)	**(18 073)**	14 824	**(7 373)**	(7 191)	**(10 737)**
Bayside Health	(4 986)	**(2 380)**	(15 411)	**(18 518)**	18 032	**(17 087)**	(2 408)	**(10 478)**
Eastern Health	907	**(5 271)**	(6 132)	**(12 715)**	14 563	**(2 394)**	(15 467)	**(22 160)**
Melbourne Health	13 478	**(6 020)**	(8 435)	**(19 907)**	12 537	**(6 181)**	(13 525)	**(34 613)**
Western Health	22 033	**(7 741)**	(4 418)	**(16 788)**	14 519	**(10 776)**	(5 213)	**(20 958)**
Regional and rural hospitals -								
Bairnsdale Regional Health Service	(545)	**(15)**	(709)	**(1 641)**	1 809	**(559)**	311	**(205)**
Ballarat Health Services	(2 371)	**(1 132)**	(3 324)	**(2 195)**	8 929	**(788)**	(5 716)	**(7 113)**
Dunmunkle Health Services	111	**(227)**	(6)	**(360)**	240	**(293)**	49	**(293)**
Omeo District Hospital	230	**(215)**	44	**(270)**	216	**(147)**	292	**(161)**
Total	22 393	**(31 478)**	(57 172)	**(90 467)**	85 669	**(45 598)**	(48 868)	**(106 718)**

(a) Based on audited financial statements.
(b) Funding for capital purposes means revenue grants provided to finance asset renewals and replacements. While this indicator excludes funding for capital purposes, it does include depreciation expense.
(c) In those instances where capital grants have been included in the reported net cash inflows/(outflows) from operating activities, for our analysis they have been excluded to ensure consistency.

5.268 The 2 public hospitals identified in the previous review as showing signs of financial difficulty, Central Gippsland Health Service and Goulburn Valley Health, were no longer considered to be in financial difficulty as at 30 June 2002, however Goulburn Valley Health continued to show unfavourable results in 3 of the 4 indicators outlined above.

5.269 The operating result prior to extraordinary items includes the cost of depreciation, which at the individual hospital level, is not funded by the Department. For the year ended 30 June 2002, the depreciation expense incurred by public hospitals across the State amounted to $201.8 million. Although the Parliamentary Appropriation arrangements that currently operate in Victoria are based on the full cost of service delivery, including accrual costs such as depreciation, the grants provided to individual public hospitals do not cover the cost of depreciation. This funding approach contributes to certain hospitals recording operating deficits. In lieu of providing funding equivalent to the cost of depreciation, the Department provided revenue grants totalling $197.3 million during the year to hospitals, where deemed appropriate, to finance asset renewals and replacements.

5.270 A major shortcoming of the current method of funding public hospitals is that by not providing the funding equivalent to the cost of depreciation to each hospital authority, the service capacity of hospitals may not be maintained. Over the longer term this can adversely impact on the provision of health services. The current arrangements confuse funds required for truly new capital works that increase the service capacity of hospitals with funds for renewals or replacement. The former require full business cases for justification to support new capacity whereas the latter should be managed by hospital authorities in line with asset replacement plans.

5.271 **It is recommended that the Departments of Treasury and Finance, and Human Services review the funding practice currently used in the health sector to ensure depreciation funding is provided to hospital authorities to effectively maintain the existing hospital infrastructure.**

Items impacting on cash available to hospitals

5.272 During 2000-01, the Department provided once-off funding of $34.6 million to address liquidity issues at 5 of the Metropolitan Health Services, namely, Austin and Repatriation Medical Centre ($20.7 million), Eastern Health ($5 million), Melbourne Health ($8.3 million), Northern Health ($300 000), and Western Health ($300 000).

5.273 During 2001-02, the Government provided additional funding to improve the financial standing of public hospitals and underpin the continuing delivery of high quality health services. These actions resulted in increased funding for:

- staff and related costs associated with 300 new hospital beds, and for wage and CPI increases ($334 million);
- costs associated with the employment of 1 800 extra nurses to improve nurse-patient ratios and working conditions ($110 million);
- extra emergency department, emergency inpatient and elective surgery capacity at major metropolitan and regional hospitals ($29 million);
- once-off increases in agency nurse costs ($37 million); and
- once-off increase in annual leave entitlements ($10 million).

5.274 Despite the cash injections, our review of the net cash outflows from operating activities of the metropolitan hospitals identified that while total cash payments rose by 15.2 per cent, total receipts rose by only 9.8 per cent. **This means metropolitan hospitals have spent $46.8 million more on operating activities than they received.**

5.275 **We remain concerned at the ongoing need to provide additional financial support for the metropolitan hospitals, and the risk that the continued requirement for productivity savings may lead to reductions in service capability.**

5.276 A major portion of the increase in grants to hospitals in 2001-02 related to the Nurses Enterprise Bargaining Agreement. The Agreement is causing concern across the hospital system. The Department acknowledges that one of the systemic issues facing hospitals is inadequate management information at the hospital level on cost increases relating to the Agreement. During the first half of 2002-03, the Department conducted a review of the long-term financial impact of the Agreement at a number of major metropolitan hospitals.

5.277 **In relation to those hospitals that are continuing to encounter financial difficulties, we recommend that the Department undertake a thorough review of the number of additional nurse positions funded in comparison with the number actually employed as a result of the Agreement, to determine whether any unfunded salary increases were incurred by those hospitals as a result of implementing the Agreement.**

Hospitals with unfavourable results in at least 2 of the indicators

5.278 Our review shows that 15 hospitals had unfavourable results in relation to at least 2 of the indicators, of which 3 hospitals were located in the metropolitan area and 12 in rural Victoria. Table 5N provides details for these public hospitals.

TABLE 5N
PUBLIC HOSPITALS WITH UNFAVOURABLE RESULTS IN AT LEAST 2 OF THE INDICATORS, AS AT 30 JUNE 2002 *(a)*
($'000)

Hospital	*Operating result prior to extraordinary items*	*Operating result prior to funding for capital purposes and extraordinary item (b)*	*Net cash inflows (outflows) from operating activities*	*Positive (negative) working capital position*
Metropolitan health services -				
Southern Health	(9 118)	(26 092)	1 307	(20 454)
St Vincent's Hospital (Melbourne) Limited	(1 081)	(11 970)	(7 402)	29 342
Women's and Children's Health	(4 599)	(15 058)	(8 851)	12 462
Regional and rural hospitals -				
Alpine Health	1 677	(1 063)	(420)	(688)
Goulburn Valley Health	(3 592)	(4 867)	609	(2 356)
Heywood Rural Health	1410	(430)	(127)	(422)
Lorne Community Hospital	(103)	(439)	(201)	396
Manangatang and District Hospital	(87)	(210)	(141)	73
Mt Alexander Hospital	(856)	(2070)	352	(559)
Otway Health and Community Services	773	501	(79)	(51)
Portland and District Hospital	(643)	(892)	1 444	(3 081)
Rural Northwest Health *(c)*	-	-	-	-
Terang and Mortlake Health Service	(40)	(353)	(189)	750
Upper Murray Health and Community Services	(19)	(135)	39	(267)
Wangaratta District Base Hospital	3 130	(2 554)	(899)	(2 167)

(a) Based on audited financial statements.
(b) Funding for capital purposes means revenue grants provided to finance asset renewals and replacements.
(c) Rural Northwest Health is showing signs of financial difficulty based on draft financial statements. Final figures still to be verified.

Specific actions by the Department

5.279 In November 2001 we reported that the Aged, Community and Mental Health Division of the Department was undertaking a study to examine the viability and cost pressures of acute hospitals that also provide aged care services and the issue of cross-subsidisation between program areas. We were advised that due to difficulties with the initial data collection, the Department had allocated staff and additional resources to assist hospitals prepare the relevant data. The Department has advised that a draft report has now been prepared for further consideration with a final report expected later this year.

5.280 To assist in overcoming the financial difficulties being faced in the health sector, the Department, in 2002-03 established a Financial Sustainability Strategy that includes:

- the establishment of a Financial Management Review Unit within the Department to assist particular metropolitan health services in the financial analysis of their services and in the development and implementation of individual financial recovery plans;
- the establishment of a strategy to reduce hospital use of agency nurses in 2002-03 in conjunction with greater employment of full-time and hospital “nurse bank” staff;
- improving the revenue position of hospitals by encouraging more patients with private health insurance to be treated as private patients;
- seeking additional budget funding for uncontrollable and unanticipated cost increases in medical, pharmaceutical and prosthetic supplies;
- development of a common chart of accounts to assist performance benchmarking;
- continued encouragement of clinical practice changes to improve productivity; and
- monitoring of the monthly operating performance, liquidity and the cash position of health services, with the aim of identifying areas requiring corrective action.

5.281 The Department has advised that the Financial Management Review Unit is reviewing the performance of Melbourne Health, Southern Health, Western Health, and Women’s and Children’s Health. The Unit has analysed the causes of the financial declines and is working with chief executive officers and boards to prepare agreed financial recovery plans.

5.282 The Department has advised that, with the implementation of financial recovery plans which include the injection of additional funding where appropriate, based on preliminary estimates these health services should be able to collectively reduce their deficits by some $15 million to $20 million during 2002-03 and obtain balanced results over 3 years.

5.283 In addition to the action taken by the Financial Management Review Unit in relation to the above hospitals, the following initiatives have been implemented by the Department in relation to the hospitals detailed below.

Women's and Children's Health. During 2001-02, the Department provided an interest-free loan of $5 million to Women's and Children's Health to help alleviate its financial difficulties. The hospital is co-operating with the Department in the implementation of a financial recovery strategy that includes a range of cost reduction and revenue raising initiatives.
Alpine Health. The financial performance of the health service has recently been analysed by consultants engaged by the hospital. The final report will form the basis of future action and funding responses by the State and Commonwealth Governments.
Bairnsdale Regional Health Service. The financial performance of the health service has declined in the last couple of years due, in part, to an inability to attract senior medical staff and meet targets for patient treatment. Following the appointment of an additional surgeon, the health service expects its financial performance to improve in 2002-03.
Ballarat Health Services. The financial performance of the health service has declined due to the costs associated with the introduction of new services including radiotherapy and thoracic surgery, and other general industry cost increases. The health service expects to incur continuing minor operating deficits and is closely monitoring its financial performance.
Central Gippsland Health Service. During 2001-02, the Department provided financial assistance including $600 000 by way of additional grants, and $600 000 by way of a loan to improve the Service's liquidity position. The Department expects that the Service will generate substantial savings in the medium to long-term from efficiency outcomes associated with catering, laundry and other support services.
Dunmunkle Health Services. Preliminary figures indicate the major source of the operating deficits relate to aged and home care, jointly funded by the State and Commonwealth Governments. In an attempt to reverse the declining trend, further State funding may, together with operational changes, be required to restore the health service to a more acceptable financial position. The limited scope of services provided and the lack of economies of scale will make a return to surplus difficult.
Goulburn Valley Health. During 2001-02, the Department continued to work with Goulburn Valley Health to finalise a business review of the hospital's operations and activities. In addition, the Department provided an additional $500 000 in operating grants for emergency services and for 2002-03 has introduced a new classification structure for Group B hospitals which will result in a further $800 000 in general operating grants being provided to the health service.
Heywood Rural Health. Major capital redevelopment works were completed during the year to consolidate acute, aged residential and primary care services therefore providing opportunities to achieve productivity savings. In addition, the health service has been encouraged to identify strategies to overcome the current financial difficulties especially in relation to aged residential care.
Omeo District Hospital. The Hospital is in the process of identifying a number of strategies, including the option to become a multi purpose service provider, with the aim of improving its financial performance.
Wangaratta District Base Hospital. The financial performance of the Hospital has recently been analysed by consultants engaged by the Hospital, and the final report will assist in identifying funding and expenditure issues that need to be addressed by the Hospital and the Department. Departmental staff are meeting with hospital staff on a monthly basis to monitor performance and identify areas for improvement.

Borrowings by public hospitals

5.284 At 30 June 2002, public hospitals (excluding denominational hospitals) reported finance lease and hire purchase arrangements of $21.7 million ($21.7 million at 30 June 2001), and other interest-bearing liabilities of $7.1 million ($6.4 million at 30 June 2001). In addition, 6 hospitals had interest-free loans from the Department totalling $10.2 million at 30 June 2002 ($5 million at 30 June 2001).

5.285 In the course of our review, we identified the following public hospitals that had entered into borrowing arrangements without obtaining the appropriate approvals**. The *Health Services Act* 1988 requires public hospitals to obtain approval from the Minister for Health and the Treasurer prior to obtaining financial accommodation.**

Portland and District Hospital

5.286 At 30 June 2002, the Portland and District Hospital had liabilities for bank bills totalling $976 000. In November 2001, the Hospital signed a contract for the construction of a $3.2 million, 57 bed independent living unit development with Portland Aged Care Services Pty Ltd. The project was funded by a contribution of $1 million from the Hospital together with funds raised via bank bills, which will be converted into a long-term loan once the project is complete.

5.287 The bank bills and subsequent term loan are in the name of Portland Aged Care Services Pty Ltd, although the board of the Hospital has accepted responsibility for the debt and repayment of the loan, and included this as a liability in its financial statements. The loan is guaranteed by the Hospital and is supported by a registered mortgage over a property owned by the Hospital.

5.288 The Department made a $1 million advance to the Hospital in July 2002 to address cash flow requirements prior to occupancy of the new facility. The total advance is to be repaid prior to the end of the 2002-03 financial year.

Mt Alexander Hospital

5.289 At 30 June 2002, Mt Alexander Hospital had a bank loan of $1.8 million for the construction of a new hostel, secured by a charge over term deposits associated with contributions from hostel residents. In addition, the Hospital had obtained a bank overdraft facility of $500 000, which had not been utilised.

Wimmera Health Care Group

5.290 At 30 June 2002, the Wimmera Health Care Group had a bank overdraft facility of $1.6 million of which $314 000 had been utilised, and had obtained a loan of $751 000 secured by a charge over land and buildings owned by the Hospital. In addition, it had an interest-free loan from the Department of $1 million ($1million at 30 June 2001).

Heywood Rural Health

5.291 At 30 June 2002, Heywood Rural Health had a net negative cash position of $204 000, made up of a bank overdraft of $494 000 and cash at bank of $290 000.

5.292 **The Department should remind public hospitals that the requirements of the *Health Services Act* 1988 must be met, and that the approval of the Minister for Health and the Treasurer must be obtained prior to obtaining financial accommodation. It is also recommended that approvals for current borrowings be sought.**

Conclusion

5.293 **Despite the injection of once-off funding to address liquidity issues in 2000-01 in a number of metropolitan health services and the provision of additional funding in 2001-02 for annual leave and agency nurse expenditure, and the Nurses Enterprise Bargaining Agreement costs, the overall financial position of public hospitals deteriorated sharply during the 2001-02 financial year.**

5.294 The Department has initiated a number of actions to assist hospitals identified as experiencing financial difficulties. **While we support these actions, it remains critical that the key issues affecting the likely financial performance of hospitals are identified as early as possible and strategies implemented, before they threaten the financial position of the hospital, impinge on the quality of care provided to patients and translate into reduced service capacity.**

5.295 We reiterate the need for adequate strategic financial planning, robust business plans, and for adequate monitoring and accountability processes to be followed at both the hospital and Department levels.

***RESPONSE** provided by Secretary, Department of Human Services*

The Department believes that the figures used in tables 5D and 5E to illustrate public hospitals displaying signs of financial difficulty are potentially misleading.

The operating results as presented by the Auditor-General include depreciation. The Department funds major new capital works and major items of equipment as these items are required by individual hospitals and not on the basis of an average annual provision for each year. Consequently, the operating result prior to extraordinary items as presented by the Auditor-General will move up and down depending on whether large capital funding injections are provided to an individual hospital in a particular financial year. The operating result prior to funding for capital purposes and extraordinary items may also be confusing as although the capital income has been eliminated the depreciation expense remains included. The Department believes that it is better to eliminate both depreciation and capital funding from the operating result, so that non-capital operating revenue is matched against non-capital operating expenditure prior to extraordinary items. The table below presents information in this format.

***RESPONSE** provided by Secretary, Department of Human Services - continued*

	Operating Result Prior to Extraordinary Items DHS	
Hospitals	*2000-01*	*2001-02*
Melbourne hospitals -		
Austin and Repatriation Medical Centre	2 869	2 060
Bayside Health	85	(2 190)
Eastern Health	355	(4 890)
Melbourne Health	(931)	(9 590)
Western Health	299	(9 600)
Southern Health	1 003	(2 510)
Women's and Children's Health	(10 172)	(12 200)
Rural hospitals -		
Bairnsdale	682	(519)
Ballarat	1 594	1 843
Dunmunkle	114	(215)
Omeo	103	(147)
Rural Northwest	(145)	n.a.*
Goulburn Valley Base	(1 342)	(1 653)
Lorne	(73)	(195)
Manangatang	(187)	(144)
Mount Alexander	578	(1 168)
Portland and District	35	266
Terang and Mortlake	(230)	(125)
Upper Murray Health and Community Services	119	123

* Audit not yet finalised.

The Department accepts that there has been some deterioration in the operating performance of public hospitals but is concerned to ensure that information is presented in a manner that accurately identifies those institutions whose non-capital operating results have in fact declined.

The Auditor-General has provided comment on the Nurses Enterprise Bargaining Agreement. He has recommended that a thorough review be undertaken in respect of hospitals encountering financial difficulties to determine whether unfunded salary increases are being incurred by those hospitals in respect of this agreement. A Financial Management Review Unit was created with expert independent senior hospital administrators to examine the operations of those hospitals where the financial deterioration was most significant. Included in this analysis was a thorough examination of the implementation and impact of the Nurses Enterprise Bargaining Agreement. This Financial Management Review Unit found that while it was clear that some hospitals had not managed the implementation of this agreement well, that with the exception of one hospital which had provided incorrect information to the Department, that adequate funding had been provided to all of the other hospitals examined. Alternative reasons were found for the financial deterioration. The Department believes that the reviews from the Financial Management Review Unit, while highlighting the need for a number of operational improvements, have in effect met the Auditor-General's recommendation. The Department therefore sees no need for further reviews.

***RESPONSE** provided by Secretary, Department of Human Services - continued*

The Auditor-General recommends that the Department of Treasury and Finance, and the Department of Human Services review funding practices to ensure depreciation funding is provided to hospitals. Capital funding policy is determined by the Department of Treasury and Finance. Whilst DHS agrees that the service capacity of hospitals needs to be maintained, expenditure on major capital works and major items of equipment needs to be undertaken in a strategic manner taking into account the changing needs of health service delivery. This is not best achieved through funding each hospitals' depreciation expense.

The Auditor-General comments that the overall financial position of public hospitals deteriorated sharply during the 2001-2002 financial year. The Department's figures show that the true operating results i.e. excluding the impact of capital items, declined from a surplus of 0.6 per cent of revenues before capital items in 2000-2001 to a deficit of 0.2 per cent of revenues before capital items in 2001-2002. While the Department acknowledges the need to improve performance, nevertheless, the Department does not believe that this change in performance can be considered a "sharp deterioration".

The Auditor-General expresses concern on the risk that the continued requirement from productivity savings may lead to reductions in service capability. The Department believes that a level of productivity should be expected from all Government owned institutions. The Department is concerned however that the level required is not excessive or such that it impacts upon patient care and financial viability.

PUBLIC HOUSING RENTAL ARREARS AND WAITING LISTS

5.296 Our November 2001 *Report on Public Sector Agencies* included comment on the increasing level of public housing rental arrears and bad debts written-off by the Office of Housing, within the Department of Human Services. Our report recommended that the Department of Human Services closely monitor rental arrears, and implement strategies to ensure that further increases in the level of rental arrears and bad debt write-offs are minimised.

5.297 At the end of June 2002, the Office of Housing administered a portfolio of approximately 65 000 public rental and community-managed properties valued at $8.7 billion. In excess of 62 500 of these properties were tenanted with rental revenue of $258.2 million generated in 2001-02 ($249.1 million in 2000-01).

5.298 Rentals payable by eligible tenants are determined in accordance with the *Commonwealth State Housing Agreement – Housing Assistance Act* 1981. The Act requires that rents be charged according to a tenant's capacity to pay. In general, rebated rents for new public housing tenants are set at 25 per cent of the household's total assessable income, or 23 per cent of the household's total assessable income for tenancies that commenced prior to 17 November 1997. The rebated rent, however, is not to exceed the market rent of the property. The rental assistance provided to public tenants is, therefore, the difference between the rent a tenant is requested to pay and the market rent applicable to the property.

5.299 To ensure that the correct rental is payable, the Office of Housing undertakes bi-annual reviews of household assessable income and allowances, an annual market rental review and ongoing reviews in relation to changes in financial and family circumstances. When market rents are adjusted, the rebated rents of households are automatically adjusted so that the rent payable remains unchanged. Where financial and/or family circumstances change, the Office of Housing reassesses the level of the household's rental rebate and backdates any adjustments to the rent payable from the date of the change.

5.300 Unlike the private sector rental market, public housing tenants are not required to lodge a security bond, but are required to meet that component of the cost of damage caused to rental property, assessed by the Victorian Civil and Administrative Tribunal (VCAT) to be the responsibility of the tenant.

5.301 To facilitate the management of public rental tenancies, the Office of Housing has developed a number of comprehensive policies and procedures relating to tenant allocations, debt management and rebates.

5.302 In addition to these policies and procedures, the Office of Housing assesses rental arrears against its accounting policies for annual financial reporting purposes.

5.303 To facilitate the administration of public housing within the State, the Office of Housing maintains a system referred to as the *Integrated Systems for Information Processing* (ISIP) system, which records all operational details such as tenant allocations, waiting lists, property details, property condition, tenancy requirements and tenancy details such as the tenant's income, rental payments and arrears.

5.304 The status of all maintenance claims are recorded on the Office of Housing *Maintenance Claims Against Tenants* (MCAT) system. Details of outstanding amounts owed by tenants for maintenance works undertaken remain on the MCAT system until such time as amounts are recouped from current or ex-tenants.

Rental arrears and bad debts written-off

5.305 Table 5O below, shows the movement in rental revenue, arrears and bad debts written-off over the past 3 years from 1999-2000 to 2001-02.

TABLE 5O
RENTAL REVENUE ARREARS AND BAD DEBTS WRITTEN–OFF *(a)*
($million)

	1999-2000	*2000-01*	*2001-02*
Notional rental revenue	459.7	488.2	517.7
Less rebates and subsidies	220.2	239.1	259.5
Net rent payable by tenants	**239.5**	**249.1**	**258 2**
Rent arrears	6.3	7.7	7.6
Tenant responsibility maintenance debt	2.2	2.9	1.9
	8.5	**10.6**	**9.5**
Less provision for doubtful debts	5.5	7.0	6.5
Net rental arrears receivable	**3.0**	**3.6**	**3.0**
Bad debts written-off during the financial year	2.9	3.2	6.1

Source: Department of Human Service financial statements.

5.306 While rental revenue increased between 1999-2000 and 2001-02, the level of rent arrears also increased in the first 2 years covered by this analysis but stabilised over the last 12 months. Tenant responsible maintenance debt also increased between 1999-2000 and 2000-01, but reduced by $1 million to $1.9 million in 2001-02. However, bad debts written-off increased from $3.2 million in 2000-01 to $6.1 million in 2001-02.

5.307 An analysis undertaken by the Office of Housing of rental revenue and arrears for the year ended 30 June 2002 revealed that 78 per cent of tenants paid their rentals on time, with the remaining 22 per cent not meeting the due dates for payment. Of the 22 per cent, approximately 2 per cent were in arrears for 12 weeks or more, representing approximately $2.9 million or 38 per cent of the rental arrears as at 30 June 2002.

5.308 **Of the $6.1 million of debts written-off in 2001-02, $4.2 million ($1.8 million in 2000-01) related to the inability of the Office of Housing to locate former tenants with rental and maintenance debts outstanding – a significant increase over the preceding year.**

5.309 **While we recognise that the Office of Housing needs to balance its financial responsibilities against the State's social objectives, the Office of Housing needs to continue to maintain its discipline in pursing the recovery of outstanding amounts.**

Debt management

5.310 As previously indicated, the Office of Housing has in place policies and procedures relating to debt management, the intent of which are to identify, at an early stage, public housing tenants arrears, so as to prevent further accrual of rental arrears, enable their effective management and prevent the accumulation of rental arrears.

5.311 In order to facilitate the effective management of rental arrears, the Office of Housing utilises an automated arrears monitoring system (part of the ISIP system), whereby rental arrears reminder notices are sent, (via an external mailing house) to tenants when rental arrears amount to $5 or more. The letter advises the tenant of the level of arrears and that they need to pay the outstanding amount with their next payment.

5.312 When rental arrears are outstanding for 14 days or more the Office of Housing then generates a Notice to Vacate, as per the *Residential Tenancies Act* 1997, which is issued to tenants who are then required to attend a hearing to explain any difficulties they have in meeting their rental obligations and to enter into arrangements to repay the debt. Tenants have the option of signing a local agreement to repay the outstanding amount in manageable instalments (if the tenant has not entered into a local agreement in the last 2 years).

5.313 Procedures to recover rental arrears are escalated by the Office of Housing where tenants:

- default on the local agreement;
- fail to respond to requests to contact the Office of Housing and rental arrears remain unpaid; or
- are ineligible to enter into a local agreement (as tenants have already had a local agreement within the last 2 years).

5.314 Where one of the abovementioned circumstances apply, an application is lodged with VCAT to obtain an Order for Possession, thus giving the Office of Housing the legal right to obtain a warrant to evict the occupants and gain possession of the property. The Order issued by VCAT is valid for 6 months. However, where the tenant continues to be in default, the Office of Housing may renew VCAT proceedings and obtain a Warrant of Possession, authorising the police to evict tenants from the property.

5.315 It should be noted that the debt management policies and procedures allow the respective regional housing services managers within the Office of Housing the discretionary authority to let the Order lapse or not execute the Order. The Order for Possession and Warrant of Possession are not required to be executed where:

- a crisis occurs which impacts on the stability of the household, e.g. death of a member of the tenant's family, hospitalisation etc;
- a guardianship order is pending for an elderly or disabled tenant;
- proceeding with eviction may conflict with the broader objectives of the Department of Human Services relating to sustaining vulnerable households; and
- tenants have demonstrated a genuine effort to repay the arrears during the period of the Order of Possession and the residual amount is minimal.

5.316 In relation to tenants who vacate public housing properties who cannot be located by the Office of Housing, the outstanding account is allocated to an external debt collection agency. If the initial follow-up action fails to locate the tenant, the debt collection agency refers the matter back to the Office of Housing for further direction. The Office of Housing does not incur a charge for the initial follow-up action undertaken by the external debt collection agency.

5.317 Where the prospect of debt recovery is reasonable, the debt collection agency will be directed to pursue the matter for an agreed cost. Failing this, and where the debt is assessed as unlikely to be recovered, the outstanding amount may be written-off for financial reporting purposes. However, the Office of Housing retains all tenant rental arrears information indefinitely. As such, recovery action on outstanding amounts may be reactivated when those tenants attempt to re-apply for rental and housing assistance in future years. The Office of Housing cannot pursue debts in a court of law or tribunal due to *Statute of Limitations* if it has not commenced legal proceedings within 6 years. However, as a matter of policy, the Office of Housing requires that all applicants and other household members pay all outstanding charges in full, or their portion of the debt, prior to being offered housing.

5.318 Under the *Housing Act* 1983, the Director of Housing is authorised to write-off outstanding rental arrears. The Office of Housing policy is to consider, for write-off only, tenant arrears associated with vacated properties. Amounts owing by current tenants are not written-off as it is presumed that recovery action can still be taken.

5.319 For annual financial reporting purposes, the Office of Housing annually assesses the likelihood of recovering outstanding public rental housing rental arrears and raises a provision for doubtful debts where the likelihood of recovery is considered to be uncertain. In principle, the longer the period a tenant is in arrears, the likelihood of recovery becomes increasingly uncertain. The basis for determining this provision has remained unchanged since 1996-97.

Initiatives to reduce rental arrears and maintenance bills

5.320 In April 2002, the Government announced a number of new initiatives aimed at reducing the level of rental arrears and maintenance bills including:

- requiring new tenants who receive income from Centrelink, and tenants who have previously defaulted on rental payments, to authorise direct debit rent deductions as a condition of offer for any future tenancy;
- establishment of a team available to provide additional support to regional offices struggling with the volume of complex cases relating to tenants in arrears;
- fast-tracking of eviction procedures in cases of serious property damage;
- identification of tenants with large rental arrears who need financial counselling;
- establishment of regional panels to provide better support to households with complex needs who are at risk of falling into arrears;
- the creation of 14 specialist housing co-ordinators across Victoria to support and advise tenants who have complex needs; and
- home visits to new tenants who have experienced recurring homelessness or who have serious support needs.

5.321 The Office of Housing advised that these strategies were being progressively implemented to improve its rental account management practices. The overarching approach is to ensure that earlier intervention will:

- facilitate the containment of rental arrears;
- improve the capacity for field visits to curb maintenance damage costs; and
- fast-track evictions for people who wilfully ignore rental obligations.

5.322 The Office of Housing has recently set a regional performance target whereby 90 per cent of all cases of rental arrears are to be subject to an agreement with the Office of Housing to repay the debt in manageable instalments. The remaining 10 per cent reflects the expectation that at any time new cases and immaterial amounts in arrears will not be subject to such arrangements.

5.323 In addition to the abovementioned initiatives, the Office of Housing indicated that the ISIP system is to be replaced with a new information technology system.

5.324 **We recommend that the Office of Housing examine the effectiveness of these strategies after a suitable period post their implementation.**

5.325 To further enhance the debt management practices, in mid-2002 the Office of Housing held a number of information sessions with regional staff to promote best practice and determine criteria for early intervention in arrears cases. The sessions provided a forum for regional staff to be informed of regional rental arrears trends, reiterate the importance of rental collection, and to seek feedback on operational matters impacting on rental arrears management and practices.

5.326 The Office of Housing advised that regional staff at these sessions identified a number of issues which appeared to limit the effectiveness of the debt management procedures, such as:

- significant delays and low frequency of VCAT hearings held in regional areas;
- inadequate training for existing and new staff;
- occupational, health and safety issues surrounding home visits, e.g. violent behaviour;
- automated first arrears letter to tenants not issued in a timely manner;
- arrears procedures that do not reflect the Government's focus;
- inadequate key performance indicators; and
- poor asset management.

5.327 **At the date of preparation of this report, the Office of Housing was analysing the issues raised to identify appropriate corrective action.**

Waiting lists

5.328 During 1999, the Office of Housing progressively introduced a segmented waiting list for public housing in Victoria, which aimed to respond more effectively to groups with high needs. The list divides applicants into one of the following categories based on their individual circumstances:

- Early housing, comprising:
  - Recurring homelessness;
  - Supported housing for people with disabilities; and
  - Special housing needs; or
- Wait-turn.

5.329 Separate eligibility criteria has been established for each segment of the waiting list categorised as "early housing". Applicants predominantly with low incomes who are in private housing and who have been assessed as being eligible to rent a public housing property but who do not have a particular priority need, are on the waiting list categorised as "wait turn".

5.330 Applicants experiencing recurring homelessness (who are identified as having the highest need) are given priority for housing assistance, followed in order by those with needs for supported housing and those with special housing needs. Applicants in the "wait-turn" category are assisted after those in the "early housing" categories. Offers for housing made to applicants in the "wait-turn" category are based on the date an application is received by the Office of Housing.

5.331 To ensure that rental housing applications are processed in a fair and consistent manner, applications are assessed against the specific policies and procedures outlined in the Office of Housing's Allocations Manual. It is intended that compliance with the procedures contained within the manual will result in the achievement of the State's rental housing policy objectives.

5.332 As highlighted in Table 5P, the total number of tenants on the waiting list, including tenants requesting transfers between public housing locations, has increased by 13.6 per cent since 1999-2000 (the number excluding tenants requesting transfers has increased by 11.6 per cent).

TABLE 5P
WAITING LIST MOVEMENT

Financial year ended	*New applications (a)*			*Transfer applications (a)*	*Total*
	Early housing	*Wait-turn*	*Total*		
30 June 2000	1 402	34 776	**36 178**	4 791	**40 969**
30 June 2001	2 445	35 126	**37 571**	5 246	**42 817**
30 June 2002	4 681	35 715	**40 396**	6 153	**46 549**
Overall movement over 3 years			**11.6%**	28.4%	**13.6%**

(a) Office of Housing Summary of Housing Assistance Programs Annual Reports – published on Office of Housing website.
Source: Victorian Auditor-General's Office.

5.333 All regions across Victoria have experienced significant increases in the number of applicants (including transfers), with the most affected regions being the Grampians (61.6 per cent increase from 30 June 2000 to 30 June 2002), Gippsland (60.4 per cent increase from 30 June 2000 to 30 June 2002) and Hume (52.9 per cent increase from 30 June 1999 to 30 June 2002).

5.334 In response to the increases in the number of applicants on the public housing waiting list, the Minister for Housing in June 2002 announced a number of initiatives to be implemented in 2002-03 with the aim of decreasing the number of applicants on the waiting list. Those initiatives include the provision of:

- 1 636 housing units at an estimated cost of $210 million, of which 66 per cent are to be within the metropolitan area. Approximately 1 120 of these new housing units are to be either constructed or purchased with the remaining housing acquired via leases or joint ventures; and
- $170 million for physical improvements, targeting 2 700 housing units. Approximately 75 per cent of the expenditure will be directed towards the metropolitan areas.

5.335 In addition to the above, the Office of Housing has advised that a number initiatives have been developed to ensure that the "early housing" waiting time target on a Statewide basis of 4 months continues to be achieved. Table 5Q outlines the "early housing" waiting times since 1999-2000 which disclose that the target was achieved in each year.

TABLE 5Q
"EARLY HOUSING" WAITING TIMES
(months)

	Average waiting time for those on the "early housing" waiting list	
Year	*Target (a)*	*Actual (a)*
1999-2000	4	2.8
2000-01	4	2.7
2001-02 *(b)*	4	3.7

(a) Budget Paper No. 3, Budget Estimates.
(b) Office of Housing – Public Housing Quarterly Business Report – June 2002.
Source: Victorian Auditor-General's Office.

5.336 The major strategies introduced by the Office of Housing to reduce "early housing" waiting times included:

- establishing local allocation strategies to ensure best fit of applicants;
- establishment of rolling audits of the waiting lists to ensure that only those with ongoing eligibility are included on the list, and to ensure that application details remain current; and
- identifying leasing options for difficult to house households, where current stock is unlikely to meet their needs, or to free-up otherwise under occupied properties from existing tenants.

5.337 The implementation of the program to confirm each applicant's ongoing eligibility for public housing and to ensure information held on Office of Housing files was up-to-date resulted in 5 992 wait-listed applicants being removed from the waiting list for the period May 2002 to September 2002. Approximately 2 900 applicants were successfully allocated housing for the same period. However, this decrease was offset by approximately 5 300 new and revived applications for public housing being approved by the Office of Housing to be added to the waiting list.

5.338 **The Office of Housing within the Department of Human Services needs to continue to closely monitor the number of applicants and the waiting times for public housing, and the effectiveness of new strategies to ensure that the Department's program and performance objectives are achieved.**

RESPONSE *provided by Secretary, Department of Human Services*

In respect of public housing rental arrears and debt management, the Department of Human Services notes the Auditor-General's observations and concurs with the recommendation in para. 5.324 – that the Office of Housing examine the effectiveness of these strategies after a suitable period post their implementation.

In respect of waiting lists management, the Department of Human Services noted the Auditor-General's observations and concurs with his statement in paragraph 5.338 that – the Office of Housing within the Department of Human Services needs to continue to closely monitor the number of applicants and the waiting times for public housing, and the effectiveness of new strategies to ensure that the Department's program and performance objectives are achieved.

The Department of Human Services also notes that, although the Auditor-General cites the waiting list figures for the period 1999-2000 to 2001-02, the waiting list numbers actually declined by 6 per cent between June and December 2002, resulting in the total number of new applicants remaining at a similar level to June 2001. This followed an audit of the waiting list to ensure ongoing currency and eligibility of applications.

Additionally, the Department is examining a range of strategies to further manage demand for early housing, including options to assist people in private rental accommodation and reviewing of eligibility policies.

PROVISION OF A UNIFORM RATE REBATE BY GLEN EIRA CITY COUNCIL

5.339 Municipal rates continue to be the major source of revenue for councils with $32 million (42 per cent) of Glen Eira City Council's normal revenue raised from this source in 2001-02. Under the *Local Government Act* 1989, municipal councils must declare, by 31 August each year, the amount which the council intends to raise by rates and charges. Councils must also declare whether the general rates revenue will be raised by the application of:

- a uniform rate;
- differential rates; or
- urban farm rates, farm rates or residential use rates.

5.340 Where a council declares that general rates will be raised by the application of a uniform rate, it must specify the percentage that will be applied against the value of the property to arrive at the general rate.

5.341 Under the Act, municipal councils can use one of 3 methods of valuing rateable properties for the purposes of setting rates, namely, site value, capital improved value (i.e. the value of the land and any capital improvements, such as a house located on the land) or the net annual value (which can be based on a set percentage of the capital improved value for residential and rural properties). The majority of councils in Victoria base their rates on the capital improved value.

5.342 Typically, municipal councils decide on the total amount to be raised by rates and charges, and allocate that sum across ratepayers by determining the types of rates and charges to be used and the method of property valuation, depending on the types of rates to be raised. One consequence of this approach is that an increase in the valuation of a property may not necessarily result in an increase in municipal rates on that property as the rate applied may be reduced.

5.343 Councils are required by legislation to revalue all rateable properties every second year from January 2000. The most recent general revaluation occurred during the first half of 2002. Examination of information provided to the Glen Eira City Council indicated that the impact of the 2002 revaluation on the Council's projected rates and charges revenue for the 2002-03 rating period, assuming an unchanged rate in the dollar from that applied in the 2001-02 rating period, would have been a 28 per cent increase in the average rates and charges levied.

5.344 On 1 July 2002, the Glen Eira City Council declared its annual rates and charges for the period 1 July 2002 to 30 June 2003. The rate in the dollar of the net annual value of the land was the same as that declared by the Council for the 2001-02 rating period. At the same time, the Council also approved a general rate rebate of 8 per cent to all ratepayers and a pensioner rate rebate of $110 to each land owner who is an "eligible recipient" within the meaning of the *State Concession Act* 1986.

5.345 Section 169 of the *Local Government Act* 1989 permits a council to grant a rebate or concession in relation to any rate or charge for one or more of the following 4 specific reasons:

- to assist the proper development of the municipal district; or
- to preserve buildings or places in the municipal district which are of historical or environmental interest; or
- to restore or maintain buildings or places of historical, environmental, architectural or scientific importance in the municipal district; or
- to assist the proper development of part of the municipal district.

5.346 The minutes of the Glen Eira City Council meeting which approved the rebates disclosed that the rebates have been granted under section 169(1)(a) of the Act *"… to assist the proper development of the Council's municipal district"*. In respect of the 8 per cent across-the-board rebate, the Council minutes record that *"… in the Council's opinion, the rebate will assist the proper development of the Council's municipal district by:*

- *providing transitional relief to owners of land who would otherwise be disadvantaged by the implementation of Council's financial strategy to keep constant the rates in the dollar specified in Parts 4 and 5; and*
- *making allowance for the fact that during some of the period commencing on 1 July 2002 and concluding on 30 June 2003, the planning for long term infrastructure renewal endorsed by Council, and intended to be partially funded from rate revenue, will remain incomplete".*

5.347 Prior to adopting this rating strategy, the Council had obtained legal advice regarding its capacity to grant a general rebate on rates and, on the basis of advice received, was satisfied that it had the power to do so under the *Local Government Act* 1989.

5.348 We were advised that the Local Government Division of the Department of Infrastructure expressed concern about the Council's approach and suggested that the revenue outcome desired by the Council could be achieved by adjusting the rate in the dollar by the equivalent of the 8 per cent rebate. The Local Government Division obtained legal advice from the Victorian Government Solicitor which indicated that a key issue in assessing whether or not the granting of the general rebate by the Council was a proper exercise of power under the *Local Government Act* 1989 was whether the Council can demonstrate a sufficient connection between the rebate and the assistance of proper development of the municipal district.

5.349 Concerns regarding the approval of a general rebate by the Council were also raised with my Office. **Following a review of material provided by the Council in connection with the basis for its approval of the rate rebate, I advised the Council that I was not convinced that the Council had adequately demonstrated that the provision of a uniform and unconditional rate rebate would assist in the proper development of the Council's municipal district. On this basis, there was no apparent reason for the action taken by the Council to grant a uniform 8 per cent rate rebate to all ratepayers. Further, it would seem more in keeping with the rating model established by the Act if the Council had declared its rates and charges at a level designed to meet the revenue requirements embodied in its budget for the 2002-03 financial year, rather than declaring rates at a higher level than required by that budget and then granting a general rebate to all ratepayers.**

5.350 **It is recommended that the Council revisit its rating strategy in the context of future deliberations regarding the 2003-04 rating period.**

5.351 The Local Government (Update) Bill which was under debate in the 2002 Spring session of Parliament included a proposed amendment to section 169 of the *Local Government Act* 1989 as follows:

- *"A Council resolution granting a rebate or concession must specify the benefit to the community as a whole resulting from the rebate or concession";* and
- *"A Council may only grant a rebate or concession –*
    - *to owners of specified rateable properties not exceeding one third of the rateable properties in the municipal district; or*
    - *to owners of rateable properties who undertake to satisfy terms that directly relate to the community benefit as are specified by the Council."*

RESPONSE *provided by Chief Executive Officer, Glen Eira City Council*

Council's objectives in adopting 2 rebates under s169 of the Act were to improve transparency, accountability and good governance by:

- *quantifying for each ratepayer the effect of reduced rates of taxation;*
- *providing financial assistance to pensioners; and*
- *opening up the possibility of other rebates in future for specific classes of ratepayers.*

The rebate approach produces precisely the same financial result for each of the 55 793 ratepayers in the City as the "traditional" (non-rebate) approach - down to the last cent. But it achieves that result more transparently. The approach is faithful to the local government tradition of regularly adjusting effective tax rates downwards in order to raise precisely the revenue approved in the budget.

The audit report focuses not on these objectives but on the process that was followed.

The first issue is legality. The Auditor-General's report does not conclude that Glen Eira has acted unlawfully, including in the reasons stated by the Council for granting the rebate.

***RESPONSE** provided by Chief Executive Officer, Glen Eira City Council - continued*

The second issue is the effect of the rebates. Rebates are applied from a specified rate of taxation. Since it was created in 1994, Glen Eira has reduced its effective tax rate on property by more than 24 per cent (and since 1987-88 by 60 per cent). During the same period, successive State Governments have held their rates of taxation of the same property constant and have reaped massive increases in revenues. For a property of the average value in Glen Eira, comparisons have been:

	1994	*2002*	*Change*
	($)	*($)*	*(%)*
Govt. stamp duty	5 500	17 200	312
Glen Eira rates	706	793	12

From 2002-03, the Council's policy has been, like governments, to hold the rate in the dollar constant but, unlike governments:

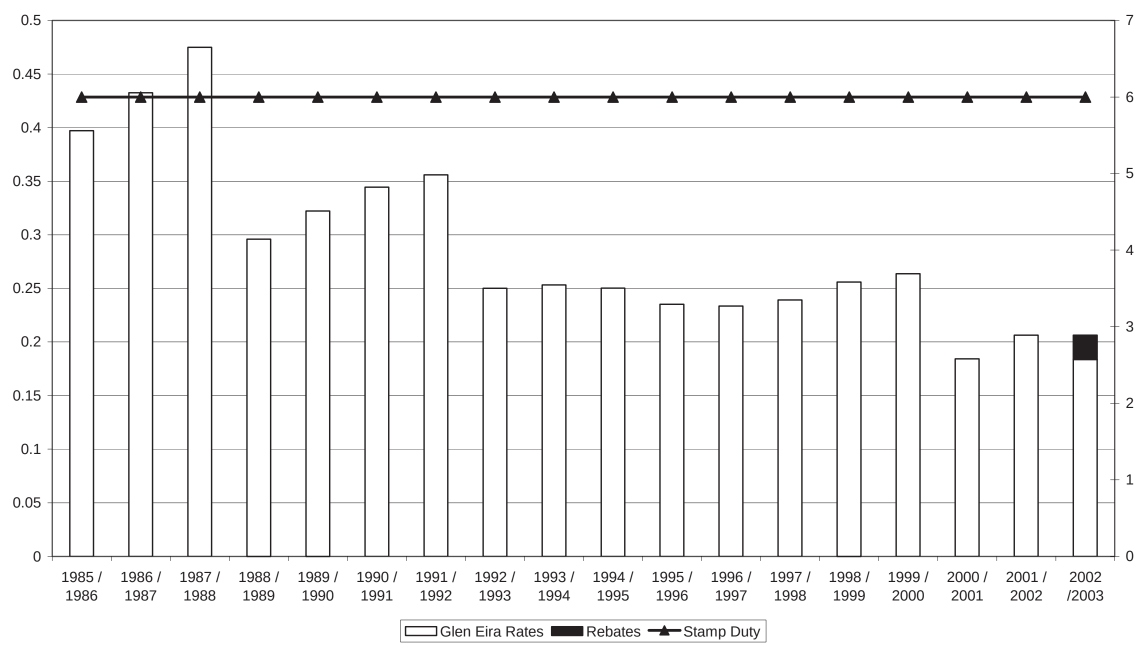
- *not to pocket all the revenue; and*
- *to show the precise amount of reduced tax rates in the form of a rebate calculated for each ratepayer.*

The application of this policy in 2002-03 resulted in 11 per cent of the revenue ($4.6 million) being returned transparently in the form of rebates:

- *a uniform rebates of 8 per cent to all ratepayers ($3.4 million); and*
- *a targetted rebate, in this case, to pensioners ($1.2 million).*

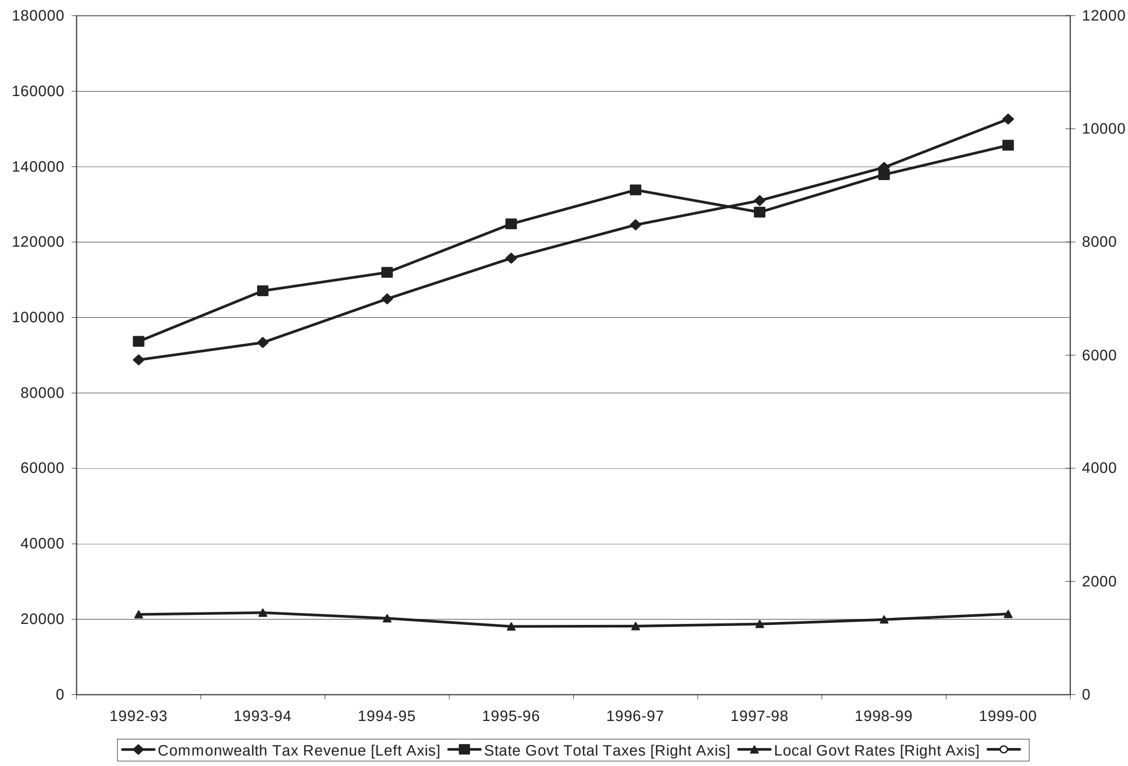
Rebates show that the Council has reduced its effective rate of taxation (which government has not).

RATES OF TAXATION OF PROPERTY
(%)



***RESPONSE** provided by Chief Executive Officer, Glen Eira City Council - continued*

MOVEMENTS IN TAXES
($million) [two axes]



Rebates help to demonstrate that governments' revenues are rising much more than Council's and that governments have the financial capacity to meet local needs - if governments choose to do so. At present, ratepayers are having to fund items which should be funded from the taxes that they have already *paid:*

- *Home and Community Care;*
- *Maternal and Child Health;*
- *Public Libraries;*
- *Immunisation; and*
- *Food Safety etc.*

To give one example, when the Council immunises a child, the Government pays the Council $6. If a GP gave the same immunisation to the same child, the Government pays $24.50 for the immunisation (plus $21.60 as the Medicare payment.)

Equity is improved by rebates. Glen Eira now gives the greatest financial assistance ("rebate") to pensioners of any council in Victoria ($110). (Successive State Governments have not increased the State pension rebate of $135 for the last 20 years. The failure to index the rebate is costing Glen Eira's 10 381 pensioner households more than $1 million each year.)

***RESPONSE** provided by Chief Executive Officer, Glen Eira City Council - continued*

This raises the issue of the scope of the audit report. The pensioner rebate is granted under the same section of the Act as the uniform rebate. If a rebate for pensioners is accepted as "assisting the proper development of the municipal district", it is not logical to argue that a rebate to non-pensioners does not. Either both are acceptable or neither. $1.2 million of assistance to 10 381 pensioners is at stake.

Rebates are long-established tools in government finances. The proposition that reducing effective tax rates (by giving rebates) does not assist "proper development" is contrary to accepted fiscal policy. Governments regularly grant rebates and similar exemptions in order to stimulate expenditure and development.

One of the imperatives for "the proper development of [Glen Eira's] municipal district" is for Government to pay for its decisions and responsibilities and free up rates money to be spent meeting core local needs. (Note the current Federal Parliamentary Inquiry into cost shifting by State Governments onto local governments.). Rebates help to achieve this.

The final issue concerns the future. An amendment to the Local Government Act was introduced in late 2002 to restrict rebates to one-third of a municipality's properties. If it is enacted, the effect would be to shift Glen Eira's rebate approach from enabled by the legislation to prevented. (The proposed amendment does not dispute the reasons stated by Glen Eira relating to the funding of essential infrastructure works.) If Glen Eira's approach had been unlawful, the amendment would not have been formulated. Glen Eira has worked within the enabling legislation, as we always will.

If the proposed amendment is enacted, the Council will seek alternative means to achieve the policy objective of a more transparent rating system that can make allowance for the legitimate needs of different classes of ratepayers.

FORMER DELATITE SHIRE COUNCIL – MANAGEMENT OF INVOLVEMENT IN LAKESIDE COMMUNITY CENTRE PROJECT

5.352 The Lakeside Community Centre Project in Benalla has been under development over the past 10 years, and concerns the construction of a building for use by sporting and other community groups on the Benalla Showgrounds Reserve in the centre of Benalla. During 1998 and early 1999, a building was partially constructed on the site using funding of around $200 000 from the former Delatite Shire Council. The building has remained uncompleted since that time.

5.353 In May 2002, the Ombudsman referred to me a public interest disclosure pursuant to the *Whistleblowers Protection Act* 2001. The subject matter of the referral had previously been raised with my Office and was under consideration for audit examination. Under the authority of the *Audit Act* 1994, I subsequently elected to examine this project. The objective of my Office's review was to examine the adequacy of the former Delatite Shire Council's management of its involvement in the project.

5.354 Table 5R provides a summary of the history of the project.

TABLE 5R
SUMMARY OF KEY EVENTS

Year	*Key events*
1989	As part of a Benalla Recreation Needs Study, a survey of Benalla residents identified an indoor heated pool as the highest priority need for recreational facilities in Benalla. The report on the results of the study recommended that the former City of Benalla build: *"A facility which is multi-purpose, which will cater for both indoor and outdoor swimming, which has other income-generating components, and which can generate an operating surplus".*
1992	City of Benalla sought a grant of $250 000 to build a sport and recreation centre from the Commonwealth Government. Subsequently, it was awarded a grant of $170 000 to contribute towards the cost of building the centre, comprising toilets, shower and change rooms together with multi-purpose recreation, meeting and catering facilities. The total estimated cost of the project was $600 000.
1993	The Council was unsuccessful in its application for funding from the then Victorian Department of Sport and Recreation to formulate a management plan, business plan and staged development strategy for the establishment and operation of a multi-purpose sport and recreation centre at the Showgrounds reserve.
1994	The Council sought, and was subsequently awarded, a grant of $400 000 to be provided over 2 years from the then Department of Sport and Recreation to build the centre. During the period March to June, concept plans and drawings were presented at a number of public meetings hosted by the Council. In June, a consultant produced a feasibility study for the Benalla Sport and Recreation Centre. In July, the former City of Benalla granted a planning permit for the construction of the Benalla Sports and Recreation Centre. Appeals against the planning permit were received at the Administrative Appeals Tribunal and Tribunal hearings were held in Melbourne and Benalla in November. In November, the Delatite Shire Council was formed as part of the Statewide municipal council amalgamations with councillors replaced by commissioners.

TABLE 5R
SUMMARY OF KEY EVENTS - *continued*

Year	*Key events*
1995	The Administrative Appeals Tribunal disallowed the appeal against the planning permit. In March, the Council considered how best to progress the project as grants from both the State and Commonwealth Government had to be claimed by the end of May 1995. In April, the commissioners requested a further investigation into the financial feasibility of the project. At May, the Council had expended $523 660 on the project, mostly in consultants' fees. The cost of the project at that time was estimated at $6.8 million, based on an expanded scope which included an indoor swimming pool. Funding totalling $15 000 was approved by the former Victorian Department of Arts, Sport, and Tourism to conduct a recreation study for Benalla. In June, further public consultation was undertaken regarding the proposed centre. In August, the Council decided to abandon the proposed development at the Showgrounds reserve in favour of building an indoor pool at an estimated cost of $3 million adjacent to the existing outdoor pool in Mair Street, Benalla. In making that decision, the Council committed $200 000 towards the construction of toilets and change rooms at the Showgrounds.
1998	In March, the Administrative Appeals Tribunal approved an amended planning permit for the sports club building alone and a smaller car park. In July, the Council granted a building permit to the Benalla Showgrounds and Recreation Reserve Committee of Management to construct the sports club building even though the Benalla Sports Entertainment Centre Inc. (BSEC) had applied for the building permit. Construction work on the sports club building commenced in August. In September, the minimum cost of the sports club building was estimated at $950 000. This facility included ground-level change rooms and toilets, and upper-level club/function rooms.
1999	In April, construction work on the facility was halted due to insufficient funds, with the Council incurring construction costs of $199 998 to that date, and the balance of the costs met by the BSEC.
2000	In March, a quantity surveyor costed the partially completed concrete structure at $327 000. In March, the BSEC applied to Sport & Recreation Victoria within the former Department of Arts, Sport and Tourism for funding of $280 000 to complete the ground floor of the complex. In July, the BSEC advised that its funding application was unsuccessful. In November, the BSEC submitted a revised application to Sport & Recreation Victoria for funding to complete the ground floor of the complex.
2001	In June, the Delatite Shire Council received a grant of $30 000 from Sport & Recreation Victoria to complete a recreation reserve planning study. In August, the project name was changed to the Lakeside Community Centre project. In September, Sport & Recreation Victoria informed the Council that it was unlikely that an application for facility development at any of Benalla's recreation reserves would be viewed favourably until the recreation reserve planning study was completed. In November, a working paper prepared for the steering committee overseeing the study regarding the development proposals arising from the recreation reserve planning study included a recommendation that the Lakeside Community Centre not be completed. This recommendation was subsequently rejected by the steering committee. In December, a draft of the recreation reserve planning study report did not include any recommendations relating to the Lakeside Community Centre. Following discussions with Council officers, the consultant engaged to undertake the study added the recommendation *"Proceed with the development of Lakeside Community Centre"* to the draft report.

TABLE 5R
SUMMARY OF KEY EVENTS - *continued*

Year	*Key events*
2002	In February, the Benalla Recreation Reserves Planning Study draft report was made available for public exhibition and comment. In April, the final Benalla Recreation Reserves Planning Study report was released. The report included a recommendation to complete the Lakeside Community Centre. In May, Council accepted the recommendation regarding the Lakeside Community Centre. In September, Council applied for $204 000 in funding from the Community Support Fund to complete the project. The total estimated cost to complete the facility was $408 000. The facility for which the Council sought funding did not include the upper-level club/function rooms. In October, Council was informed that it had been awarded $204 000 from the Community Support Fund to fund completion of the project. In October, Delatite Shire Council was reconstituted into the Benalla Rural City Council and the Mansfield Shire Council.

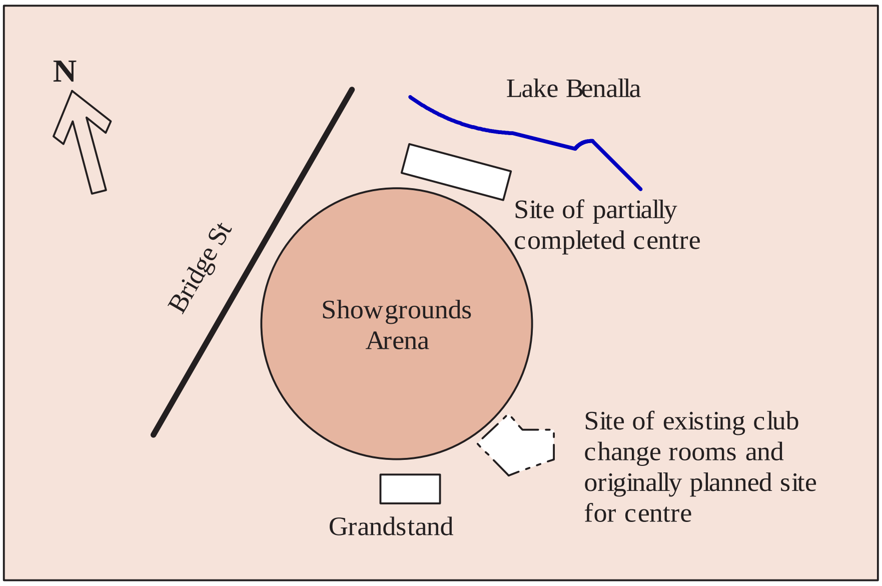
Early planning for a recreation centre

5.355 During 1992, the former City of Benalla commenced preliminary analysis to facilitate the development of a multi-purpose sport and recreation centre to be located at the Benalla Showgrounds Reserve adjacent to Lake Benalla in the centre of Benalla. To this end, a steering committee was formed and funding was sought from both the State and Commonwealth Governments for the project.

5.356 The Benalla Showgrounds Reserve is situated on Crown land and is managed by the Benalla Showgrounds and Recreation Reserve Committee of Management which includes a Council representative along with representatives from other groups that use the Reserve and surrounding precinct. The Showgrounds Reserve is located on a flood plain and for this reason the Council sought advice from the former Rural Water Corporation in September 1992, regarding potential planning permit conditions for the project. At this time, it was envisaged that the building would be located immediately to the right of the existing grandstand and comprise toilets, shower and change rooms together with a multi-purpose recreation, meeting and catering facility. The estimated total cost of the project at that time was $600 000.

5.357 Chart 5S shows the Benalla Showgrounds Reserve and surrounds along with the originally planned location of the proposed recreation centre next to the existing grandstand and the location of the currently incomplete structure which is on the shore of Lake Benalla.

CHART 5S
PROPOSED AND SELECTED SITE FOR PROPOSED RECREATION CENTRE



Source: Victorian Auditor-General's Office *(not to scale).*

5.358 In October 1992, the former Rural Water Corporation advised the Council that the natural surface level at the proposed site of the recreation centre was approximately 168.5 metres above sea level and the depth of flooding in a one per cent flood event would be around 1.2 metres. The Corporation did not object to the proposed recreation centre but requested the Council to give consideration to a number of matters including aligning the longitudinal axis of the building parallel to the flow direction to minimise obstruction to flood flow, demolishing any obsolete buildings on the reserve and not permitting the construction of any further buildings on the floodway land in the area in future. The Council addressed these recommendations when imposing conditions on the planning permit issued in July 1994.

5.359 In December 1992, the Commonwealth Department of Arts, Sport, the Environment and Territories awarded a grant of $170 000 towards the project. Between late 1992 and March 1994, the Council continued to plan and develop the project and sought additional grant funding from the State Government. A significant change to the nature and scope of the project occurred during this period and involved the addition of an indoor swimming pool to be located in a building adjoining the originally proposed facility. **This change in project scope along with revisions to other cost estimates led to an upwards revision in the total estimated project cost from $600 000 to $5.8 million.**

5.360 In March 1994, the Council was advised that the Minister for Sport, Recreation and Racing had approved a grant of $400 000 for the project over 2 years on a matching "dollar-for-dollar" basis under the Sport and Recreation Planning and Facility Development Program.

5.361 As indicated previously, the estimated cost of the project had risen to $5.8 million by March 1994. The Council had identified a number of confirmed and possible funding sources for the project at that time. These are shown in Table 5T. As illustrated in the table, the final funding arrangements for the project were far from certain and would have required a significant contribution from both the Council and the local community. The Council determined to obtain further independent advice on the feasibility of the proposed centre and related issues before allowing the project to proceed.

TABLE 5T
IDENTIFIED FUNDING SOURCES FOR THE PROPOSED RECREATION CENTRE, AT JUNE 1994
($'000)

Funding source	*Amount ($)*
Commonwealth Government grant	170
State Government grant	400
Council reserves	650
Sale of Council assets	200
Council's Five Year Plan	500
User group donations *(a)*	200
Contribution by other local authorities *(a)*	100
Public donations *(a)*	1 000
Council borrowings *(a)*	2 660
Total	**5 880**

(a) Funding source identified, but not confirmed.
Source: Former Delatite Shire Council.

5.362 The consultants engaged by the council to assess the feasibility and projected financial viability of the project reported in June 1994 that the project was viable but would be heavily reliant on gaming machine revenue to be derived from the "sports club" component of the facility.

5.363 In June 1994, the Council, acting as the proponent, applied for a planning permit for the proposed sport and recreation centre. The proposal, at that time encompassed 2 buildings linked by an above ground walkway. The "Recreation Centre Building" included an indoor 25 metre pool, gym, spa, sauna and aerobics room. The "Sports Club Building" included change rooms, clubroom, lounge bar and a gaming room suitable to locate 40 poker machines. The proposed location of the development was moved to the shore of Lake Benalla. In moving the proposed recreation centre closer to Lake Benalla, the Council accepted that the building would be subject to periodic flooding. The Benalla district floods approximately every 10 years, with major flooding occurring in 1956, 1973, 1974, 1983 and 1993.

5.364 The proposed project was contentious and generated debate in the community, particularly with regard to the estimated cost of the project. Other controversial issues included the:

- duration of the consultation period;
- location of the proposed facility;
- proposal to remove native vegetation at the site;
- potential economic impact on existing businesses; and
- proposal to include gaming machines in the sports club component of the facility.

5.365 The former City of Benalla, acting as the responsible authority, granted the planning permit in July 1994. Nine objectors subsequently lodged appeals with the Administrative Appeals Tribunal regarding the Council's decision to grant the planning permit.

5.366 Between September and October 1994, the Council undertook 2 separate tender processes for the management of the construction of the project and the ongoing management of the recreation centre facility. Despite the fact that contractual arrangements were not finalised with the successful tenderers during this period, the Council's action in this regard was premature given that the Administrative Appeals Tribunal had not issued its determination on the appeals against the granting of a planning permit for the project at that time. **The Council was unable to confirm whether any compensation was ultimately paid to the 2 successful tenderers for the contracts which did not proceed.**

Involvement of former Delatite Shire Council in the project

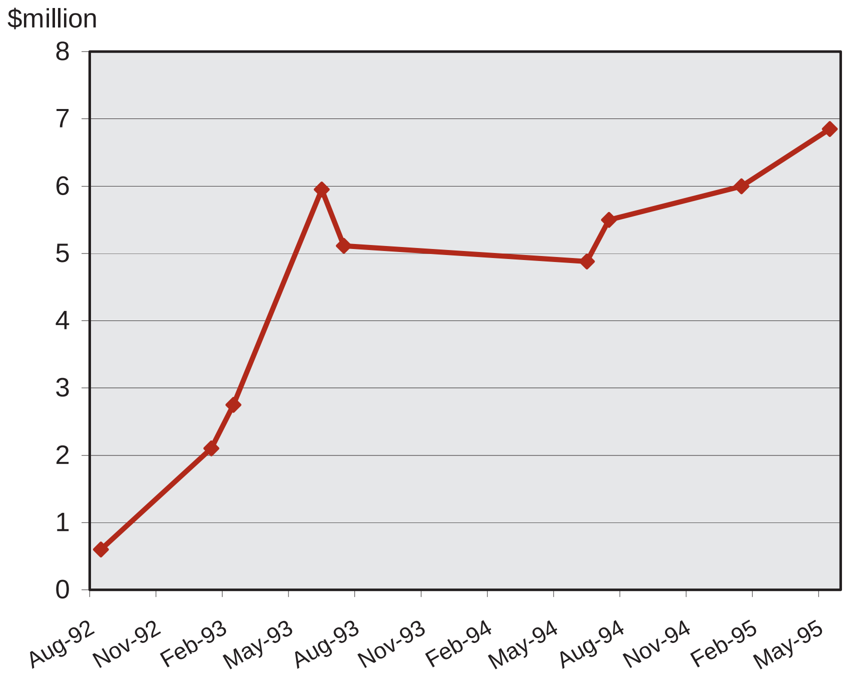
5.367 **In November 1994, the City of Benalla, the Shire of Benalla, the Shire of Mansfield and part of the Shire of Violet Town were amalgamated to form the Delatite Shire Council.** Municipal elections were cancelled, and councillors were replaced by commissioners.

5.368 In January 1995, the Administrative Appeals Tribunal issued its determination on the planning permit. The Tribunal's determination disallowed the appeals and granted a planning permit for the Benalla Sports and Recreation Centre to the Delatite Shire Council. In the documentation supporting its decision, the Tribunal concluded that the proposed recreation centre was, in planning terms, an appropriate use of the site, which would be beneficial to the Benalla community. The Administrative Appeals Tribunal decision further stated that the issue of whether the development should proceed in regard to the priorities and economic resources of the new Delatite Shire Council was a matter to be considered by the Council.

5.369 The commissioners of the newly formed Council initiated further community consultation, along with additional investigations into the feasibility of the project between February and July 1995.

5.370 By May 1995, the Council had expended approximately $523 660 on the project, primarily comprising architects' and consultants' fees. The estimated cost of the project had increased to $6.85 million at that point. Chart 5U illustrates the movement in the projected cost of the project between August 1992 and May 1995.

CHART 5U
PROJECTED COST OF PROPOSED SPORTS AND RECREATION CENTRE



Source: Victorian Auditor-General's Office.

5.371 In May 1995, Sport and Recreation Victoria, within the former Department of Arts, Sport and Tourism approved a grant of $15 000 to the Council on a dollar-for-dollar basis for the conduct of a recreation study for Benalla. The purpose of the study was to provide a long-term plan for the Council's sport and recreation facilities, programs and services.

5.372 In early July 1995, the Council held a public meeting to discuss the proposed project. Following this meeting, approximately 430 submissions were received on the proposal. On 7 August 1995, the commissioners made the following significant decisions regarding the project:

- An indoor heated swimming centre would be constructed at an estimated cost of $3 million at a location adjacent to the Council's existing swimming pool in the centre of Benalla. This project would be funded from government grants, council contributions, borrowings and contributions from the community;
- The Council would contribute up to $200 000 on a dollar-for-dollar basis to the construction of public toilets and change facilities on the Showgrounds Reserve. A masterplan for the development of the Showgrounds Reserve and adjacent playing fields would be prepared in conjunction with the Committee of Management; and
- A Recreation Development Plan would be developed for the municipality.

5.373 When documenting the decision to contribute $200 000 on a dollar-for-dollar basis to the construction of public toilets and change room facilities on the Showgrounds Reserve the commissioner's did not specify:

- To whom the contribution would be made. Possible recipients could have included the Benalla Showgrounds and Recreation Reserve Committee of Management and sporting clubs which utilised the reserve;
- Whether or not a funding agreement would be established with the recipient of Council's contribution;
- The scale of the facility envisaged, including whether or not features other than basic public toilets and change rooms were required or allowable;
- Whether the Council or some other party would manage the construction of the facility; or
- The proposed management and funding arrangements for the ongoing operation and maintenance of the completed toilets and change rooms facility.

5.374 **In our view, these matters should have been addressed as part of the decision-making process and a Council position agreed upon, documented and communicated to relevant internal and external parties. The lack of clarity regarding these issues seems to have contributed, at least partly, to the difficulties which were subsequently experienced in completing the project.**

5.375 In May 1997, some 21 months after the Council decision to contribute funds towards the public toilets and change room facility on the Benalla Showgrounds Reserve, the Benalla Sports and Entertainment Centre Inc. (BSEC) applied to the Council for a building permit for the construction of Stage 1 of a "Sports Complex" at the Benalla Showgrounds Reserve. BSEC consisted of a range of parties including representatives from various groups who used the Benalla Showgrounds Reserve. The estimated total cost of the construction project was $750 000. The building permit application was for Stage 1 of the project which had an estimated cost of $400 000. The building permit request was not accompanied by an application to access the $200 000 committed by the Council to the provision of toilet and change facilities at the reserve.

5.376 Given that this application for a building permit related to a project in respect of which the Council itself had committed $200 000, we were concerned to find that there was no documentation available evidencing any formal assessment by the Council of this application and other related issues, such as:

- the scope and nature of the proposed facility, including the analysis of the various stages and, in particular, Stage 1;
- the reasonableness of the costing estimates for both the total facility and Stage 1;
- the capacity of the applicant to manage the construction of Stage 1 and the total facility;
- the capacity of the applicant to fund its contribution to the cost of the project; and
- other sources of funding for the project, and the extent to which they were confirmed.

5.377 In July 1997, the Council requested the Administrative Appeals Tribunal to provide an amended planning permit for the smaller-scale facility proposed by BSEC. The Council requested alterations to a number of conditions imposed by the original planning permit issued by the Tribunal in January 1995, on the basis that they were no longer relevant to the proposed smaller development compared with that for which the original permit was granted. The request indicated that BSEC intended to proceed with the establishment of change rooms, clubrooms and the gaming room facility. The main changes requested to the planning permit conditions were:

- reduction in the required car parking capacity from 200 vehicles to 70 vehicles; and
- deletion of the requirement to construct a shared pedestrian and bicycle path to allow access from Arundel Street to the facility.

5.378 In August 1997, the Council received advice from the Department of Natural Resources and Environment (which had responsibility for granting approval over the use of the Benalla Showgrounds Reserve which is Crown land) that the Department had no objection to the construction of the proposed smaller-scale facility. The Department, in providing this advice, requested the Council to note that the 1993 flood level at the proposed location of the facility was 170.4 metres above sea level which would flood the ground floor club rooms to a depth of 1.3 metres.

5.379 In March 1998, the Benalla Agricultural & Pastoral Society Inc. raised concerns regarding the application for an amended planning permit on the basis that it claimed ownership of part of the site upon which the car park for the sports club facility was to be constructed. Following discussions with the Council, the Society advised the Administrative Appeals Tribunal that agreement had been reached with the Council regarding its concerns and that settlement of the dispute regarding the ownership of the land known as the “Maud Street Extension” on which the car park and access road for the sports club facility would be constructed was being negotiated. **The Council was unable to provide firm advice on whether or not this dispute was settled but indicated that it was no longer an issue in terms of the proposed completion of the existing partially completed structure.**

5.380 In early April 1998, the Administrative Appeals Tribunal directed that the original planning permit be amended in a manner consistent with the changes requested by the Council. In documenting this decision, the Tribunal noted that BSEC was a community-based incorporated body which had been formed to develop and operate the proposed facility and that the nature of the proposed facility had been amended to a club rooms and entertainment centre.

5.381 In mid-July 1998, the Council granted a building permit to the Benalla Showgrounds and Recreation Reserve Committee of Management for the construction of the "Sports and Entertainment Centre" at an estimated cost of $750 000. The permit was granted to the Committee of Management, even though the BSEC had applied for the permit, on the basis that the Committee of Management managed the land upon which the facility was to be constructed.

5.382 It was at this point that we expected to see evidence of positive action by the Council to establish an agreement with the BSEC and/or the Benalla Showgrounds and Recreation Reserve Committee of Management to clarify the following issues:

- the basis for the contribution of $200 000 in funding by the Council, namely, to be provided on a matching dollar-for-dollar basis in accordance with the decision by the commissioners;
- to whom the funding was to be provided and arrangements for the draw-down of these funds;
- confirmation of the availability of confirmed funding, in addition to that committed by the Council, to enable the completion of the construction of the facility;
- the purposes for which Council funding could be applied, in terms of which stages of the broader development Council funding was available;
- management responsibilities in respect of both the construction process and the ongoing management of the completed facility; and
- accountability arrangements in respect of the funding provided by the Council.

Council involvement in construction of the partially completed facility

5.383 While the above issues were not formally clarified, the Council has subsequently informed external parties that it was not responsible for the construction of the partially completed building although it did nothing to formalise this at the time and in fact acted in a manner which would indicate the contrary.

5.384 Specifically, the Council took the following action which indicated that it had a significant role in the management of the construction process:

- in late July 1998, the Council provided written acceptance of a quote for earthworks associated with the preparation of the site for the construction of the facility and advised the relevant contractor that the Council granted permission for the project to proceed and that the Council would determine the siting of the building; and

- in August 1998, following a meeting involving the Mayor, the Council's Chief Executive Officer, another senior Council officer, the Executive Officer of BSEC and the construction project manager appointed by the BSEC, the Council informed BSEC that building could commence and that to access the Council's contribution of $200 000 BSEC would have to demonstrate that the expenditure could be counted towards meeting the council's compulsory competitive tendering (CCT) requirements and targets (at that time, there was a legislative requirement for councils to subject at least 50 per cent of their total annual expenditure to market testing by exposing it to competitive tendering).

5.385 As part of this audit, the Council was unable to provide evidence of whether or not the BSEC complied with the directive to demonstrate that expenditure of the $200 000 made available to the project by the Council could be counted towards meeting CCT requirements, or whether the Council enforced compliance with this directive. In addition, the project manager appointed by BSEC to manage Stage 1 of the construction process, and who called for tenders for the supply of construction materials for the project in August 1998, won a separate tender process managed by BSEC in December 1998 for the supply of labour and materials required for the project. This contractor was ultimately paid approximately $194 000 by the Council in connection with the project. There was potential for a conflict of interest to exist given the apparent role of this contractor as both project manager and tenderer. **It was unclear as to whether the contractor relinquished the role of project manager before participating in the tender process for the supply of labour and materials. The Council was unable to provide advice regarding this issue.**

5.386 **Ultimately, the Council paid invoices totalling $199 998 in connection with the construction of the partially completed facility. The extent to which BSEC provided matching funding for this stage of the construction project is unclear. The Council was unable to provide advice as to the amount of expenditure on the project funded by BSEC or any other party during the period August 1998 to April 1999, other than to indicate that a quantity surveyor costed the incomplete structure at $327 000. On this basis, it is apparent that the Council failed to enforce the condition imposed by commissioners that the Council contribution of $200 000 be matched on a dollar-for-dollar basis. It would seem logical to conclude that had such matching funding been provided by BSEC then the ground floor of the structure would have been completed to a more advanced stage than actually occurred.**

Efforts to obtain funding to complete the facility

5.387 There was a lack of documentation held by the Council regarding the circumstances surrounding the halting of the construction of the facility, but it appeared that construction ceased around April 1999.

The partially constructed Lakeside Community Centre, located in central Benalla.

5.388 In March 2000, the BSEC applied to Sport & Recreation Victoria (part of the former Department of State and Regional Development) for funding of $280 000 to complete the ground floor of the facility. The Council approved a loan to BSEC of $35 000, subject to the funding application being successful. In July 2000, Sport & Recreation Victoria advised BSEC that its funding application had not been successful. Following a meeting with relevant parties to discuss the failed funding application Sport & Recreation Victoria advised the Council that the following issues would need to be addressed in developing the proposal for submission in future funding rounds:

- relationship between the completion of the Sports and Entertainment Centre project and the Council's strategy for community sport, recreation and entertainment facilities;
- a business plan and management plan/structure to demonstrate the viability of the facility, including identifying the ongoing operating costs for the centre and how they are to be financed;
- source of funds to meet the capital cost for the remaining stages proposed for the development, and the ongoing maintenance and capital improvement costs for the facility; and
- while the primary emphasis in the application was on the provision of a shared facility, the floor plan appeared to cater specifically for football and cricket home and away competitions with little or no space provided for broader community access or other uses.

5.389 When communicating these issues to the Council, Sport & Recreation Victoria also advised that the funding program conditions stated that "*Projects which are eligible under the program are automatically ineligible for funding consideration by way of direct application to the Community Support Fund. This is irrespective of whether the application is successful or not*".

5.390 In November 2000, BSEC requested a loan from the Council of $45 000 to assist in the completion of the facility. However, the Council subsequently advised the BSEC that the loan would only be available if funding was granted from Sport & Recreation Victoria.

5.391 In December 2000, the Council submitted an application, on behalf of BSEC, to Sport & Recreation Victoria for funding of $160 000 under the "Community Facilities Funding – Major Facilities" program to enable completion of the facility. The funding application indicated that the estimated cost of completing the facility was $320 000 and that the funding requested from Sport & Recreation Victoria would be matched by local contributions, including a loan of $45 000 from the Council. The application also indicated that the Council would assume responsibility for managing the construction process.

5.392 This funding application included a copy of a lease agreement executed pursuant to the *Crown Land (Reserves) Act* 1978 between the Benalla Showgrounds and Recreation Reserve Committee of Management and BSEC for the area of land upon which the partially completed facility is located. The lease period was for 21 years at an annual rental of $104 with triennial rent reviews. Section 17D of the *Crown Land (Reserves) Act* 1978 permits the trustees or committee of management of land reserved under that Act to grant leases over the reserved land with the approval of the Minister. The copy of the lease attached to the funding application was executed by the Benalla Showgrounds and Recreation Reserve Committee of Management and BSEC, and not by the delegate of the Minister for Conservation (the North East Manager of Land Victoria within the former Department of Natural Resources and Environment). The Council advised that it was not aware whether the lease had been executed by the Minister's delegate in accordance with the requirements of the legislation.

5.393 During the first half of 2001, the Council and BSEC were advised that the funding application had not been successful. However, in June 2001, the Council received a grant of $30 000, on a matching dollar-for-dollar basis, from Sport & Recreation Victoria for the completion of a major recreation reserve planning study. It was around that time that the Council formed the Lakeside Community Centre Committee to consider a new approach to the development of the partially completed facility and invited community representatives to join the committee.

Benalla Major Recreation Reserves Planning Study

5.394 In September 2001, following a tender process, the Council appointed a consultant to undertake the Benalla Major Recreation Reserves Planning Study. The purpose of the study was to develop masterplans for 4 key recreation reserves in Benalla, including the Benalla Showgrounds Reserve. A project steering committee was also established for the project which included members from the 4 recreation reserve committees of management, the Council, Sport & Recreation Victoria and the community.

5.395 In September 2001, the Council was advised by a representative of Sport & Recreation Victoria that it was unlikely that it would favourably view any application for funding to complete the Lakeside Community Centre facility before completion of the Major Recreation Reserves Planning Study.

5.396 During the period September 2001 to November 2001, the consultant undertook the study which included seeking submissions from the community along with other forms of consultation.

5.397 In November 2001, the Council received an offer to purchase the partially completed facility for $200 000. This offer was rejected following consultation with the Benalla Showgrounds and Recreation Reserve Committee of Management on the grounds that a private development would not be in the best interests of the recreation reserve.

5.398 On 19 November 2001, the consultant forwarded to the Council a copy of development proposals for each of the 4 recreation reserves. These development proposals were to be discussed initially with council staff and then at a workshop meeting of the project steering committee on 21 November 2001. The proposals for the Benalla Showgrounds Reserve involved the development of a major sports services, function and administrative centre on the site of the existing clubrooms on the opposite side of the oval from the partially completed Lakeside Community Centre building. The document sent to council included the following statement: *"The above proposal is made in place of a recommendation to proceed with the further development of the original sporting club development adjacent to the River. Proceeding with the further development of this building has been rejected on the grounds of location; space, access and parking problems; building size and the constraints on further long term development; cost; the need to fund a multi-level building; and floodplain and flood damage issues"*.

5.399 There is no documentation available recording the results of any discussion between the consultants and council staff prior to the workshop meeting of the project steering committee.

5.400 The document prepared by the consultant to record decisions taken by the workshop meeting of members of the Major Recreation Reserves Planning Study project steering committee on 21 November 2001 indicated that the consultant's recommended development proposals for the Showgrounds Reserve were rejected in favour of completion of the existing partially-completed structure. The document does not record how many of the project steering committee members were present at this workshop meeting. However, the accuracy of the document was accepted and agreed to by a formal meeting of the project steering committee on 3 December 2001.

5.401 During December 2001, the consultant drafted a report on the results of the Major Recreation Reserves Planning Study for public exhibition early in 2002. As part of this process, the Council was provided with a copy of the draft report. The initial draft report provided to Council implied, but did not specifically recommend, completion of the Lakeside Community Centre. Following discussions with council officers, the recommendation to *"Proceed with the development of the Lakeside Community Centre"* was added to the draft report. The Council advised that the key reason for ensuring that this recommendation was included in the report related to the level of investment in the existing works and completion of the facility representing the most cost-effective means of completing provision of toilets and change rooms at the Showgrounds Reserve.

5.402 The Consultant's report on the Major Recreation Reserves Planning Study, containing draft masterplans for each of the 4 recreation reserves, was finalised in January 2002 and placed on public exhibition from 4 February 2002 to 4 March 2002. A public meeting was held to discuss the report in February 2002. The final report on the Major Recreation Reserves Planning Study was released in April 2002. The final report included a recommendation to proceed with the development of the Lakeside Community Centre along with an additional appendix to those included in the earlier draft report entitled *"A rationale for the recommended actions regarding the incomplete Lakeside Community Centre Building"*.

Contributions from the Community Support Fund

5.403 Following receipt of the consultant's final report, the Council explored options for funding the recommendation to complete the Lakeside Community Centre. In September 2002, the Council lodged an application with the Community Support Fund seeking $204 000 in funding to be matched by an equivalent contribution from the local community. The Council's funding application included the following:

- A covering letter from the Council's chief executive officer incorporating a commitment "*…that Delatite Shire Council will guarantee the $204 000 required to match potential Community Support funding, if the community is unable to raise sufficient funds to contribute to the project*". The chief executive officer had not obtained formal authority from the Council prior to making this commitment. However, the interim chief executive officer of the Benalla Rural City Council has advised that the funding application had been discussed by the former chief executive officer with former Benalla Community Council councillors prior to its submission and that they were supportive of the application and the level of council funds required;

- A statement that, *"The project does not specifically meet the Sport & Recreation Victoria funding guidelines. The total value of this project exceeds the criteria limit for Minor Facility developments. The Major Facilities category is targeted more at larger Regional Single Purpose Facilities and Multi Purpose facilities"*. However, examination of the funding guidelines and criteria for Sport & Recreation Victoria's Community Facilities Funding Program indicates that the project does fit within the ambit of that funding program and in fact both the Council and BSEC had previously applied for funding under that program;
- A statement that the Benalla Community Sports Centre Inc., an incorporated group drawn from stakeholder clubs, will provide resources to support construction of the facility and will meet the project's recurring costs. The application did not provide sufficient detail regarding the resources to be provided by this entity to support the construction of the facility or its capacity to generate funding to meet the ongoing operating costs associated with the facility. In addition, the Benalla Rural City Council has been unable to provide any details regarding steps taken by the former Delatite Shire Council to satisfy itself that the Benalla Community Sports Centre Inc. has access to sufficient resources and expertise to enable it to provide resources for both the completion of the facility and the ongoing operating costs;
- Extracts from a lease agreement dealing with the site of the project were attached to the application. The lease agreement is between the Benalla Showgrounds and Recreation Reserve Committee of Management and the Benalla Sports Entertainment Centre Inc. Given that the Benalla Community Sports Centre Inc. was nominated in the funding application as the organisation which will have ongoing responsibility for management of the facility, we expected that the lease agreement would be with this entity rather than with the Benalla Sports Entertainment Centre Inc.; and
- A project budget that indicated that the Council will provide $180 000 in funding towards the project with the additional $24 000 required to match the funding sought from the Community Support Fund to be sourced from "in-kind" contributions and community sponsorship. This community contribution of $24 000 has been guaranteed by the Council. These commitments were not formally approved by the Council prior to submission of the funding application.

5.404 **In October 2002, the Council was advised that its application for funding from the Community Support Fund to complete the Lakeside Community Centre had been successful and funding of $204 000 had been awarded on a matching dollar-for-dollar basis. However, the provision of such funding appears to breach the Community Support Fund guidelines on 2 counts. First, the Community Support Fund guidelines state that projects that are eligible to be considered for funding from other State Government programs will not be funded. It was clear that the project was eligible to be considered for funding under Sport & Recreation Victoria's Community Facilities Funding Program and had, in fact, been considered under this program on at least one prior occasion. Second, the Community Support Fund guidelines state that applications seeking retrospective funding for projects that have already started or have been completed, will not be funded. However, the project had been commenced and was partially complete at the time of the submission of the application. On this basis, the project, irrespective of its merits, should not have been provided with funding from the Community Support Fund.**

Adequacy of the former Council's management of its involvement in the Centre

5.405 In assessing the adequacy of the former Delatite Shire Council's management of its involvement in the Lakeside Community Centre project a number of deficiencies were identified. Specifically, the Council:

- committed $200 000 to the project but failed to adequately address a range of issues associated with the provision of the funding, including establishment of a funding agreement with the recipient organisation, management arrangements in respect of the construction of the facility, and clarity regarding the arrangements for the ongoing management and funding of the completed facility;
- failed to enforce a condition imposed on the provision of its funding contribution that it be matched on a dollar-for-dollar basis;
- gave approval for construction of the Lakeside Community Centre to commence before it had ensured that the entity established to build and operate the Centre had sufficient funding, in addition to that provided by the Council, and expertise to ensure completion of the project;
- committed its successor, the Benalla Rural City Council, to providing $180 000 towards the project and guaranteed a further contribution of $24 000 from the Benalla community to match the grant from the Community Support Fund; and
- failed to maintain adequate documentation regarding key issues associated with the Council's management of its involvement with the project.

5.406 **It is recommended that prior to taking up the funding from the Community Support Fund to complete the Lakeside Community Centre, the Council undertake a comprehensive review of the adequacy to arrangements to be established for the ongoing management and funding of the facility. This review should include assessments of the capacity of the Benalla Community Sports Centre Inc. and the Benalla Sports Entertainment Centre Inc. to meet the responsibilities envisaged to be assigned to them under these arrangements.**

5.407 **At the date of preparation of this report, $723 598 had been expended by the Council associated with the design and construction of the Centre, with a further $408 000 required to be incurred to finalise the construction of a scaled-down facility incorporating change rooms, public toilets and a meeting room, but no longer including the upper-level club/function rooms.**

***RESPONSE** provided by Secretary, Department of Premier and Cabinet*

The Premier had responsibility for the administration of the Community Support Fund (CSF) under provisions of the Gaming Machines Control Act when the relevant decision was taken. The legislation provides very broad objects for the CSF. The guidelines that support the operation of the CSF are designed to give effect to the broad priorities of the Government and to assist potential applicants. Decisions on the usage of the CSF remain with the Government consistent with the legislative provisions. I note that the Government is entitled to consider all the criteria and, on some, occasions to give greater weight to some criteria than others.

I am advised that in the case of the Lakeside Community Centre, Delatite Shire made an application to the CSF for the stage 2 development after completion of a Major Recreation Reserves Planning Study which recommended that the Community Centre proceed. In lodging the application, the Council agreed to make the matching resources available to complete the project. I also understand that there was considerable community support for the completion of this project, in part, to resolve a long standing problem.

The CSF guidelines require that projects demonstrate a broad community benefit and attract matching funding and have community support. The Government has concluded that the project satisfactorily met these requirements.

Your report notes that the CSF guidelines would exclude this project on 2 grounds. The Delatite Shire application was presented as stage 2 of a multi-stage project rather than funding of a retrospective project and was considered on these grounds. In considering the application, the CSF Secretariat also sought comments from the Department for Tourism, Sport and the Commonwealth Games. The Department advised that the project did not align with the Sport and Recreation Victoria funding categories and was unlikely to be funded.

STATUS OF THE DOCKLANDS DEVELOPMENT

5.408 Melbourne Docklands covers approximately 200 hectares of land and water, and is located to the west of the Melbourne Central Business District.

5.409 Redevelopment of the Docklands has been an ongoing initiative of successive State Governments. The Docklands Authority was established in 1991 to manage the redevelopment of the Docklands on behalf of the State.

5.410 The development is being undertaken by the private sector pursuant to development and land sale contracts with the Authority. The development is expected to span many years and its estimated total value to the private sector is $8.7 billion. This valuation is predominately based upon developers' estimates of their forecast sale revenue.

5.411 The Docklands development is expected to create public assets in excess of $500 million, together with municipal rate revenue streams. Public assets include waterfront promenades, parks, bicycle tracks, public art, open spaces, roads and bridges. Other assets include marinas and boating facilities, tourist attractions and land set aside for human services, and social infrastructure such as sporting facilities, medical centers, emergency services and schools.

5.412 Substantial public works have been undertaken to provide the necessary infrastructure to facilitate the development. Those infrastructure works include the following:

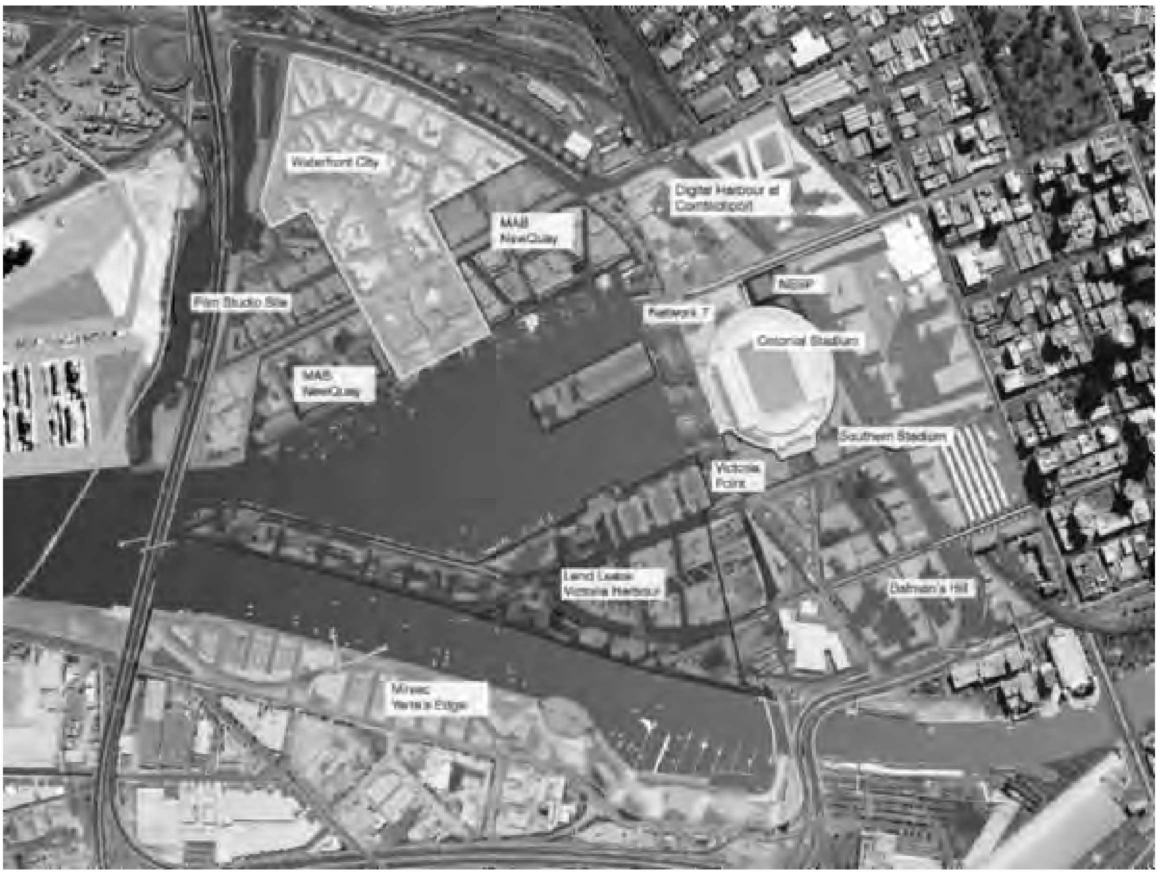
- Remediation works of the 7 hectare former West Melbourne Gasworks Site. The completion of this $50 million remediation project has provided useable land within the Docklands area, including the Victoria Harbour Precinct;
- Extension of Collins Street by bridge on its current alignment from Spencer Street to Old Footscray Road;
- Extension of Bourke Street on its current alignment from Wurundjeri Way to Harbour Esplanade. (There is also a foot bridge connection from the corner of Spencer and Bourke streets to Telstra Dome.);
- Construction of Wurundjeri Way from Dudley Street to Charles Grimes Bridge, including the re-construction of Charles Grimes Bridge and North Wharf Road from Charles Grimes Bridge off-ramp to the intersection with Bourke Street parallel with the Yarra River;
- Construction of Latrobe Street from Adderley Street to Harbour Esplanade; and
- Extension of gas, electricity, water, waste water and drainage services.

5.413 It is proposed that the Authority will recover the cost of State-funded infrastructure works from developers as part of the proceeds from the sale of land to developers.

5.414 Facilitation of the private development of Docklands is a major initiative of the State. As such, our Office has undertaken ongoing monitoring of the progress of the development. Previous reports to Parliament have commented on the status of the development of each precinct and included detailed comment on the contractual arrangements between the State and private developers as they arise for each precinct.

Status of precincts development

5.415 The Docklands site currently comprises 7 main precincts, most of which are being facilitated by the Authority, which are intended to be progressively developed over the next 12 to 15 years. However, the actual development timetable will be determined by market demand. The photograph below provides an overview of the total area under development, and the related precincts.

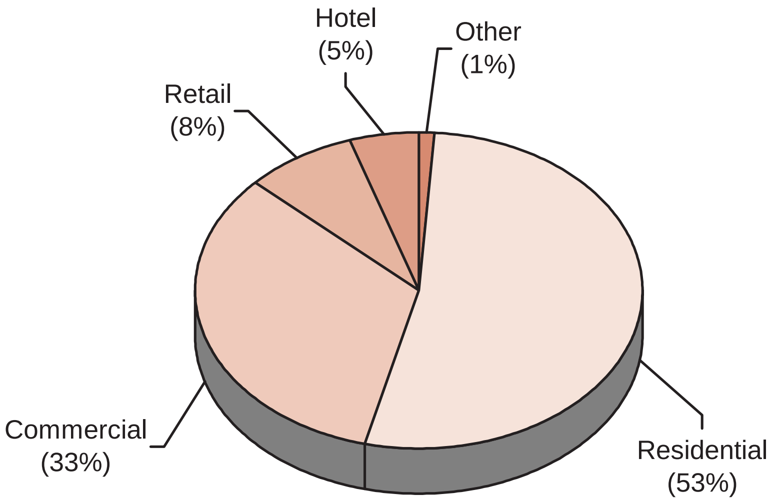


Aerial view of Docklands development.

(Picture supplied courtesy of the Docklands Authority - copyright applies.)

5.416 Chart 5V outlines the planned mix of uses of the Docklands site.

CHART 5V
PLANNED MIX OF USES OF DOCKLAND SITE
(per cent)



5.417 Table 5W overviews the current development for each precinct.

TABLE 5W
OVERVIEW OF PRECINCT DEVELOPMENT

Precinct	*Hectares*	*Overview*
Stadium	13.2	The Stadium Precinct currently comprises 7 discrete developments, namely: • **Telstra Dome -** A multi-purpose sport and entertainment stadium, constructed by Docklands Stadium Consortium, which opened in March 2000. • **AFL House -** Office facilities, which is within Telstra Dome fronting Harbour Esplanade, was completed in 2001 and accommodates a number of organisations, including the Australian Football League and the Docklands Authority. • **Digital Broadcast Centre -** The Seven Network's new Melbourne Headquarters and Digital Broadcast Centre was completed in May 2001 and occupies 14 000 square metres over 5 levels and comprises 2 digital studios. Digital broadcasting began on-site in February 2002. • **Docklands Gateway -** Network Seven is proposing to develop 2 commercial office towers totalling 40 000 square metres adjacent to the Seven Broadcast Centre and Telstra Dome. Construction is planned to commence as soon as tenancy is secured. • **Victoria Point -** The Victoria Point Docklands Ltd consortium has been awarded the right to market their proposed development for this site, located on the corner of Bourke Street and Harbour Esplanade, adjacent to Telstra Dome. Valued at $290 million, the proposed waterfront development is a 42 level residential tower with 440 apartments, and an additional 4 level podium containing 120 serviced apartments, retail, restaurants and a medical/sports complex. Construction is scheduled to begin in mid-2003 with completion planned for late 2005.

TABLE 5W
OVERVIEW OF PRECINCT DEVELOPMENT - *continued*

Precinct	*Hectares*	*Overview*
Stadium - *continued*		• **North-East Stadium -** Planned development of the site is for mixed use, such as commercial, recreation and leisure, cafes and restaurants. The Authority had awarded a 12 month exclusive right to a private company to allow for the securing of a tenant. This period expired in January 2002 and the Authority will consider further expressions of interest for this precinct. • **Southern Stadium Eastern Parcel -** The 1.3 hectare parcel, which incorporates the ramp from Bourke Street pedestrian bridge, is under consideration by the Authority and may include a variety of sports, entertainment, hotel and commercial spaces.
Yarra's Edge	14.5	A development agreement was executed in December 1997 with the Mirvac Group for approximately 12 to 15 years, encompassing a $1.3 billion development of more than 2 000 apartments and townhouses, restaurants, marina, and commercial and retail areas. Development commenced in early 2000 and Mirvac has released for sale some 756 apartments in 5 towers, of which the first tower is complete and the remaining are under construction. Additional waterfront apartments will be released with the commencement of Stage 2 of Yarra's Edge Precinct.
Business Park /North West (former precinct names)	33	• **NewQuay -** A development agreement for this precinct was finalised with MAB Corporation for a 14 year development comprising 1 800 residential dwellings, commercial office space, retail space and marina berths. The development of the residential dwellings began in late 2001 and by 2003 it is expected there will be approximately 1 400 residents located in this precinct. The whole precinct is planned for completion by 2010, subject to market demand. • **Waterfront City** - Bounded by Victoria Harbour, Footscray Road and the Moonee Ponds Creek, the 19.3 hectare precinct features more than 3.4 hectares of waterfront land within 210 metres of the Victoria Harbour waterfront. The Authority called for bids for this precinct during April 2002. Prior to considering the short-listing of bidders, the Authority had announced that 2 Board members had declared potential conflicts of interest through involvement or potential involvement with 2 proponents and they took leave of absence from the Authority's Board. A Joint venture of ING Real Estate and the Lewis Land Group was announced as the developer of Waterfront City on 19 December 2002. The precinct is planned to include entertainment and retail activities, with a 100 metre ferris wheel costing $40 million. The precinct will also include 460 apartments and 30 000 square metres of commercial space. The first stage of the precinct is planned to be open by the 2006 Commonwealth Games. • **Docklands Studios** - The Docklands Studio project is being facilitated by another government agency, Multimedia Victoria within the Department of Infrastructure. During September 2002, Central City Studios were contracted as developer for the Film and Television Studio complex at Docklands. The proposed development includes 6 sound stages covering a total area of approximately 7 000 square metres, integrated production support areas and a $60 million commercial cluster development for industry tenants. Work at the studio site has commenced and it is planned to be operational by late 2003. Further comment on this development is included later in this report.

TABLE 5W
OVERVIEW OF PRECINCT DEVELOPMENT - *continued*

Precinct	*Hectares*	*Overview*
Victoria Harbour	28.7	An agreement was finalised in May 2001 for a $1.8 billion development of this 28.7 hectare site. The development will include 2 100 residential apartments, 250 000 square metres of commercial office space, 20 000 square metres of retail, restaurant and café facilities, and 15 000 square metres of community facilities. Construction of 2 similar sized buildings 8 storeys high, commenced in late 2001 in this precinct. The first stage is scheduled to be completed during late 2003 and the second stage in mid-2004. Further comment on this development are included later in this report.
Batman's Hill	10	In November 2001, the precinct was sub-divided into 15 land parcels ranging in size from 3 000 square metres to 11 500 square metres. The Batman's Hill Precinct currently comprises a number of discrete developments, namely: • **Village Docklands** - In May 2002, Village Docklands Pty Ltd, was appointed the successful developer for 3 hectares of the precinct. The project has a forecast total project value of $700 million and includes an international hotel on Collins Street, a commercial office tower, 4 residential apartment towers, re-development of the historic goods shed, retail stores, restaurants and cafes. Construction of the first residential tower is expected to commence in early 2003. • **Watergate -** In June 2001, Pan Urban Corporation was appointed the successful developer for this part of the precinct which consists of 330 residential apartments in 2 towers, 1 300 square metres of retail space and 4 500 square metres of commercial space. It will be developed in 2 stages - the first stage consisting of 2 residential towers is under construction and the retail and commercial component is expected to commence in 2005. The total value of the project is forecast at $150 million. • **700 Collins Street -** In June 2002, Folkestone Leighton JV Pty Ltd was appointed to develop this gateway site into the precinct. The development encompasses 31 000 square metres of office space, 2 400 square metres of retail space and 376 car spaces. It commenced in late 2002 and will be completed by early 2004. Total value of the project is forecast at $125 million.
Digital Harbour at Comtechport	4.4	During December 2000, development rights for this precinct were awarded to Digital Harbour (Holdings) Pty Ltd. The precinct is to incorporate a commercially viable environment to attract major corporations, research and educational institutions, small to medium enterprises, and technology start-up businesses. Development is to be partly funded by a Commonwealth Government grant of $22.5 million from the Federation Fund. In May 2000, a grant deed was finalised which provides for the funds to be applied to Stage 1 of the project, which is scheduled to commence early in 2003.
West End	20.9	The Docklands area, pursuant to the *Docklands Authority Act* 1991, originally included the Spencer Street Station area (formerly known as the West End Precinct). However, the Government created the Spencer Street Station Authority during 1999 and transferred the development rights of the precinct to that Authority. Comment on this project was included in the *Report of the Auditor-General on the Finances of the State of Victoria, 2001-02*.
TOTAL	**125**	

5.418 Table 5X outlines, in summary form, the current status of each proposed development. The development rights for approximately 91 per cent of the planned development, by development value, had been contractually assigned to a private developer by the Authority, subject to market demand, and approximately 23 per cent of the proposed private development had been constructed, or is currently under construction, at the date of preparation of this report.

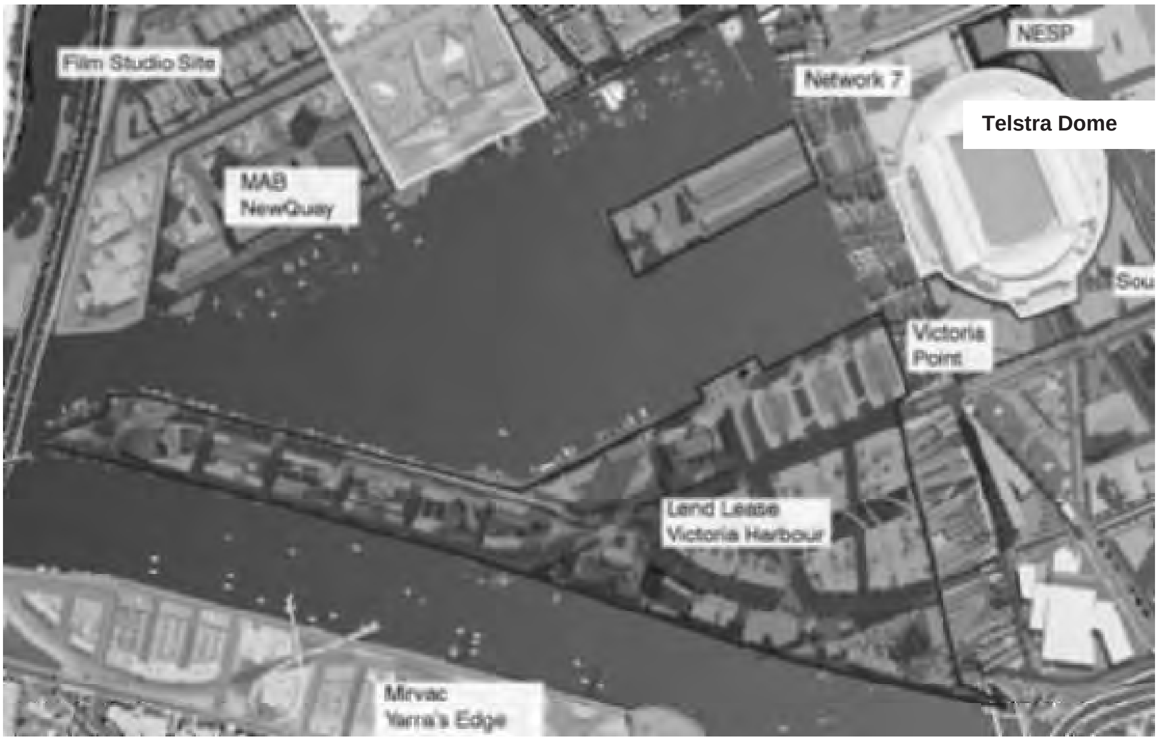
TABLE 5X
MELBOURNE DOCKLANDS PRECINCT DEVELOPMENT STATUS (a)

	Estimated total development value (developer's forecast sales revenue) (b)	*Development rights assigned to private sector*		*Under construction*		*Built*	
	($m)	*($m)*	*(%)*	*($m)*	*(%)*	*($m)*	*(%)*
PRIVATE DEVELOPMENT:							
Stadium -							
Telstra Dome	460	460	100	-	-	460	100
Digital Broadcast Centre	150	150	100	-	-	50	33
North East Stadium	80	-	-	-	-	-	-
Victoria Point	310	310	100	-	-	-	-
Southern Stadium Eastern Parcel	90	-	-	-	-	-	-
Yarra's Edge	1 300	1 300	100	515	40	105	8
Former Business Park/NorthWest -							
NewQuay	1 000	1 000	100	135	14	275	28
Waterfront City	800	800	100	-	-	-	-
Docklands Studios *(c)*	100	100	100	20	20	-	-
Victoria Harbour	1 800	1 800	100	230	13	-	-
Batman's Hill Parcels	1 600	975	61	225	14	-	-
Digital Harbour at Comtechport	300	300	100	-	-	-	-
Spencer Street Station Redevelopment *(c)*	700	700	100	-	-	-	-
Total	**8 690**	**7 895**	**91**	**1 125**	**13**	**890**	**10**
PUBLIC WORKS:							
West Melbourne Gasworks Remediation						50	100
Construction of infrastructure						145	100
Collins Street Extension						35	100
Total						**230**	**100**

(a) As at the date of preparation of this report.
(b) Estimated construction cost has been included for Telstra Dome, Digital Broadcast Centre, Spencer Street Station Redevelopment and Docklands Studios.
(c) Not being facilitated by the Authority.
Source: Melbourne Docklands Authority.

VICTORIA HARBOUR PRECINCT

5.419 The proposed Victoria Harbour Precinct development is a mixed-use waterfront precinct with retail, entertainment and public open spaces, together with residential and commercial buildings. The Precinct has the highest development value of any of the precincts at the Melbourne Docklands for the private sector, amounting to $1 812 million, and includes over 3.5 kilometres of waterfront.



Aerial view of Victoria Harbour Precinct.
(Picture supplied courtesy of the Docklands Authority - copyright applies.)

5.420 In November 1999, the responsible Minister approved the tendering of the Victoria Harbour Precinct. Key events resulting in the appointment of the successful developer include:

- the Authority sought expressions of interest for the development of the 28.7 hectare site during December 1999;
- expressions of interest were received from 22 national and international organisations/consortia and they were assessed against the Authority's published assessment criteria which covers, among other things, design and amenity, integration, finance and risk, and commercial viability;
- in May 2000, the responsible Minister approved the recommendation of the Authority to invite 6 short-listed bidders to prepare development proposals;

- following analysis and assessment by the Authority's staff and external consultants, the Minister approved the Authority's selection of 2 preferred bidders for development of the precinct in October 2000;
- in March 2001, following further assessment of the preferred bidders' proposals, the Minister approved the Authority's recommendation to appoint the Lend Lease Corporation as the developer for the Victoria Harbour Precinct; and
- the developer provided to the Authority, upon execution of the development agreement, a corporate guarantee that underpins up to $25 million of commitments and a $5 million cash deposit for its proposed $1 812 million development.

5.421 The Authority's extensive processes for bid evaluation and negotiation, which are designed to ensure a fair and equitable tendering and selection processes for development projects, have been outlined in our June 2001 *Report on Ministerial Portfolios*. A key feature of these processes includes the conduct of regular independent probity audits, which provide both written and verbal reports to the Authority, and the use of a separate probity advisor.

5.422 **The Authority's established bid evaluation and negotiation processes were appropriately applied as part of the tendering arrangements for this precinct.** Consistent with its usual practice, the Authority's probity auditor oversighted the tender and selection process for the Victoria Harbour Precinct. Further, the probity auditor concluded in April 2001 that there were no issues of probity outstanding and that the evaluation process had been conducted fairly.

Development Agreement

5.423 The contractual arrangements between the developer and the Authority, which set out the terms and conditions for the purchase, use and development of the State's land, are flexible as both parties to the arrangements have acknowledged that the development of the precinct will need to be dynamic, and that this may require further terms and specifications to be agreed between the parties to achieve the development objectives. Accordingly, the arrangements include provisions that:

- both parties have undertaken to negotiate in good faith such further terms and specifications to ensure development of the land is in accordance with the development objectives;
- the development is dependent upon the existence of sufficient market demand to enable the developer to derive prescribed minimum profit margins; and
- provides for the allocation of specified risks between the parties, subject to the inherent flexibilities in the contractual arrangements.

5.424 The development objectives within the Development Agreement comprise:

- the development of the Docklands Area as a place of character and quality in which to live and work, creating both a tourism asset and a boost to Melbourne's prosperity;
- a development responsive to the characteristics of the land and complementary with the characteristics of Melbourne;

- the development of the Docklands Area as a waterfront place focused on, and utilising, the Victoria Harbour and the Yarra River;
- the development of waterfront areas in the Docklands Area as an authentic working harbour with natural, complementary waterfront, marine and working harbour activities;
- development allowing a diversity of public uses and recreational and business activities;
- development accessible to a diverse range of locals and visitors;
- development which is creative, innovative and consistent with good ecological sustainability principles; and
- the intended purpose and objectives set out in the bid proposal.

5.425 **While the contractual arrangements for the development are flexible to enable achievement of the development objectives, the stated objectives are, however, broad.**

Allocation of risks between the State and the developer

5.426 The contractual arrangements between the State and the developer identify and allocate specific major development risks between the parties. Some of the identified risks are allocated wholly to the State or the developer, while others are shared between the State and the developer.

5.427 In general, under the Development Agreement, the construction and post-construction risks are expressly assigned to the developer, while the Authority has expressly retained the risks associated with changes initiated by the Authority in precinct boundaries, plans and specifications.

5.428 An overarching risk for the State is that the agreed development will not proceed, or will not proceed in a timely fashion. In recognition of this risk, the Authority has structured the contractual arrangements, which are market dependent, such that:

- A Master Plan is drafted by the developer and approved by the Authority 90 days after the execution of the Development Agreement and can be amended from time-to-time with the approval of the Authority. The Plan contains the developer's design aims and objectives for the project, the rationale, concept and main features of the project together with further information on circulation and access principles, and public domain and open space network;
- The Authority only releases land in stages, as development on that stage is about to commence, in order to maintain the greatest possible influence over the nature of the development. The developer is required to provide the Authority with staging plans during the project which will detail the physical and geographical evolution of the project from the commencement of the works until practical completion; and

- The developer is required under the Agreement to commence the necessary works in accordance with a schedule of milestones. Comments on these milestones is made later in this report.

5.429 **The Authority has, therefore, sought to finely balance its need for the timely delivery of a certain type of development with the developer's need to construct a commercially viable development which can respond to changing market needs.**

Timing of the development

5.430 With respect to the timing of the development, the key milestones require the developer to have made substantial progress towards commencement of the development equivalent to:

- the first stage by May 2003;
- stages representing 5 per cent of the Authority’s total land sale price, by November 2004;
- stages representing 15 per cent of the Authority’s total land sale price, by October 2005;
- stages representing 45 per cent of the Authority’s total land sale price, by November 2007; and
- stages representing 65 per cent of the Authority’s total land sale price, by November 2009.

5.431 Consequently, the Development Agreement does not set out milestones for the required completion date for any of the nominated stages. Rather, it requires substantial progress towards the commencement of the development equivalent to 65 per cent of the Authority’s land sale price by November 2009. Commensurate with this, the key milestones require equivalent percentage payments of the total land sale price to the Authority in the preceding year.

5.432 The developer is entitled to extensions of time to a milestone date under specified circumstances, such as an act or omission of the Authority, or a force majeure event. In particular, the Authority pursuant to the contractual arrangements will also allow an extension of time to any relevant milestone because of changed market conditions.

5.433 The Agreement defines a change in market conditions as something that is beyond the developer's reasonable control and that:

- significantly affects the ability of the developer to sell or lease the relevant stage on reasonable commercial terms; or
- affects the ability of the developer to obtain a level of pre-commitment to any stage satisfactory to the developer; or
- affects the ability of the developer to achieve a 15 per cent return.

5.434 **Consequently, the developer can defer proceeding with a stage or stages, without a penalty being imposed by the Authority, where the specified return will not be achieved, or where there is insufficient market demand, or it is not commercially viable to do so.** It should be noted that the Authority's land sale price is subject to escalation in accordance with the consumer price index to maintain the present value of those payments to the Authority.

5.435 **However, the developer cannot indefinitely defer development of a stage or stages pending a future favourable change in market conditions past the following "sunset dates" specified in the Agreement**:

- 3.5 years for commencement of development of the first stage;
- 10 years for commencement of development of 30 per cent of the developable area; and
- 20 years for project practical completion from the date of the Agreement.

5.436 Consequently, the developer can:

- defer proceeding with a stage or stages where there is insufficient market demand, or it is not reasonably commercially viable to do so, however, such terms are not defined in the Agreement; and
- defer development of the precinct until as late as May 2021 if it has commenced development of 30 per cent of the developable area by May 2011.

5.437 Ultimately, the Authority can elect to exercise its right to terminate the Agreement, whereby the developer would forfeit the right to acquire any undeveloped land should the developer, for example, have not made substantial progress towards the commencement of the development equivalent to stages representing 65 per cent of the Authority's land sale price by November 2009 without an extension of time or if the developer had exceeded the sunset dates.

5.438 Therefore, in terms of the State's overarching risk that the agreed development will not proceed, or will not proceed in a timely fashion, the development arrangements have sought to balance the need for maintaining flexibility in the arrangements while setting out agreed development objectives and principles. In particular, the arrangements requires the developer to have made substantial progress towards commencement of a significant part of the development by specified dates, while allowing the developer to defer completion of the balance of the development for a maximum period of 20 years, expiring in May 2021, primarily dependent upon market conditions.

5.439 **In summary, the nature and timing of the development of the Victoria Harbour Precinct is reactive with, and conditional upon, market cycles and demand within a 20 year time frame.**

Land payments

5.440 The Development Agreement requires that, prior to the sale of land by the Authority for each stage, the developer must satisfy several conditions, including provision of evidence of the financial capability to finance the stage works, a stage feasibility report, evidence of sales pre-commitment, necessary planning and other approvals, and the required bank and other guarantees.

5.441 The Agreement prescribes the payments to be made by the developer for the purchase of land comprising 3 elements, namely:

- Stage land payments;
- Infrastructure contribution - the developer is required to contribute to the cost of infrastructure external to the Victoria Harbour Precinct. Such infrastructure includes new and improved roads, transport infrastructure, bridges, communication services as well as public open space facilities within the Docklands development; and
- Gasworks site remediation contribution.

5.442 Land payments to the Authority are made at 2 critical points: first, upon the release of land by the Authority to the developer for a particular stage, and second, upon receipt of revenue by the developer from the sale of that land.

5.443 The Agreement sets out the prescribed amounts to be paid upon the release of land for a stage, while the additional amount which may become payable as part of the second tranche is dependent upon the level of the gross receipts received by the developer from the sale of that land. Table 5Y outlines the payments to be made to the Authority for the release of land to the developer.

TABLE 5Y
VICTORIA HARBOUR PRECINCT DEVELOPMENT AGREEMENT
LAND PAYMENTS
($million)

Stage land payments *(a)*	49.7
Infrastructure contribution *(b)*	27.0
Gasworks site remediation contribution *(b) (c)*	23.6
Total	**100.3**

(a) This represents the minimum amount payable, and may be increased in line with the developer's actual gross receipts from the sale of land.

(b) These amounts represent the maximum amount payable, subject to CPI escalation.

(c) The Authority managed the contract on behalf of the Department of Treasury and Finance to remediate the soil contaminants contained with the former West Melbourne Gasworks site, which was the subject of an Environment Protection Authority clean-up notice.

Source: Victoria Harbour Precinct Development Agreement.

5.444 As part of the Authority's tender assessment process, and prior to the appointment of the developer, the Valuer-General's analysis of the arrangements concluded that the developer's offer for the land (refer Table 4D) was reasonable and significantly higher than the assessed site value, while having regard to the proposed development, and the related terms and conditions.

5.445 In addition, the Agreement imposes an obligation on the developer to expend one per cent of each stage's development costs on integrated public art, 20 per cent of which is to be paid to the Authority for this purpose. Should the developer fail to make the specified level of expenditure on integrated public art, any shortfall is required to be paid to the Authority.

5.446 **While the Agreement has enabled the developer to avoid the risk of earning less than the contractually specified return on the development of 15 per cent, it provides the Authority with a 2.74 per cent share of any additional revenue earned by the developer in excess of the projected gross revenue. The Valuer-General's analysis of these arrangements concluded that the developer's revenue assumptions, while reasonable, were at the high end of expectations and little growth could be expected for some time from these levels.**

5.447 The Agreement also provides that if the developer sells any undeveloped land, 50 per cent of any profit must be paid to the Authority and any such sale requires the prior agreement of the Authority.

5.448 **The Valuer-General also indicated that the developer's bid had reasonable prospects of producing a viable outcome for the developer. The Valuer-General's analysis projected a profit-on-cost ratio of 22 per cent for the developer.**

Reporting obligations of the developer

5.449 Subsequent to notification from the Authority, the developer is obliged to provide certain certified reports, some of which underpin some of the key payment and timing provisions of the Agreement. Such reports cover the following matters:

- stage pre-sales;
- stage sales and payment calculations and supporting gross revenues;
- stage development costs;
- expenditure on public space and integrated public art;
- expenditure on site remediation for each stage and for the whole of the land;
- expenditure on developer's infrastructure for a stage;
- expenditure on municipal assets;
- changes in sources of funding;
- percentage of land under development;
- status of work on heritage buildings; and
- the amount of gross floor area under development categorised by use type.

5.450 The reports are required to be certified by the developer and submitted to a project co-ordination group, comprising representatives of the Authority and the developer. Independently audited reports are not required, although the Authority can elect to engage auditors under the Agreement.

Default events and termination

5.451 The Development Agreement incorporates extensive provisions related to default events, including failure to comply with any provision of the Agreement, the land sale contract or any other project document.

5.452 If a default event occurs, the Agreement provides for the developer or, in certain circumstances, its financier, to:

- pay interest, accruing at a daily rate, on unpaid amounts;
- remedy the default; and
- if the default cannot be remedied pay compensation to adequately redress the Authority’s loss and damage suffered as a result of the default.

5.453 If the default event is material and is not remedied or the Authority is not compensated, then the Authority may terminate the Agreement in relation to undeveloped stages.

5.454 The Agreement also provides for the developer to indemnify the Authority and the State, on demand, for all losses, liabilities, costs and expenses, in connection with the occurrence of any default event for which the developer or its employees, agents, sub-contractors or consultants are responsible.

5.455 **It should be noted that if the required number of stages of the development do not proceed, and the Agreement is terminated, the Agreement does not specify an amount for liquidated damages that would become payable by the developer in recognition of the development not proceeding in full. The Agreement also limits the developer's maximum aggregate liability to compensate the Authority for its losses, damages and termination costs to $5 million where certain quantums of development do not occur by specified “sunset” dates, and to $25 million for certain material default events.** Further, if the arrangement is terminated, the Authority is required to re-bid and re-sell any undeveloped land and apply the proceeds in accordance with the terms of the Agreement.

DOCKLANDS FILM AND TELEVISION STUDIO

5.456 A task force was appointed by the Government during April 2000 to examine the Victorian film and television industry, and to develop a strategic framework for growth and industry support. The report of the taskforce, completed in September 2000, identified the challenges facing the Victorian industry, where the industry wanted to be, and the strategic options to realise that vision. In particular, the task force identified the absence of adequate studio facilities as a major infrastructure shortfall in the Victorian film and television industry. This key finding was also confirmed by a consultant in December 2000. The consultant also highlighted that Victoria's local film industry was not keeping up with the rest of the country in terms of attracting local and overseas productions. Further, construction of a purpose-built film studio would have an estimated direct positive effect on the economy of between $120 million to $160 million in the first 5 years, then an estimated $39 million in subsequent years, with an estimated construction cost in the vicinity of $28 million.

5.457 In May 2001, the then Department of State and Regional Development supported the proposal for the development of studios at Docklands, noting estimated costs of up to $40 million, and determined that the matter be referred to the Government for consideration.

5.458 In June 2001, the Government endorsed a funding allocation of $40 million for the development of film and television studios at Docklands.

5.459 During July 2001, a Project Steering Committee was established consisting of representatives from the then Department of State and Regional Development, the Department of Treasury and Finance, the Department of Premier and Cabinet, Arts Victoria (part of the Department of Premier and Cabinet) and Melbourne Film Office (part of Film Victoria) to oversee the delivery of the Docklands film and television studios project. One of the Committee's early considerations included the identification of suitable sites for an interim studio facility. The purpose of this interim facility was to take advantage of any current productions that may be interested in moving to Melbourne and to allow a market to build in time for the opening of the film and studio complex at Docklands. The site chosen was a former warehouse in Margrave Street, St Albans. A budget of $1.2 million was approved to finance this initiative for a 2 year lease of the site from March 2002.

5.460 In March 2002, the Department of State and Regional Development became known as the Department of Industry, Innovation and Regional Development and continues to be responsible for managing the Docklands film and television studios project.

5.461 The Government's Partnerships Victoria Policy requires a comparison, in both qualitative and quantitative terms, of alternative private sector proposals and the public sector approach to obtain such a facility using a public sector comparator. The public sector comparator, which estimates the cost of the most efficient form of public sector delivery in order to test the value-for-money status of private sector proposals, was used to provide a benchmark for the studio utilisation levels and charge rates that would achieve the State's industry development objectives for the project. In particular, it provided an indicative minimum cost structure to support a well run operation capable of delivering the overall project objectives, a benchmark for assessing the working capital needs of tenderers and development costs together with a risk assessment.

Expressions of interest

5.462 In July 2001, the Department released expression of interest documents for the design and operation of a film and television studio complex at Docklands to be funded by the State and constructed on State-owned land. Pursuant to the request for expressions of interest, the Government was seeking a facility that delivered the following outcomes for the Victorian film and television sector:

- increased local and offshore production in Victoria;
- an accessible and competitive environment for Australian film and television productions in Victoria;
- a local industry with an internationally competitive capability; and
- the development of a film and television industry cluster on and around the studio site.

5.463 Key events relating to the calling for expressions of interest included:

- Interested parties were given the opportunity to meet with government representatives during the period from 16 August to 29 August. Meetings were held with 3 potential bidders during this period. These meetings were attended by representatives of the project's probity adviser and were minuted;
- During August 2001, questions and answers from potential tenderers were posted on the tender website; and
- Expressions of interest closed on 10 September 2001 - 5 submissions were received.

5.464 The expressions of interest were evaluated by 2 separate committees against the project objectives and evaluation criteria outlined in the expression of interest document. The evaluation criteria assessed the bids from the following perspectives:

- compliance with the expression of interest document;
- demonstrated capability, expertise and experience of the respondent;
- design approach;
- ability to deliver the project's objectives;
- ability to deliver the project within the Government's funding commitment;
- operating concept and business plan;

- financial capability;
- networking strength;
- relationship management capability; and
- resourcing, including both staff and subcontractors.

5.465 The 2 evaluation committees were known as the Business and Financial Committee, and the Site Issues Committee, and were chaired by a representative from the Department.

5.466 The Business and Financial Committee also comprised representatives of the Department of Treasury and Finance, Film Victoria within the Department of Premier and Cabinet, and financial and legal advisers. The Committee gave consideration to the following matters:

- consortium capabilities and structure;
- business plans;
- financial strength;
- financial viability; and
- achievement of industry objectives.

5.467 The Site Issues Committee also comprised representatives of Major Projects Victoria within the Department of Infrastructure, Film Victoria, and legal and technical advisers. The Committee gave consideration to the following matters:

- the nature and scale of the proposed development;
- likely compliance with planning and environmental requirements;
- integration with the Docklands precinct;
- ancillary development proposals;
- development team capabilities;
- development program;
- site area;
- preliminary works;
- building retention; and
- achievement of industry objectives.

5.468 The evaluation committees worked separately within their defined areas to rate the bids against the evaluation criteria and, as part of the evaluation process, sought clarification in writing of the bids from the respondents. A joint meeting of the committees reviewed the ratings and agreed on a short list of 3 respondents who would be invited to submit tenders. The 3 short-listed consortiums were advised on 19 October 2001 that they had been short-listed.

5.469 **The project's probity auditor confirmed in September 2001, that in all material respects and based upon the probity framework, the short-listing of respondents was undertaken in accordance with the Victorian Government Purchasing Board's Probity Policy and Guidelines, and was defensible.** The probity auditor was not appointed until after the close of expressions of interest, and consequently the probity auditor did not review the expression of interest document before its issue, attend industry briefings, or attend the receipt and opening of submissions. However, independent probity advisers fulfilled that role throughout this period.

Tender evaluation process

5.470 Tenders received from the 3 short-listed consortiums were assessed by the 2 evaluation committees. That assessment was made in accordance with an evaluation criteria and a methodology that had been previously approved by the Project Steering Committee and that had been lodged in the tender box prior to the receipt of tenders. In accordance with the evaluation methodology, the public sector comparator for the project was also lodged in the tender box prior to the receipt of tenders.

5.471 Key events that occurred during the tender evaluation phase included:

- conforming tenders were received on 10 December 2001 from the 3 short-listed tenderers;
- questions were issued to tenderers on 11 December 2001 to clarify their proposals and answers were received by close of business on 14 December 2001;
- the evaluation committees received presentations from tenderers on 13 and 14 December 2001, with a supplementary presentation given by one of the tenderers (who subsequently became the preferred tenderer) on 18 December 2001;
- the evaluation committees determined and recorded ratings for the tenders on 17 December 2001, prior to the supplementary presentation; and
- a draft report was presented to the Project Steering Committee on 19 December 2001.

5.472 On 2 January 2002, 4 members of the Project Steering Committee authorised a further and final clarification of a range of aspects of one of the tenders on the basis that the tenderer was clearly leading on both the commercial and technical evaluation criteria, was seen as the only tenderer to have exceeded the hurdles in the commercial criteria and in such circumstances it was believed that it would be an act of bad faith to require the other tenderers to expend more time and money to respond to additional detailed clarifications. It was noted in this regard, that the probity auditor had commented that the application of "hurdles" to the criteria was not communicated to tenderers in the request for tender documentation. A further 3 meetings were scheduled with that tenderer in early January 2002. These additional meetings took place before that tenderer was appointed as the preferred tenderer.

5.473 At one of the meetings, held on 8 January 2002, between the leading tenderer and the Department and the probity, legal and commercial advisers, the tenderer provided written clarification of their proposal. **The Project's probity auditor commented in his report, as a "point to note" but not as a qualification, that this opportunity for a further presentation was not extended to the other tenderers and had previously indicated that it could be perceived as favouring that tenderer over the other 2 respondents. Further, the probity auditor noted that the probity adviser had not attended all the meetings with the tenderers during the tender phase and that not all of the public servants associated with the project had provided conflict of interest declarations. Notwithstanding the above comments, the probity auditor concluded that in all material respects and based upon the probity frameworks the procurement process recommending the preferred tenderer has been undertaken in accordance with the Victorian Government Purchasing Board's probity policy guidelines and is defensible.**

Appointment of preferred tenderer

5.474 The evaluation committees' final joint report dated 17 January 2002 concluded that the leading tenderer's proposal:

- provided for the delivery of the project within required operating outcomes and constraints, and within the Government's budget (subject to finalisation of the estimated construction costs);
- bettered the public sector comparator;
- met or exceeded the hurdles in the evaluation criteria;
- had the highest overall weighted average score; and
- provided for the lowest cost and risk to the State.

5.475 On 18 January 2002, the Project Steering Committee endorsed the evaluation committees' joint report and recommended that the preferred tenderer be invited to proceed and that the other 2 tenderers be advised they were unsuccessful and be held in reserve. The tenderers were informed in writing of this decision on 29 January 2002.

5.476 The preferred tenderer's proposal, in accordance with the request for tender document, included:

- a loan of up to $31.5 million from the State to construct the core studio and associated works at an interest rate of 2.75 per cent with repayments linked to the level of studio earnings;
- a 20 year lease over the core studio site;
- a 99 year lease over other related land for sound stages;
- payment of $3 million for land for the commercial cluster development; and
- acceptance by the tenderer of costs of up to $1 million in land remediation.

5.477 **It was originally planned that financial close would occur with the preferred tenderer during March 2002 and that the construction phase would begin in early 2002. However, after the announcement of the preferred tenderer in January 2002, a lengthy negotiation process developed which did not see the signing of the project agreements until 15 September 2002, almost 9 months later. Financial close on these arrangements was not achieved until 17 October 2002.**

5.478 A number of issues arose during this period, which delayed finalisation of the development arrangements, including matters relating to:

- financing and cost of the proposed development;
- arrangements for the transfer and remediation of the site; and
- drafting and finalisation of the contractual agreements to reflect the final negotiated outcomes.

Financing and cost of the proposed development

5.479 A key pre-condition of the proposed development arrangements was that the preferred tenderer had to have a fully funded fixed price design and construction contract in place for the core studio complex.

5.480 On 5 April 2002, the preferred tenderer invited 5 companies to tender for the design and construction of the film and television complex and a contract was subsequently awarded in September 2002. The preferred tenderer then estimated that the total design and construction costs of the studio complex would be $37.4 million, some $5.9 million above the level of the State's loan funding.

5.481 **It was apparent, therefore, that shortly after the announcement of the preferred tenderer that there would be a significant shortfall in the funding of the estimated design and construction costs of the studio complex.** This was despite a written commitment prior to their appointment as the preferred tenderer that they were confident that the core studio could be constructed for $31.5 million and that they would use their best endeavours to fund unforseen increases in core studio construction costs up to $35 million. Further, the preferred tenderer had successfully proposed several redesign initiatives as a means of reducing construction costs and/or improving outcomes for the State both prior to, and after, it had sought the above tenders.

5.482 One such cost saving initiative, which was accepted by the State, was the deferral of the construction of one of the sound stages which would require separate additional financing by the preferred tenderer. The construction of that particular sound stage is now required to commence by 1 July 2006 and to be completed by 31 December 2006, approximately 2 years after the completion of the other sound stages.

5.483 The original project designs submitted by the preferred tenderer had included climate control for the studio complex. The preferred tenderer had sought to negotiate additional State funding of up to $2 million for airconditioning, however this was rejected by the Government. As a consequence, the preferred tenderer subsequently entered into a finance lease in relation to the installation of airconditioning and various other equipment in order to help meet the financing shortfall. Under the financing arrangements, the State agreed to enter into a tripartite agreement with the preferred tenderer and its financier under which the State:

- agreed to be obliged to take over the preferred tenderer's obligations under the finance lease if the State terminates the studio lease;
- approved the granting of a sublease or sublicense to the financier for the purposes of installing, operating, maintaining, replacing and removing the airconditioning plant;
- will allow the financier, if the finance lease is terminated, to remove the airconditioning plant provided that any damage is made good;
- requires the financier to provide not less than 30 days notice to the State should the financier decide to terminate the finance lease to allow the State to take over the finance lease should it wish to do so; and
- can terminate the studio lease for a default by the preferred tenderer under the finance lease or related tripartite agreement between the State, the preferred tenderer and the financier.

5.484 The above financing arrangements for the airconditioning and other equipment (with an estimated cost of $3.8 million) reduced the financing shortfall to $2.2 million, given the preferred tenderer's total estimated design and construction costs. The preferred tenderer obtained equity contributions totalling $7.2 million, which is to be used to finance the shortfall, with $2.2 million paid into a special "construction shortfall" account, and the balance to be used for working capital purposes.

5.485 Further, 2 lighting rigs for studios 5 and 6, valued at $4 million, are also to be leased by the preferred tenderer.

5.486 During negotiations with the preferred tenderer over the financing of their proposed development, the Department sought independent advice from its financial and legal advisers on options for progressing the studio complex through alternative means. The Department was advised by its financial adviser to:

- continue discussions with the preferred tenderer for a short period of time;
- start planning for the State to build and operate the studio; and
- should the preferred tenderer's financing arrangements not be acceptable to the State, then consideration of other alternatives should commence, that is to initiate discussion with the next preferred bidder and/or the State build and operate the studios in parallel with those discussions.

5.487 The Department's legal adviser had also examined the State's legal position and outlined possible implications of some of the above courses of action.

5.488 **The Department did not adopt the advice of its financial adviser as it allowed extensive negotiations with the preferred tenderer and alterations to the design to occur. The Department did seek the views of their probity auditor on the most appropriate course of action to be taken given the proposed changes in the arrangements with the preferred tenderer. The probity auditor advised the Department that it could ask the other short listed tenderers to reconfirm the core elements of their submissions to ensure any amended assessment of the preferred tenderer's status is defensible and to avoid the other tenderers arguing that the preferred tenderer was given an opportunity to confirm/change their offering without making this opportunity available to all tenderers. The other tenderers were not given the opportunity to revise their tenders during this period.**

5.489 However, the probity auditor's later review of the contract negotiation process which consisted solely of a review of advice provided by the Department's legal and financial advisers in respect of the preferred tenderer's final offer and the Department's final report, but did not extend to reviewing the preferred tenderer's final offer, concluded that the contract negotiation process had been properly conducted and that it is defensible for the State to contract with the preferred respondent.

Arrangements for the transfer and remediation of the site

5.490 The development arrangements provided for the transfer of 5.8 hectares of land from the Docklands Authority to the Department of Industry, Innovation and Regional Development. The majority of the land was to be leased to the preferred tenderer for the studio complex, while certain portions were to be available for purchase at a later time as part of the related commercial cluster development.

5.491 The Valuer-General valued the land during July 2001 on a restricted use development basis at $150 per square metre. This equated to a total value of $7.4 million. This valuation was used to assist with the assessment of expressions of interest and tenders.

5.492 In August 2002, the Department commissioned a valuer to review the sale price per square metre for the land. The valuer's report established that, based on the proposed usage, an appropriate land sale price would be in the range $190 to $205 per square metre for the commercial cluster land. However, the report further stated that given the possibility of contamination that a price of $150 per square metre was probably not unreasonable if the preferred tenderer assumed the risks associated with soil and groundwater contamination.

5.493 Extensive discussion occurred between the Department and the preferred tenderer during the tender evaluation phase over the possible extent of required remediation and the acceptance of responsibility for any clean up. Ultimately, it was agreed that the preferred tenderer would not bear any liability for ground water remediation and would cap its land remediation costs at $1 million for the studio complex site, which included preliminary work already done by the State to prepare the site. **Consequently, the State continued to bear the costs of managing any groundwater contamination that existed and any land remediation costs exceeding $1 million for the studio complex site.**

5.494 In the context of the Environment Protection Authority introducing new regulations regarding ground water pollution, called "Clean Up to Extent Practical", the Department's technical advisers had estimated that the cost of remediation of ground water contamination could cost the State between $4 million and $16 million. However, following further research and work with the Environment Protection Authority, it was subsequently estimated that the likely costs associated with any clean-up of ground water contamination over the term of the project could be in the vicinity of $1.4 million.

5.495 In relation to the commercial cluster development land which is to be sold to the preferred tenderer by the State, the preferred tenderer is to be responsible for the risk and any costs arising from groundwater contamination and other potential remediation costs for that land. It is our view that the agreed sale price per metre for this land is considered reasonable, based on the more recent August 2002 valuation and that the remediation risks rest with the preferred tenderer.

Assessment of the revised offer

5.496 Prior to signing the various development agreements in September 2002, the Department's financial, legal and other advisers reviewed the final revised arrangements to be entered into with the preferred tenderer. The following departures from the tendering conditions, as set out in the request for tender, were identified during those reviews:

- The preferred tenderer did not accept all the environmental risks. The preferred tenderer's liability for land remediation was capped at $1 million. Any further remediation costs beyond that amount are the responsibility of the State. Further, the State is solely liable for any costs associated with groundwater remediation. However, the preferred tenderer is responsible for all remediation costs for the land relating to the commercial cluster development;
- At the end of the 20 year term, the State does not have the option to require the preferred tenderer to remove any improvements from the studio complex site and restore the land, should the preferred tenderer not elect to purchase the site or extend the site lease;
- The State is now liable for headworks related to the provision of mains for water and sewage, and the upgrade of Docklands Drive. These works have to be delivered before practical completion of the studio complex;

- The preferred tenderer accepted all construction risks (except for the cost of headworks), however the preferred tenderer is entitled to extensions of time where the causes of delays are beyond its control;
- The preferred tenderer originally proposed 6 sound stages with a total area of 7 016 square metres, however the construction of one of the sound stages covering 743 square metres is deferred until 2006. If this sound stage is not completed by the specified date, the preferred tenderer is required to pay the State $400 000 in liquidated damages;
- The preferred tenderer's tender included a commitment to complete stage 1 of the commercial development, covering some 6 000 square metres, in parallel to the construction of the studio. However, under the final agreements, the preferred tenderer has been given the option of developing the commercial land in parcels with the first stage to be completed by December 2006, and all stages to be completed by September 2008;
- The sale of land for the commercial cluster development to the preferred tenderer, rather than as a 99 year lease, results in the preferred tenderer accepting responsibility for most of the environmental risks with a restriction imposed over the use of that land; and
- Several design changes were made to the sound stages, including the removal of heating, reduced structural floor loadings and reduced number of truck entry points.

5.497 **The final agreed arrangements, while acceptable to the State, departed in some respects from the tendering conditions.** In this regard, the Department indicated that while there has been some diminution in terms of elements of the design, viability and commercial relationships, in their view this was more than offset by significantly higher committed equity investment, additional financial stability for the core studio, an increased overall investment in the studio complex, additional business development experience and that the final contracts provided for delivery of the State's objectives for the project.

Structure of the consortium

5.498 After the extensive negotiations, which resulted in the changes outlined previously, the originally proposed corporate structure of the successful consortium also changed, partly as a result of the new financing arrangements. **The State in September 2002 entered into agreements with a consortium comprising 2 companies, both with the same Board of Directors, one of which will operate the film and television business (Central City Studios Holdings Pty Ltd) while the second will undertake the related commercial development (CCS Properties Group Pty Ltd).** The consortium, hereafter referred to as the “developer”, has also indicated that further subsidiaries may be established to house businesses related to the studio or the commercial activities as they develop. Under the development agreements, the developer is unable to assign, novate or sub-contract its obligations to any other party without the State’s consent.

Total estimated outlays by the State

5.499 Table 5Z outlines the various outlays by the State in relation to these arrangements which is estimated to total $46.8 million in nominal terms.

TABLE 5Z
ESTIMATED OUTLAYS BY THE STATE
($million)

Item	*Amount $m*
Loan funding	31.5
Land *(a)*	8.7
Ground water remediation	1.4
Interim studio	1.2
Land tax for the core studio site of $120 000 per annum over 20 years *(b)*	2.4
Administration/tendering/consultancy/valuation costs	1.6
Total	**46.8**

(a) Includes the value of the land and other related costs such as the creation of bike paths and public art, and the cost of $1.45 million for Docklands Drive headworks.

(b) In substance, this amount has been forgone by the State.

5.500 The agreed arrangements also provide that the State will receive the following amounts, which will partly offset the above outlays:

- Up to $3 million from the proceeds of the sale of commercial cluster land; and
- Loan principal repayments, calculated as a percentage of the developer's earnings which are, therefore, dependent upon the ongoing financial success of the studio complex. Further comment on the calculation of principal repayments is included later in this report.

5.501 The interest payable on the outstanding loan amount is at an annual rate of 2.75 per cent, although a 2 year interest-free period applies. In addition, an annual ground lease payment of $300 000 is to be received for the core studio site, plus an initial security deposit of $150 000.

Execution of agreements

5.502 The State entered into a number of conditional agreements on 15 September 2002 with the developer to deliver the studio and the surrounding commercial development including:

- Loan Agreement;
- Studio Project Agreement;
- Studio Lease Agreement; and
- Commercial Cluster Agreement.

5.503 Key provisions of the above Agreements follow in Table 5A1.

TABLE 5A1
KEY PROVISIONS OF PROJECT AGREEMENTS

Agreement	*Key provisions*

Loan Agreement	The Loan Agreement sets out the State's objectives for the development and key terms and conditions relating to the State's loan. The State's objectives for this project, as outlined in the Agreement, are to:
	• increase Australian and international film and television production in Victoria;
	• create an accessible and competitive environment for Australian film and television productions in Victoria;
	• create a local film and television production industry with an internationally competitive capability; and
	• develop a film and television industry cluster on and around the studio complex.
	
	The Agreement also contains a number of key performance indicators to measure the achievement of the State's objectives over the 20 year term of the arrangements, including:
	• the delivery of a commercial and sustainable studio complex without recourse to any further funding from the State, that is beyond the existing loan amount of $31.5 million;
	• that the studio complex and any commercial development are designed, constructed and fitted in such a manner that they will be regarded as providing an integrated world class facility that provides for an expanded and more efficient and effective film and television production sector in Victoria;
	• that the studio complex is operated, managed and maintained in such a manner that it is regarded as providing a world class facility that provides for an expanded and more efficient and effective film and television production sector in Victoria;
	
	• by 2004-05, and each financial year thereafter:
	    • the sound stages will have an utilisation rate of at least 70 per cent; and
	    • the sound stages will service film and television productions having an additional production spend of at least $100 million per annum, as adjusted for CPI;
	• at least $25 million per annum, as adjusted for CPI, of the additional production spend serviced by the sound stages qualifies as Australian production; and
	• the bookings policy allows for open access by all potential hirers and is non-exclusive.
	
	Failure to achieve the key performance indicators is one of a number of possible default events, which if not remedied could enable the State to, among other things, terminate the arrangements. However, the Agreement also states that if there are any external factors, such as poor economic conditions or a general downturn in the Australian and/or global film and television industry which leads to such a default event, the State cannot terminate the Agreement.
	The process for monitoring the developer's performance against the key performance indicators had not been developed in detail at the date of preparation of this report.
	The Government, pursuant to the Agreement, has agreed to provide the developer with loan funding of $31.5 million at a low interest rate of 2.75 per cent. Interest starts to accrue, and becomes payable 2 years after construction completion (which is estimated to occur on 1 January 2006). Accordingly, a 2 year interest-free period applies.

TABLE 5A1
KEY PROVISIONS OF PROJECT AGREEMENTS - *continued*

Agreement	*Key provisions*

Loan Agreement *- continued*	Principal repayments on the State's $31.5 million loan are calculated at 20 per cent of the developer's earnings before interest, tax, depreciation and amortisation less interest payable under the Agreement. Based on the developer's projections the Department estimated that principal repayments totalling $23.7 million were expected over the 20 year term of the loan. However, the Department's financial advisor has stated that the estimated principal repayments have significant risk attached and may not be delivered at the levels forecast.
	The developer is also required under the Agreement to establish a Foundation for Industry Development and contribute at least $600 000 per annum from 2004-05.
	At the end of the 20 year term, the developer has the following options:
	• repay the outstanding loan principal amount, and either:
	    • purchase the studio site from the State (at an agreed and/or market value); or
	    • extend the site lease term for a further 10 years at the then current market rentals; or
	• Transfer ownership of the studio complex to the State for no consideration, with the developer not liable to make any further repayment of the loan facility.
	The Agreement also sets out the agreed terms related to early termination and other default events. If termination occurs during the construction phase, the developer forfeits any improvements to the State and is only liable to repay the outstanding loan amount after deducting the value of improvements. If termination occurs during the operational phase of the development, the State will be compensated for any losses, liabilities, costs and expenses and taxes incurred, or to be incurred by the State in connection with the termination event. These arrangements generally seek to place the State in the position (including financial position) it would have been in if the termination event had not occurred. It should be noted that the studio complex would not be a fully operational facility without incurring additional outgoings associated with the equipment leased by the developer.

Studio Project Agreement	The Studio Project Agreement governs the development of the core studio site. Some of the key aspects of the Agreement, which have not already been alluded to in this report, include: • the State will demolish and remove all of the existing improvements located on the site prior to the development of the studio complex occurring; • the developer must develop and document the design for the studio complex, and obtain the approval of the State to all design documents; • before entering into a building contract with the builder, the developer must obtain the written approval of the State to the terms and conditions of that building contract; and • the developer must provide a performance bond to the State equivalent to 9 per cent of the building contract sum until the date of practical completion.
Studio Lease Agreement	The Studio Lease Agreement provides for a 20 year ground lease for the 4 hectare studio site at an annual rent of $300 000, adjusted for CPI every 2 years.
Commercial Cluster Agreement	The Commercial Cluster Agreement governs the development of the commercial cluster supporting the studio complex. It is estimated that construction will commence on 30 June 2004 and the project will be completed by 30 September 2008. The Agreement provides that the developer will purchase the land in parcels or stages at $150 per square metre, adjusted for CPI.

Involvement of Swinburne University in the Commercial Cluster Development

5.504 In July 2002, Swinburne University and the developer entered into a Memorandum of Understanding in respect of certain of the commercial land. The Memorandum of Understanding envisages that Swinburne University will enter into a Stage Sale Contract to acquire the land contained within Stage 2 of the commercial cluster development, and to enter into a Stage Development Agreement in respect of that land.

5.505 It is contemplated that the University's involvement in this development would enable:

- establishment of a campus facility for educational purposes (including undergraduate and postgraduate programs) offering technical and technology education with an emphasis on digital multimedia, film and television and related production and performance, and compatible commercial uses;
- provision of infrastructure development works for a campus facility;
- education services, including curriculum development, consulting, library, administrative services; and
- commercial use including car parking, restaurants, bookshops, internet cafes, and theatres.

5.506 Under the proposed arrangements, Swinburne University will pay a deposit on behalf of the developer to the State to purchase land to facilitate the above development by the University. Once the proposal is approved and the State and the University have entered into a Stage Development Agreement and a Stage Sale Contract, Swinburne will be required to pay the residue associated with the purchase of the land to the State. Upon settlement of the State's Stage Sale Contract, it is proposed that Swinburne University will pay the developer a land development fee of $1 million on interest-free terms in instalments, over the period of construction of their development.

Overall conclusion

5.507 The State has financed through the provision of loan funding the private development and operation of a film and television studio complex at Docklands. The development arrangements require the developer to satisfy certain key performance indicators and requires the State to provide the developer with a minimum 20 year ground lease over the core studio site and the opportunity to progressively purchase certain land for related commercial development. Further, the arrangements provide that the developer may ultimately purchase the core studio site or return the site with any improvements to the State.

5.508 The total outlays by the State are estimated at $46.8 million in nominal terms which will be partly offset by proceeds received from the sale of certain land and loan principal repayments that are dependent upon the level of the developer's earnings. In addition, the State will receive annual ground lease payments for the core studio site and interest payments at a concessional rate on the outstanding loan amount after a 2 year interest-free period. The benefits for the Victorian economy for the first 5 years of operation of the studio complex have been independently estimated at $120 million to $160 million.

5.509 A probity advisor was appointed prior to the release of the expression of interest document, however the probity auditor was not appointed until after the close of expressions of interest. Best practice would require the appointment of a probity auditor at an earlier stage. Further, the probity advisor's involvement during the tendering phase did not extend to attending all meetings with tenderers.

5.510 The successful tenderer (assessed by the evaluation committees as the clearly leading tenderer during the tender evaluation phase) enjoyed additional opportunities to present and clarify their proposal before achieving preferred tenderer status and participated in protracted negotiations over almost 9 months with the Department, leading to new financing arrangements and design changes after achieving that status. The other tenderers were not given the same opportunities for additional presentations or to revise their tenders during that period.

5.511 The negotiations resulted in the final agreed arrangements, while acceptable to the State, departing in some respects from the tendering conditions, as set out in the request for tender, and/or the original tender submission. In this regard, the Department indicated that while there has been some diminution in terms of elements of the design, viability and commercial relationships, in their view this was more than offset by significantly higher committed equity investment, additional financial stability for the core studio, an increased overall investment in the studio complex, additional business development experience and that the final contracts provided for delivery of the State's objectives for the project.

***RESPONSE** provided by the Secretary, Department of Innovation, Industry and Regional Development*

IIRD considers that the report fails to accurately reflect the:

- *benefits of the project to the State;*
- *benefits that the State achieved through the project team delivery of the project within the Partnerships Victoria policy; and*
- *rigour of the EOI, RFT, selection, negotiation and contracting. processes.*

State benefits

The project delivers, for Victoria’s film and television industry, a state-of-the-art, internationally competitive studio complex that has long been the key infrastructure gap in the sector.

RESPONSE *provided by the Secretary, Department of Innovation, Industry and Regional Development - continued*

The facility will increase production spend by at least $100 million pa (over current levels of approximately $140 million pa), provide for an additional 1 000 film and television industry jobs for the State, and have a direct economic impact of up to $160 million in the first 5 years of operation (and an estimated ongoing direct economic impact of $39 million pa).

Benefits yielded by the Partnerships Victoria delivery

The State was prepared to allocate $40 million toward the achievement of the abovementioned outcomes. However, by putting the project to market in a Partnerships Victoria framework, the State was able to contract for the project outcomes for an estimated net present value cost of $23 million. Moreover, in doing so, the State was also able to pass all project risk to the private sector (bar some residual environmental risk associated with land that remains in government ownership). In other words, the negotiated project provides the State's outcomes at a significantly lower cost than originally budgeted.

The final negotiated project:

- *exceeded (from the State's perspective) the developer's original bid (a bid which, on a range of measures, clearly surpassed the other tenders);*
- *greatly exceeded, on a financial and risk allocation basis, a public build/operate project (as benchmarked by the public sector comparator);*
- *provides a contractual framework for effective delivery of the State's objectives and key performance indicators (KPIs); and*
- *provides ample protection for the State and the industry (and consequent risk for the developer/operator) in the event of failure to deliver objectives and KPIs.*

Rigour of the process

The project was carried out in accordance with the Government's Partnerships Victoria policy. This policy, the leading public-private partnership policy in Australia, governed the approach to market, the tender phase, the negotiating process and the decision to contract.

In accordance with this policy, a probity adviser was an active member of the project team from project commencement. Furthermore, at all critical stages (expressions of interest, tender evaluation and selection, and the negotiation process), an opinion from an independent probity auditor was sought and received on the process followed and the recommended decision.

In every instance, the probity auditor's opinion was that the procurement process was undertaken in accordance with Probity Policy and Guidelines and was defensible.

IIRD notes that the report identifies that the process took longer than expected from announcement of preferred tender to execution of contracts. The additional time reflects the rigour adopted by the project team in managing project delivery risk, for example: site environmental issues; planning issues; the efficacy of the developer's design and construction project; matters relating to project finance etc. In that context, IIRD notes that the actual construction of the core studio commenced almost contemporaneously with contract close.

***RESPONSE** provided by the Secretary, Department of Innovation, Industry and Regional Development - continued*

IIRD has the following specific comments on the Report:

(1) In the section titled "Tender evaluation process", at paragraph 5.473, the report states that "not all of the public servants associated with the project had provided conflict of interest declarations".

IIRD acknowledges that not all public servants associated with the project had provided conflict of interest declarations. Some public servants associated with the project declined to sign these declarations on the basis of advice from the Department of Treasury and Finance legal counsel to the effect that existing legislative provisions under the Public Sector Employment and Management Act 1988, the Code of Conduct for the Victorian Public Sector and the provisions of the standard senior executive contract adequately dealt with this issue.

(2) In the section titled "Financing and cost of the proposed development", in paragraph 5.481, the report states that:

> *"It was apparent, therefore, that shortly after the announcement of the preferred tenderer that there would be a significant shortfall in the funding of the estimated design and construction costs of the studio complex. This was despite a written commitment prior to their appointment as the preferred tenderer that they were confident that the core studio could be constructed for $31.5 million and that they would use their best endeavours to fund unforseen increases in core studio construction costs up to $35 million. Further, the preferred tenderer had successfully proposed several redesign initiatives as a means of reducing construction costs and/or improving outcomes for the State both prior to, and after it had sought the above tenders."*

IIRD considers that this paragraph does not identify IIRD's active management of project delivery risk.

IIRD was aware, prior to the appointment of the CCS consortia as preferred tenderer, that there was the potential for a funding shortfall between the loan amount and the cost to construct the bid design.

To manage this risk, IIRD sought a written commitment from each of the principals of the CCS consortia that, should their tender be nominated as preferred, they would use best endeavours to fully finance the design and construction contract for the core studio building works (excluding fitout and equipment).

IIRD also notes that the project is being delivered within the State's funding limit. CCS is only receiving $31.5 million in State finance toward the project. Other CCS finance is a suitable combination of private debt and equity contributions.

It is to the State's, the Project's and industry's benefit that the overall investment in the core studio far exceeds the State's contribution of $31.5 million.

***RESPONSE** provided by the Secretary, Department of Innovation, Industry and Regional Development - continued*

(3) In the section titled "Financing and cost of the proposed development", in paragraph 5.488, the report states in bold that:

> *"The other tenderers were not given the opportunity to revise their tender during this [negotiation] period."*

IIRD considers that this sentence of the report is, by implication, misleading. There was no requirement, at any point in the negotiation phase with the preferred tenderer, for the project team to invite the tenderers held in reserve to re-present their offer. Upon nomination of CCS as preferred tenderer, the State was free to negotiate exclusively with that bidder.

***Further, on 12 September 2002, the probity auditor concluded in his review of the outcome of contract negotiations that the process was properly conducted and that it was defensible for the State to contract with the preferred respondent**.*

IIRD notes, in this context, that the final negotiated project is superior, from the State's perspective, to CCS's tendered project. Given that this was the outcome of the negotiation process, according to the probity plan and probity advice, there was no requirement to test the final negotiated project against the projects of the tenderers held in reserve.

IIRD also considers that the opening sentence in paragraph 5.488 is both illogical and misleading, particularly in respect of the role and status of information sought from, and provided by, the project team's financial adviser. As part of the responsible management of a Partnerships project, over the course of the negotiation process, the project team continued to explore (and seek advice on) a range of options for the delivery of the project in the event that the negotiation process with the preferred tenderer could not be successfully concluded.

(4) In the section titled "Assessment of the Revised Offer", the report notes in paragraph 5.497 that:

> *"… the Department indicated that while there has been some diminution in terms of elements of the design, viability and commercial relationships, in their view this was more than offset by significantly higher committed equity investment, additional financial stability for the core studio, an increased overall investment in the studio complex, additional business development experience and that final contracts provided for delivery of the State's objectives for the project.*

This sentence does not accurately reflect the negotiated outcome. For example, while there may have been some diminution in some elements of the final design over what was understood to be in the tendered scheme, there were also design enhancements (for example, in the area of site utilisation). Overall, on this issue, IIRD considered that the final design at least matched (both in a performance sense and urban design) the tendered design.

As the report reflects, IIRD's view is that the final negotiated project is superior to the tendered project.

***RESPONSE** provided by the Secretary, Department of Innovation, Industry and Regional Development - continued*

*(5) In the section titled "Total estimated outlays by the State"**,** IIRD questions why table 5Z only identifies the outlays by the State yet the text in paragraphs 5.500 and 5.501 refers to the returns to the State that (in part) offset these outlays.*

IIRD considers that the financial returns to the State (i.e. proceeds from sale of commercial cluster land, loan repayments, interest payments and ground lease payments) should also be reflected in tabular form.

Further, IIRD considers that the table attempting to summarise the cost of the project is meaningless in a financial sense. For example the table:

- *totals, without adjustment, costs in future dollars with present day dollars;*
- *includes contingent costs (ground water remediation – a cost which may never be realised) and "round-about" payments to the State that net out (land tax);*
- *includes the interim studio – which is a separate project; and*
- *includes administration costs – which are not unique to this form of project delivery.*

However, should the Auditor-General wish to incorporate a table in this form in the report, including outlays and receipts over the 20 year project term, the table should appear as follows:

Item	*Outlay/receipt*
	($m)
Loan funding	$31.5
Land purchase (inc. infrastructure contributions)	$8.7
Total outlays	$40.2
Ground lease receipts	$6.0
Interest payments	$11.2
Capital payments (inc receipts from sale of land)	$26.7
Total receipts	$43.9
Net State surplus	$3.7

IIRD considers that the most meaningful estimate cost of the project outcomes is KPMG's estimate of the net cost to the State of the core project – which is approximately $23 million (in present day dollars). Further, IIRD notes that KPMG estimated the benefit of the project over the public sector comparator at $20.6 million (in present day dollars).

(6) In Table 5A1 titled "Key provisions of project agreements", in the third paragraph of the Loan Agreement section, the text suggests the State cannot terminate the agreements if external factors lead to a default event. IIRD notes that the State decides whether or not a default event is caused by external factors – not the developer or any third party.

***RESPONSE** provided by the Secretary, Department of Innovation, Industry and Regional Development - continued*

(7) In Table 5A1, titled "Key provisions of project agreements", in the last paragraph of the Loan Agreement section, the statement (to the effect that) in the event of termination the facility that reverts to the State would not be a fully operational facility is factually incorrect. If the State terminates the ground lease and takes back the facility, for example for CCS failure to deliver State objectives and KPIs, the contracts provide for the State to resume a fully operational facility.

*(8) In paragraph 5.508 in the section titled "Overall conclusion"**,** IIRD refers to the comments made above in item (5) (to the effect that the estimated total outlays figure of $46.8 million is meaningless and misrepresentative).*

(9) IIRD does not understand the conclusion that is intended from paragraph 5.510 in the section titled "Overall conclusion". ***For the avoidance of any doubt, IIRD again notes (and considers that the report should state in this section) that the probity auditor reviewed and formally endorsed the:***

- ***expression of interest process and outcome;***
- ***tender process and outcome; and***
- ***negotiation process and outcome.***

Further, IIRD considers that the negotiating process resulted in a better project for the State than the tendered project in terms of elements such as:

- *risk allocation;*
- *protection for the delivery of State objectives and KPIs;*
- *project viability;*
- *certainty around compliance with statutory requirements (e.g. environmental and planning approvals); and*
- *efficacy of the construction project.*

Appendix A

Status of audits with 30 June 2002 balance dates

General government

EDUCATION, EMPLOYMENT AND TRAINING

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Department of Education and Training	23 Sept. 2002	✓	11 Oct. 2002
EDUCATION			
Adult, Community and Further Education Board	20 Sept. 2002	✓	24 Sept. 2002
Victorian Curriculum and Assessment Authority	1 Oct. 2002	✓	4 Oct. 2002
Victorian Learning and Employment Skills Commission	23 Sept. 2002	✓	23 Sept. 2002
Victorian Qualifications Authority	25 Sept. 2002	✓	30 Sept. 2002
COMPLETED AUDITS – WITH OTHER BALANCE DATES *(b)*			
Angliss Consulting Pty Ltd	8 July 2002	✓	30 July 2002
Deakin Prime (USA)	10 April 2002	✓	21 June 2002
Monash Commercial Pty Ltd	16 April 2002	✓	3 May 2002
Monash Learningfast Pty Ltd	28 June 2002	✓	15 July 2002
Telematics Course Development Fund	30 May 2002	✓	30 May 2002
INCOMPLETE AUDITS – AS AT 7 FEBRUARY 2003			
Copyrat Pty Ltd *(a)* (period 1 January 2001 to 16 October 2001)	*Financial statements, covering period up to change in ownership, not prepared.*		
Maccine Pty Ltd *(a)* (period 1 January 2001 to 30 November 2001)	"	"	"
RMIT International University Vietnam (RIUV) *(b)*	*Audited financial statements yet to be finalised.*		
RMIT (Malaysia) SDN BHD *(b)*	"	"	"
Victoria University International Pty Ltd *(c)*	"	"	"
Victorian Tertiary Admissions Centre *(d)*	"	"	"

(a) Majority shareholdings changed during financial year and as a consequence no longer controlled by the relevant university.

(b) Financial statement with 31 December 2001 balance date.

(c) Financial statements with 31 December 1998, 1999, 2000 and 2001 balance dates.

(d) Financial statement with 30 June 2002 balance date.

HUMAN SERVICES

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Department of Human Services	10 Oct. 2002	✓	10 Oct. 2002
HEALTH			
Alexandra and District Ambulance Service	4 Oct. 2002	✓	4 Oct. 2002
Ambulance Service Victoria - Metropolitan Region	19 Sept. 2002	✓	23 Sept. 2002
Chinese Medicine Registration Board of Victoria	28 Aug. 2002	✓	28 Aug. 2002
Chiropractors Registration Board of Victoria	29 Aug. 2002	✓	29 Aug. 2002
Dental Practice Board of Victoria	4 Nov. 2002	✓	8 Nov. 2002
Health Purchasing Victoria	4 Oct. 2002	✓	4 Oct. 2002
Infertility Treatment Authority	17 Sept. 2002	✓	17 Sept. 2002
Mental Health Review Board	3 Sept. 2002	✓	3 Sept. 2002
Nurses Board of Victoria	16 Sept. 2002	✓	18 Sept. 2002
Optometrists Registration Board of Victoria	21 Oct. 2002	✓	25 Oct. 2002
Osteopaths Registration Board of Victoria	5 Aug. 2002	✓	22 Aug. 2002
Pharmacy Board of Victoria	23 Sept. 2002	✓	23 Sept. 2002
Physiotherapists Registration Board of Victoria	24 July 2002	✓	8 Aug. 2002
Podiatrists Registration Board of Victoria	13 Aug. 2002	✓	27 Aug. 2002
Psychosurgery Review Board	28 Aug. 2002	✓	3 Sept. 2002
Rural Ambulance Victoria	23 Aug. 2002	✓	16 Sept. 2002
Victorian Health Promotion Foundation	26 Sept. 2002	✓	2 Oct. 2002
Victorian Institute of Forensic Mental Health	25 Sept. 2002	✓	27 Sept. 2002
PUBLIC HOSPITALS AND ASSOCIATED ENTITIES			
Alexandra District Hospital	26 Sept. 2002	✓	30 Sept. 2002
Alpine Health	17 Sept. 2002	✓	23 Sept. 2002
Austin and Repatriation Medical Centre	24 Sept. 2002	✓	30 Sept. 2002
Bairnsdale Regional Health Service	30 Sept. 2002	✓	4 Oct. 2002
Ballarat Health Services	31 Aug. 2002	✓	20 Sept. 2002
Barwon Health	24 Sept. 2002	✓	26 Sept. 2002
Bayside Health	26 Aug. 2002	✓	2 Sept. 2002
Beaufort and Skipton Health Service	2 Oct. 2002	✓	4 Oct. 2002
Beechworth Hospital	25 Sept. 2002	✓	30 Sept. 2002
Benalla and District Memorial Hospital	30 Sept. 2002	✓	2 Oct. 2002
Bendigo Health Care Group	26 Sept. 2002	✓	30 Sept. 2002

HUMAN SERVICES - *continued*

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Bethlehem Health Care	30 Aug. 2002	✓	24 Sept. 2002
Boort District Hospital	4 Sept. 2002	✓	30 Sept. 2002
Caritas Christi Hospice Limited	30 Aug. 2002	✓	3 Sept. 2002
Casterton Memorial Hospital	12 Sept. 2002	✓	16 Sept. 2002
Central Gippsland Health Service	2 Oct. 2002	✓	4 Oct. 2002
Cobram District Hospital	26 Sept. 2002	✓	27 Sept. 2002
Cohuna District Hospital	20 Sept. 2002	Qualified	25 Sept. 2002
Reason for qualification: *Failure to consolidate a "controlled" entity.*			
Colac Area Health	24 Sept. 2002	✓	27 Sept. 2002
Coleraine District Health Services	6 Sept. 2002	✓	12 Sept. 2002
Dental Health Services Victoria	16 Sept. 2002	✓	17 Sept. 2002
Djerriwarrh Health Services	20 Sept. 2002	✓	24 Sept. 2002
Dunmunkle Health Services	30 Sept. 2002	✓	15 Oct. 2002
East Grampians Health Service	29 Oct. 2002	✓	30 Oct. 2002
East Wimmera Health Service	7 Nov. 2002	✓	14 Nov. 2002
Eastern Health	3 Sept. 2002	✓	4 Oct. 2002
Echuca Regional Health	6 Sept. 2002	✓	20 Sept. 2002
Edenhope and District Memorial Hospital	30 Sept. 2002	✓	30 Sept. 2002
Gippsland Southern Health Service	9 Sept. 2002	✓	11 Sept. 2002
Goulburn Valley Health	27 Sept. 2002	✓	27 Sept. 2002
Hepburn Health Service	26 Sept. 2002	✓	2 Oct. 2002
Hesse Rural Health Service	1 Oct. 2002	✓	10 Oct. 2002
Heywood Rural Health	19 Sept. 2002	✓	3 Oct. 2002
Inglewood and Districts Health Service	18 Sept. 2002	✓	26 Sept. 2002
Kerang and District Hospital	13 Sept. 2002	✓	19 Sept. 2002
Kilmore and District Hospital	13 Aug. 2002	✓	11 Sept. 2002
Kitaya Holdings Pty Ltd	17 Sept. 2002	✓	23 Sept. 2002
Kooweerup Regional Health Service	6 Sept. 2002	✓	11 Sept. 2002

HUMAN SERVICES - *continued*

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Kyabram and District Memorial Community Hospital	26 Sept. 2002	✓	30 Sept. 2002
Kyneton District Health Service	23 Sept. 2002	Qualified	1 Oct. 2002
***Reason for qualification**: Failure to revalue non current physical assets.*			
Latrobe Regional Hospital	17 Oct. 2002	✓	24 Oct. 2002
Lorne Community Hospital	26 Sept. 2002	✓	30 Sept. 2002
Maldon Hospital	30 Sept. 2002	✓	11 Oct. 2002
Mallee Track Health and Community Service	9 Oct. 2002	✓	11 Oct. 2002
Manangatang and District Hospital	7 Oct. 2002	✓	10 Oct. 2002
Mansfield District Hospital	30 Sept. 2002	✓	2 Oct. 2002
Maryborough District Health Service	18 Sept. 2002	✓	20 Sept. 2002
McIvor Health and Community Services	4 Sept. 2002	✓	20 Sept. 2002
Melbourne Health	18 Oct. 2002	✓	24 Oct. 2002
Mercy Public Hospitals Inc.	4 Oct. 2002	Qualified	8 Oct. 2002
***Reason for qualification**: Failure to consolidate a controlled entity.*			
Moyne Health Services	19 Sept. 2002	✓	23 Sept. 2002
Mt Alexander Hospital	30 Sept. 2002	✓	2 Oct. 2002
Nathalia District Hospital	24 Sept. 2002	✓	26 Sept. 2002
Northern Health	3 Oct. 2002	✓	9 Oct. 2002
Numurkah District Health Service	21 Aug. 2002	✓	30 Sept. 2002
O'Connell Family Centre (Grey Sisters) Inc.	4 Oct. 2002	✓	8 Oct. 2002
Omeo District Hospital	4 Dec. 2002	Qualified	10 Dec. 2002
***Reason for qualification**: Inappropriate disclosure of non-reciprocal grants.*			
Orbost Regional Health *(a)*	18 Nov. 2002	Qualified	27 Nov. 2002
***Reason for qualification:** Inappropriate disclosure of non-reciprocal grants.*			
Otway Health and Community Services	30 Sept. 2002	✓	4 Oct. 2002
Peninsula Health	17 Sept. 2002	✓	20 Sept. 2002
Peter MacCallum Cancer Institute	21 Aug. 2002	✓	28 Aug. 2002
Portland and District Hospital	12 Sept. 2002	✓	24 Sept. 2002
Queen Elizabeth Centre	9 Sept. 2002	Qualified	16 Sept. 2002
***Reason for qualification:** Failure to consolidate a "controlled" entity.*			
Robinvale District Health Services	27 Sept. 2002	✓	2 Oct. 2002
Rochester and Elmore District Health Service	24 Sept. 2002	✓	27 Sept. 2002
Royal Victorian Eye and Ear Hospital	5 Sept. 2002	✓	9 Sept. 2002
Seymour District Memorial Hospital	23 Sept. 2002	✓	25 Sept. 2002

HUMAN SERVICES - *continued*

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
South Gippsland Hospital	10 Sept. 2002	✓	17 Sept. 2002
South West Health Care	6 Sept. 2002	✓	10 Sept. 2002
Southern Health	17 Sept. 2002	✓	23 Sept. 2002
St Georges Health Service Limited	30 Aug. 2002	✓	3 Sept. 2002
St Vincent's Hospital (Melbourne) Limited	30 Aug. 2002	Qualified	3 Sept. 2002
Reason for qualification: *Inappropriate recognition of certain debtors.*			
Stawell Regional Health	30 Sept. 2002	✓	15 Oct. 2002
Swan Hill District Hospital	18 Sept. 2002	✓	20 Sept. 2002
Tallangatta Health Service	11 Sept. 2002	✓	3 Oct. 2002
Terang and Mortlake Health Service	16 Sept. 2002	✓	18 Sept. 2002
Timboon and District Healthcare Service	5 Sept. 2002	✓	10 Sept. 2002
Tweddle Child and Family Health Service	12 Sept. 2002	✓	16 Sept. 2002
Upper Murray Health and Community Services	26 Sept. 2002	✓	2 Oct. 2002
Wangaratta District Base Hospital	30 Sept. 2002	Qualified	11 Oct. 2002
Reason for qualification: *Inappropriate disclosure of non-reciprocal grants .*			
Western District Health Service	5 Sept. 2002	✓	9 Sept. 2002
West Gippsland Healthcare Group	12 Sept. 2002	✓	20 Sept. 2002
Western Health	30 Sept. 2002	✓	2 Oct. 2002
West Wimmera Health Service	11 Nov. 2002	✓	19 Nov. 2002
Wimmera Health Care Group	30 Sept. 2002	✓	16 Oct. 2002
Wodonga Regional Health Service	5 Sept. 2002	Qualified	23 Sept. 2002
Reason for qualification: *Inappropriate disclosure of non-reciprocal grants.*			
Women's and Children's Health	12 Sept. 2002	✓	20 Sept. 2002
Wonthaggi and District Hospital	6 Sept. 2002	✓	10 Sept. 2002
Yarram and District Health Service	24 Sept. 2002	✓	2 Oct. 2002
Yarrawonga District Health Service	24 Sept. 2002	✓	15 Oct. 2002
Yea and District Memorial Hospital	24 Sept. 2002	✓	26 Sept. 2002

HUMAN SERVICES - *continued*

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
Mildura Cemetery Trust (financial year ended 31 Dec. 2001)	9 April 2002	✓	23 April 2002
Mildura Base Hospital (financial year ended 30 June 2001)	9 Aug. 2002	✓	21 Aug. 2002
Templestowe Cemetery Trust (financial year ended 31 Dec. 2001)	23 May 2002	✓	3 June 2002
Trustees of the Fawkner Crematorium and Memorial Park (financial year ended 31 Dec. 2001)	3 Oct. 2002	Qualified	7 Oct. 2002
***Reason for qualification**: Value assigned to asset land is understated in the Statement of Financial Position.*			
Trustees of the Lilydale Memorial Park and Cemetery (financial year ended 31 Dec. 2001)	24 May 2002	✓	3 June 2002
INCOMPLETE AUDITS – AS AT 7 FEBRUARY 2003 *(b)*			
Mildura Base Hospital	*Audited financial statements yet to be finalised.*		
Rural North West Health	"	"	"

(a) Formerly Far East Gippsland Health and Support Service.

(b) Financial statements with 30 June 2002 balance dates.

INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Department of Innovation, Industry and Regional Development	8 Oct. 2002	✓	11 Oct. 2002
Overseas Projects Corporation of Victoria Ltd	24 Sept. 2002	✓	11 Oct. 2002
Victorian Medical Consortium Pty Ltd	23 Sept. 2002	✓	24 Oct. 2002

INFRASTRUCTURE

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Department of Infrastructure	15 Oct. 2002	✓	15 Oct. 2002
TRANSPORT			
Public Transport Corporation	13 Sept. 2002	✓	13 Sept. 2002
Roads Corporation	20 Sept. 2002	✓	20 Sept. 2002
Spencer Street Station Authority	27 Sept. 2002	✓	30 Sept. 2002
Victorian Rail Track	26 Sept. 2002	✓	27 Sept. 2002
MAJOR PROJECTS			
Docklands Authority	11 Oct. 2002	Qualified	11 Oct. 2002
Reason for qualification: *Refer to Part 3 of this report*			
Federation Square Management Pty Ltd	25 Oct. 2002	✓	31 Oct. 2002
PORTS			
Marine Board of Victoria	10 Sept. 2002	✓	18 Sept. 2002
Hastings Port (Holding) Corporation	17 Sept. 2002	✓	25 Sept. 2002
Melbourne Port Corporation	2 Sept. 2002	✓	12 Sept. 2002
Victorian Channels Authority	19 Sept. 2002	✓	19 Sept. 2002
PLANNING			
Architects Registration Board of Victoria	13 Aug. 2002	✓	3 Sept. 2002
Building Commission	21 Aug. 2002	✓	21 Aug. 2002
Heritage Council	20 Sept. 2002	✓	23 Sept. 2002
Plumbing Industry Commission	24 Sept. 2002	✓	25 Sept. 2002
ULC Real Estate Services Pty Ltd	28 Aug. 2002	✓	6 Sept. 2002
Urban and Regional Land Corporation	28 Aug. 2002	✓	6 Sept. 2002
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
Melbourne City Link Authority (period ended 28 Feb.2002) *(a)*	9 Oct. 2002	✓	10 Oct. 2002

(a) The Melbourne City Link Authority ceased to operate on 28 February 2002. The responsibilities of the former Authority have been assigned to the Office of Director Melbourne City Link within the Department of Infrastructure.

JUSTICE

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Department of Justice	20 Sept. 2002	✓	30 Sept. 2002
ATTORNEY-GENERAL			
Equal Opportunity Commission	16 Sept. 2002	✓	19 Sept. 2002
Legal Practice Board	16 Sept. 2002	✓	16 Sept. 2002
Legal Practitioners Liability Committee	2 Oct. 2002	✓	4 Oct. 2002
Office of Public Prosecutions	26 Sept. 2002	✓	26 Sept. 2002
Office of the Legal Ombudsman	5 Sept. 2002	✓	6 Sept. 2002
Office of the Public Advocate	2 Sept. 2002	✓	16 Sept. 2002
Office of the Victorian Privacy Commissioner	20 Sept. 2002	✓	26 Sept. 2002
Queen Victoria Women's Centre Trust	9 Sept. 2002	✓	10 Sept. 2002
Senior Master of the Supreme Court *(a)*	26 Aug. 2002	✓	28 Aug. 2002
Victoria Legal Aid	21 Aug. 2002	✓	22 Aug. 2002
Victorian Electoral Commission	13 Sept. 2002	✓	17 Sept. 2002
Victorian Institute of Forensic Medicine	29 Oct. 2002	✓	29 Oct. 2002
Victorian Law Reform Commission	19 Sept. 2002	✓	20 Sept. 2002
POLICE AND EMERGENCY SERVICES			
Country Fire Authority	23 Sept. 2002	✓	23 Sept. 2002
Metropolitan Fire and Emergency Services Board	23 Sept. 2002	Qualified	23 Sept. 2002
Reason for qualification: *Inappropriate disclosure of non-reciprocal grants.*			
National Institute of Forensic Science *(a)*	22 Aug. 2002	✓	12 Sept. 2002
National Police Ethnic Advisory Bureau	10 Sept. 2002	✓	12 Sept. 2002
Office of the Chief Commissioner of Police	26 Sept. 2002	✓	27 Sept. 2002
CONSUMER AFFAIRS			
Domestic Building (HIH) Indemnity Fund	25 Oct. 2002	✓	28 Oct. 2002
Residential Tenancies Bond Authority	3 Oct. 2002	✓	3 Oct. 2002

(a) In the absence of a statutory requirement for the audit of these financial statements they are audited by arrangement.

NATURAL RESOURCES AND ENVIRONMENT

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Department of Natural Resources and Environment	23 Sept. 2002	✓	23 Sept. 2002
AGRICULTURE			
Agriculture Victoria Services Pty Ltd	30 Sept. 2002	✓	9 Oct. 2002
Australian Food Industry Science Centre	17 Oct. 2002	✓	24 Oct. 2002
Dairy Food Safety Victoria	25 Sept. 2002	✓	15 Oct. 2002
Food Science Australia	17 Oct. 2002	✓	24 Oct. 2002
Greater Victoria Wine Grape Industry Development Committee	17 Oct. 2002	✓	31 Oct. 2002
Melbourne Market Authority	14 Nov. 2002	✓	14 Nov. 2002
Murray Valley Wine Grape Industry Development Committee	30 Sept. 2002	✓	30 Sept. 2002
Northern Victorian Fresh Tomato Industry Development Committee	6 Dec. 2002	✓	19 Dec. 2002
Phytogene Pty Ltd	30 Sept. 2002	✓	9 Oct. 2002
Victorian Meat Authority	16 Aug. 2002	✓	22 Aug. 2002
ENERGY AND RESOURCES			
Office of Gas Safety	13 Aug. 2002	✓	16 Aug. 2002
Office of Chief Electrical Inspector	2 Sept. 2002	✓	4 Sept. 2002
Sustainable Energy Authority Victoria	30 Sept. 2002	✓	30 Sept. 2002
ENVIRONMENT AND CONSERVATION			
Alpine Resort Co-ordinating Council	19 Sept. 2002	✓	23 Sept. 2002
Barwon Regional Waste Management Group	13 Sept. 2002	✓	23 Sept. 2002
Barwon Region Water Authority	21 Aug. 2002	✓	11 Oct. 2002
Calder Regional Waste Management Group	19 Sept. 2002	✓	25 Sept. 2002
Casey's Weir and Major Creek Rural Water Authority	27 Aug. 2002	✓	9 Sept. 2002
Audit report contained an "emphasis of matter" comment: *There was an inherent uncertainty as to whether the authority would continue to exist as a separate entity.*			
Central Gippsland Region Water Authority	29 Aug. 2002	✓	10 Sept. 2002
Central Highlands Region Timber Pty Ltd	17 Sept. 2002	✓	20 Sept. 2002
Central Highlands Region Water Authority	17 Sept. 2002	Qualified	20 Sept. 2002
Reason for qualification: *Gain associated with recognition of assets for first time inappropriately treated as an increment to the asset revaluation reserve.*			
Central Murray Regional Waste Management Group	8 Aug. 2002	✓	12 Aug. 2002
City West Water Ltd	27 Aug. 2002	✓	27 Aug. 2002
Coliban Region Water Authority	25 Sept. 2002	✓	26 Sept. 2002

NATURAL RESOURCES AND ENVIRONMENT - *continued*

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Corangamite Catchment Management Authority	13 Sept. 2002	✓	19 Sept. 2002
Desert Fringe Regional Waste Management Group	4 Sept. 2002	✓	23 Sept. 2002
Eastern Regional Waste Management Group	20 Sept. 2002	✓	26 Sept. 2002
East Gippsland Catchment Management Authority	30 Sept. 2002	✓	30 Sept. 2002
East Gippsland Region Water Authority	24 Sept. 2002	✓	30 Sept. 2002
Eco Recycle Victoria	15 Aug. 2002	✓	21 Aug. 2002
Environment Protection Authority	23 Sept. 2002	✓	23 Sept. 2002
Gippsland and Southern Rural Water Authority	27 Sept. 2002	✓	30 Sept. 2002
Gippsland Regional Waste Management Group	30 Sept. 2002	✓	3 Oct. 2002
Glenelg Region Water Authority	24 Sept. 2002	✓	27 Sept. 2002
Glenelg-Hopkins Catchment Management Authority	18 Sept. 2002	✓	23 Sept. 2002
Goulburn Broken Catchment Management Authority	26 Sept. 2002	Qualified	3 Oct. 2002
Reason for qualification : *Non-compliance with Accounting & Financial Reporting Bulletin 40 "Establishment of Opening Balances and Formal Designation for Contributed Capital" for the financial year ended 30 June 2002.*			
Goulburn-Murray Rural Water Authority	20 Sept. 2002	✓	26 Sept. 2002
Goulburn Valley Region Water Authority	26 Sept. 2002	Qualified	15 Oct. 2002
Reason for qualification : *Non-compliance with Accounting & Financial Reporting Bulletin 40, "Establishment of Opening Balances and Formal Designation for Contributed Capital" for the financial year ended 30 June 2002.*			
Goulburn Valley Regional Waste Management Group	10 Oct. 2002	✓	14 Oct. 2002
Grampians Region Water Authority	23 Sept. 2002	✓	27 Sept. 2002
Grampians Regional Waste Management Group	18 Sept. 2002	✓	23 Sept. 2002
Highland Regional Waste Management Group	17 Sept. 2002	✓	26 Sept. 2002
Lower Murray Region Water Authority	2 Oct. 2002	✓	4 Oct. 2002
Mallee Catchment Management Authority	10 Sept. 2002	✓	17 Sept. 2002
Melbourne Water Corporation	16 Aug. 2002	✓	16 Aug. 2002
Mildura Regional Waste Management Group	19 Sept. 2002	✓	30 Sept. 2002
Mornington Peninsula Regional Waste Management Group	17 Sept. 2002	✓	19 Sept. 2002
Murray Valley Citrus Marketing Board	30 Oct. 2002	✓	1 Nov.2002
North Central Catchment Management Authority	12 Sept. 2002	✓	20 Sept. 2002
North East Catchment Management Authority	2 Oct. 2002	✓	3 Oct. 2002
North East Region Water Authority	30 Sept. 2002	✓	5 Oct. 2002

NATURAL RESOURCES AND ENVIRONMENT - *continued*

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
North East Victorian Regional Waste Management Group	1 Oct. 2002	✓	3 Oct. 2002
Northern Regional Waste Management Group	19 Sept. 2002	✓	24 Sept. 2002
Parks Victoria	23 Aug. 2002	✓	23 Aug. 2002
Phillip Island Nature Park Board of Management	1 Nov. 2002	✓	6 Nov. 2002
Portland Coast Region Water Authority	6 Sept. 2002	✓	13 Sept. 2002
Royal Botanic Gardens Board	4 Sept. 2002	✓	9 Sept. 2002
Shrine of Remembrance Trustees	21 Oct. 2002	✓	24 Oct. 2002
South East Water Limited	26 Aug. 2002	✓	26 Aug. 2002
South Eastern Regional Waste Management Group	13 Sept. 2002	✓	26 Sept. 2002
South Gippsland Region Water Authority	27 Sept. 2002	✓	1 Oct. 2002
South West Water Authority	16 Sept. 2002	✓	20 Sept. 2002
South Western Regional Waste Management Group	20 Aug. 2002	✓	23 Sept. 2002
Special Power Payments Trust Fund	23 Sept. 2002	✓	25 Sept. 2002
Sunraysia Rural Water Authority	3 Oct. 2002	✓	14 Oct. 2002
Surveyors Board of Victoria	15 Nov. 2002	✓	25 Nov. 2002
Trust for Nature (Victoria)	24 Sept. 2002	✓	25 Sept. 2002
Victorian Energy Networks Corporation	30 Aug. 2002	✓	16 Sept. 2002
Victorian Plantations Corporation	25 Oct. 2002	✓	25 Oct. 2002
Victorian Strawberry Industry Development Committee	24 Sept. 2002	✓	24 Sept. 2002
West Gippsland Catchment Management Authority	1 Oct. 2002	✓	2 Oct. 2002
Western Region Water Authority	25 Sept. 2002	✓	30 Sept. 2002
Western Regional Waste Management Group	16 Aug. 2002	✓	13 Sept. 2002
Westernport Region Water Authority	30 Sept. 2002	✓	2 Oct. 2002
Wimmera Catchment Management Authority	17 Sept. 2002	✓	19 Sept. 2002
Wimmera Mallee Rural Water Authority	11 Sept. 2002	✓	23 Sept. 2002
Yarra Bend Park Trust	25 Sept. 2002	✓	25 Sept. 2002
Yarra Valley Water Limited	21 Aug. 2002	✓	21 Aug. 2002
Zoological Parks and Gardens Board	12 Sept. 2002	✓	16 Sept. 2002

NATURAL RESOURCES AND ENVIRONMENT - *continued*

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
Food Quality Services Pty Ltd *(a)* (period ended 18 October 1999)	18 April 2002	✓	18 April 2002
Falls Creek Alpine Resort Management Board (financial year ended 31 October 2001)	8 Aug. 2002	✓	14 Aug. 2002
Mount Baw Baw Alpine Resort Management Board (financial year ended 31 October 2001)	27 July 2002	✓	30 July 2002
Mount Hotham Alpine Resort Management Board (financial year ended 31 October 2001)	24 July 2002	✓	30 July 2002
Water Training Centre (financial year ended 30 June 2001) – final audit	18 June 2002	✓	18 June 2002
INCOMPLETE AUDITS – AS AT 7 FEBRUARY 2003			
First Mildura Irrigation Trust *(b)*	*Audited financial statements yet to be finalised.*		
Victorian Dairy Industry Authority *(c)* (period 1 July 2000 to 29 Sept. 2000)	"	"	"

(a) Food Quality Services Pty Ltd ceased to be a wholly-owned controlled entity of Victorian Dairy Industry Authority on 18 October 1999.

(b) Financial statements with 30 June 2002 balance dates.

(c) Victorian Dairy Industry Authority ceased operation on 29 September 2000.

PREMIER AND CABINET

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Department of Premier and Cabinet	7 Oct. 2002	✓	16 Oct. 2002
ARTS			
Council of Trustees of the National Gallery of Victoria	24 Oct. 2002	✓	30 Oct. 2002
Geelong Performing Arts Centre Trust	20 Sept. 2002	✓	25 Sept. 2002
Library Board of Victoria	4 Sept. 2002	Qualified	17 Sept. 2002
Reason for qualification: *Non-compliance with Victorian Government Policy – Revaluation of Non-Current Physical Assets, which requires assets that have not been revalued within the past 5 years to be revalued for the 30 June reporting period.*			
Museums Board of Victoria	16 Sept. 2002	✓	18 Sept. 2002
State Library of Victoria Foundation	4 Sept. 2002	✓	17 Sept. 2002
Victorian Arts Centre Trust	10 Oct. 2002	✓	18 Oct. 2002
MULTICULTURAL AFFAIRS			
VITS Languagelink *(a)*	26 Aug. 2002	✓	3 Sept. 2002
PREMIER			
Office of the Ombudsman	11 Sept. 2002	✓	13 Sept. 2002
Office of Public Employment	19 Sept. 2002	✓	20 Sept. 2002
Victorian Relief Committee	24 Oct. 2002	✓	24 Oct. 2002

INCOMPLETE AUDITS – AS AT 7 FEBRUARY 2003 *(b)*			
Australian Centre for the Moving Image	*Audited financial statements yet to be finalised.*		
Film Victoria	"	"	"

(a) Formerly known as Victorian Interpreting and Translating Service.
(b) Financial statements with 30 June 2002 balance dates.

TOURISM, SPORT AND THE COMMONWEALTH GAMES

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Department of Tourism, Sport and the Commonwealth Games	14 Oct. 2002	✓	14 Oct. 2002
TOURISM			
Australian Grand Prix Corporation	20 Sept. 2002	✓	24 Sept. 2002
Emerald Tourist Railway Board	4 Sept. 2002	✓	26 Sept. 2002
Melbourne Convention and Exhibition Trust	31 Aug. 2002	✓	30 Sept. 2002
Tourism Victoria	23 Sept. 2002	✓	27 Sept. 2002
RACING			
Greyhound Racing Control Board	24 Sept. 2002	✓	25 Sept. 2002
Harness Racing Board	10 Sept. 2002	✓	12 Sept. 2002
SPORT AND RECREATION			
Melbourne and Olympic Parks Trust	29 Aug. 2002	Qualified	5 Sept. 2002
Reason for qualification *Incorrect recognition of an expense and an associated liability.*			
State Sport Centres Trust	27 Sept. 2002	✓	30 Sept. 2002
Melbourne 2006 Commonwealth Games Pty Ltd	30 Aug. 2002	✓	30 Aug. 2002
Victorian Institute of Sport Ltd	21 Aug. 2002	✓	28 Aug. 2002
Victorian Institute of Sport Trust	21 Aug. 2002	✓	28 Aug. 2002

INCOMPLETE AUDITS – AS AT 7 FEBRUARY 2003	
Melbourne 2002 World Masters Games Limited *(a)*	*Audited financial statements yet to be finalised.*

(a) Financial statement with 30 June 2002 balance date.

TREASURY AND FINANCE

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
Department of Treasury and Finance	9 Oct. 2002	✓	15 Oct. 2002
FINANCE			
Emergency Services Superannuation Scheme	30 Aug. 2002	✓	30 Aug. 2002
Government Superannuation Office	26 Sept. 2002	✓	26 Sept. 2002
Parliamentary Contributory Superannuation Fund	9 Oct. 2002	✓	10 Oct. 2002
Essential Services Commission *(a)*	18 Sept. 2002	✓	19 Sept. 2002
State Superannuation Fund	26 Sept. 2002	✓	26 Sept. 2002
Victorian Managed Insurance Authority	27 Aug. 2002	✓	2 Sept. 2002
GAMING			
Footy Consortium Pty Ltd	24 Oct. 2002	✓	28 Oct. 2002
Gambling Research Panel	26 Sept. 2002	✓	3 Oct. 2002
Tattersall's Club Keno Pty Ltd	24 Oct. 2002	✓	28 Oct. 2002
Tattersall's Gaming Pty Ltd	24 Oct. 2002	✓	28 Oct. 2002
Tattersall's Sweeps Pty Ltd	24 Oct. 2002	✓	28 Oct. 2002
Victorian Casino and Gaming Authority	28 Aug. 2002	✓	29 Aug. 2002
TREASURER			
Gas Release Co. Pty Ltd	21 Aug. 2002	✓	21 Aug. 2002
Gas Transmission Corporation	21 Aug. 2002	✓	21 Aug. 2002
Gascor Holdings No. 1 Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor Holdings No. 2 Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor Holdings No. 3 Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor EPL Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor IEPL Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor KEPL Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor MAPL Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor MGPL Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor Pty Ltd	21 Aug. 2002	✓	21 Aug. 2002
Gascor SAPL Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor SNPL Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor (T No.1) Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002

TREASURY AND FINANCE - *continued*

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
TREASURER			
Gascor (TH) Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor WAPL Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Gascor WPL Pty Ltd *(b)*	21 Aug. 2002	✓	21 Aug. 2002
Industry Supervision Fund	9 Sept. 2002	✓	19 Sept. 2002
Land Aggregation Program Trust Fund	7 Aug. 2002	✓	7 Aug. 2002
Latrobe Regional Hospital Pty Ltd	7 Oct. 2002	✓	15 Oct. 2002
Paragon Warehouse Trust No.1	26 Sept. 2002	✓	26 Sept. 2002
Paragon Warehouse Trust No. 2	26 Sept. 2002	✓	26 Sept. 2002
Rural Finance Corporation	7 Aug. 2002	✓	7 Aug. 2002
South Eastern Medical Complex Limited	17 Oct. 2002	✓	17 Oct. 2002
Audit report contained an "emphasis of matter" comment: *There was an inherent uncertainty as to whether the company would continue as a going concern.*			
State Electricity Commission of Victoria	14 Oct. 2002	✓	14 Oct. 2002
State Trustees Limited	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Common Fund No. 1	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Common Fund No. 2	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Common Fund No. 3	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Common Fund No. 4	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Common Fund No. 5	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Common Fund No. 6	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Common Fund No. 10	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Premium Cash Fund	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Premium Diversified Fund *(c)*	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Premium Equity Fund	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Premium Fixed Interest Fund	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Premium International Fund	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Premium Mortgage Fund	26 Sept. 2002	✓	26 Sept. 2002
State Trustees Premium Property Fund	26 Sept. 2002	✓	26 Sept. 2002
STL Financial Services Limited	26 Sept. 2002	✓	26 Sept. 2002
Treasury Corporation of Victoria	2 Sept. 2002	✓	2 Sept. 2002
Vicfleet Pty Ltd	31 July 2002	✓	26 Aug. 2002
Victorian Funds Management Corporation	29 Aug. 2002	✓	29 Aug. 2002
VFM Australian Equities Trust	29 Aug. 2002	✓	29 Aug. 2002

TREASURY AND FINANCE - *continued*

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2002 BALANCE DATES			
TREASURER			
VFM Australian Fixed Interest Trust	29 Aug. 2002	✓	29 Aug. 2002
VFM Global Bond Trust	29 Aug. 2002	✓	29 Aug. 2002
VFM Hedged International Equities Trust	29 Aug. 2002	✓	29 Aug. 2002
VFM Indexed Bonds Trust	29 Aug. 2002	✓	29 Aug. 2002
VFM International Equities Trust	29 Aug. 2002	✓	29 Aug. 2002
VFM Short Term Money Market Trust	29 Aug. 2002	✓	29 Aug. 2002
WORKCOVER			
Opalwood Pty Ltd	22 Aug. 2002	✓	22 Aug. 2002
Southgate Trust	20 Aug. 2002	✓	22 Aug. 2002
TAC Law Pty Ltd	22 Aug. 2002	✓	22 Aug. 2002
Transport Accident Commission	23 Aug. 2002	✓	23 Aug. 2002
Victorian Trauma Foundation	28 Aug. 2002	✓	5 Sept. 2002
Victorian Trauma Foundation Pty Ltd	28 Aug. 2002	✓	5 Sept. 2002
Victorian WorkCover Authority	23 Aug. 2002	✓	23 Aug. 2002

INCOMPLETE AUDITS – AS AT 7 FEBRUARY 2002			
Arada Trust (financial year ended 30 June 2002)	*Audited financial statements yet to be finalised.*		
Roslin Pty Ltd *(d)* (financial year ended 30 June 2001)	"	"	"

(a) Formerly Office of the Regulator-General.
(b) "Shell companies" of previous gas industry entities.
(c) Formerly State Trustees Premium Managed Fund.
(d) Final audit.

Appendix B

Status of audits with 30 June 2002 balance dates

Local government

LOCAL GOVERNMENT

		Clear opinion issued		
Entity	***Financial statements signed***	***Financial statements***	***Performance statement***	***Auditor-General's report signed***
COMPLETED AUDITS				
LOCAL GOVERNMENT – MUNICIPAL COUNCILS AND ASSOCIATED COMPANIES				
Alpine Shire Council	24 Sept. 2002	✓	✓	30 Sept. 2002
Ararat Rural City Council	12 Sept. 2002	✓	✓	17 Sept. 2002
Ballarat City Council	25 Sept. 2002	✓	✓	26 Sept. 2002
Banyule City Council	24 Sept. 2002	✓	✓	25 Sept. 2002
Bass Coast Shire Council	19 Sept. 2002	✓	✓	24 Sept. 2002
Baw Baw Shire Council	16 Sept. 2002	✓	✓	23 Sept. 2002
Bayside City Council	26 Sept. 2002	✓	✓	30 Sept. 2002
Boroondara City Council	23 Sept. 2002	✓	✓	25 Sept. 2002
Borough of Queenscliffe	7 Oct. 2002	✓	✓	9 Oct. 2002
Brimbank City Council	26 Sept. 2002	✓	✓	30 Sept. 2002
Buloke Shire Council	11 Sept. 2002	✓	Qualified	10 Oct. 2002
Reason for qualification of performance statement: *Failure to submit to the responsible Minister a Corporate Plan incorporating a Business plan and performance measures and targets in relation to 2001-02*				
Campaspe Shire Council	25 Sept. 2002	✓	✓	30 Sept. 2002
Cardinia Shire Council	14 Oct. 2002	✓	✓	16 Oct. 2002
Casey City Council	17 Sept. 2002	✓	✓	18 Sept. 2002
Central Goldfields Shire Council	9 Sept. 2002	✓	✓	20 Sept. 2002
CityWide Service Solutions Pty Ltd	24 Sept. 2002	✓	n.a.	27 Sept. 2002
Colac-Otway Shire Council	19 Sept. 2002	✓	✓	20 Sept. 2002
Corangamite Shire Council	23 Sept. 2002	✓	✓	25 Sept. 2002
Darebin City Council	19 Sept. 2002	Qualified	✓	24 Sept. 2002
Reason for qualification of financial statements: *Failure to undertake a condition assessment when revaluing certain non-current assets.*				
Delatite Shire Council	23 Oct. 2002	✓	✓	28 Oct. 2002
Audit report contained an emphasis of matter comment*: The Council is to be disaggregated into 2 councils.*				
East Gippsland Shire Council	20 Sept. 2002	✓	✓	24 Sept. 2002
Frankston City Council	18 Sept. 2002	✓	✓	23 Sept. 2002
Gannawarra Shire Council	30 Oct. 2002	✓	Qualified	30 Oct. 2002
Reason for qualification of performance statement: *Corporate plan for 2001-04 did not include a business plan for 2001-02 or performance targets and measures in relation to 2001-02.*				
Glen Eira City Council	25 Sept. 2002	✓	✓	27 Sept. 2002
Glenelg Shire Council	8 Oct. 2002	✓	✓	29 Oct. 2002

LOCAL GOVERNMENT - *continued*

		Clear opinion issued		
Entity	**Financial statements signed**	**Financial Statements**	**Performance Statement**	**Auditor-General's report signed**
COMPLETED AUDITS				
LOCAL GOVERNMENT – MUNICIPAL COUNCILS				
Golden Plains Shire Council	7 Nov. 2002	Qualified	✓	3 Dec. 2002
***Reason for qualification of financial statement**: Inappropriate accounting for the change in condition of infrastructure assets.*				
Greater Bendigo City Council	13 Sept. 2002	✓	✓	16 Sept. 2002
Greater Dandenong City Council	19 Sept. 2002	✓	✓	23 Sept. 2002
Greater Geelong City Council	24 Sept. 2002	✓	✓	26 Sept. 2002
Greater Shepparton City Council	17 Sept. 2002	✓	✓	23 Sept. 2002
Hepburn Shire Council	26 Sept. 2002	✓	✓	27 Sept. 2002
Hindmarsh Shire Council	5 Dec. 2002	✓	✓	11 Dec. 2002
Hobsons Bay City Council	18 Sept. 2002	✓	✓	23 Sept. 2002
Horsham Rural City Council	30 Jan. 2003	✓	Qualified	4 Feb. 2003
***Reason for qualification of performance statement:** Corporate plan for 2001-04 did not include a business plan for 2001-02 or performance targets and measures in relation to 2001-02.*				
Hume City Council	23 Sept. 2002	✓	Qualified	25 Sept. 2002
***Reason for qualification of performance statement:** Results reported in respect of certain performance measures were not supported by sufficient and appropriate evidence.*				
Indigo Shire Council	20 Sept. 2002	Qualified	✓	24 Sept. 2002
***Reason for qualification of financial statement:** Failure to undertake asset revaluations with sufficient regularity.*				
Kingston City Council	25 Sept. 2002	✓	✓	27 Sept. 2002
Knox City Council	17 Sept. 2002	✓	✓	19 Sept. 2002
Latrobe City Council	27 Sept. 2002	✓	✓	27 Sept. 2002
Loddon Shire Council	23 Sept. 2002	✓	✓	26 Sept. 2002
Macedon Ranges Shire Council	24 Sept. 2002	✓	✓	30 Sept. 2002
Manningham City Council	11 Oct. 2002	✓	✓	16 Oct. 2002
Maribyrnong City Council	17 Sept. 2002	✓	✓	18 Sept. 2002
Maroondah City Council	25 Sept. 2002	✓	✓	25 Sept. 2002
Melbourne City Council	27 Sept. 2002	✓	✓	27 Sept. 2002
Melbourne Wholesale Fish Market Pty Ltd	11 Sept. 2002	✓	n.a.	13 Sept. 2002
Melton Shire Council	16 Sept. 2002	✓	✓	17 Sept. 2002
Mildura Rural City Council	2 Oct. 2002	✓	Qualified	2 Oct. 2002
***Reason for qualification of performance statement:** Corporate plan for 2001-04 did not include a business plan for 2001-02 or performance targets and measures in relation to 2001-02.*				

LOCAL GOVERNMENT - *continued*

		Clear opinion issued		
Entity	*Financial statements signed*	*Financial statements*	*Performance statement*	*Auditor-General's report signed*
COMPLETED AUDITS				
LOCAL GOVERNMENT – MUNICIPAL COUNCILS				
Mitchell Shire Council	17 Sept. 2002	✓	✓	23 Sept. 2002
Moira Shire Council	4 Oct. 2002	✓	✓	10 Oct. 2002
Monash City Council	24 Sept. 2002	✓	✓	26 Sept. 2002
Moonee Valley City Council	17 Sept. 2002	✓	✓	24 Sept. 2002
Moorabool Shire Council	27 Sept. 2002	✓	✓	1 Oct. 2002
Moreland City Council	30 Sept. 2002	✓	✓	30 Sept. 2002
Mornington Peninsula Shire Council	27 Sept. 2002	Qualified	Qualified	30 Sept. 2002
Reason for qualification of financial statements: *Failure to undertake a condition assessment of certain non-current assets and failure to assess the remaining useful life of buildings and other land improvement assets. In addition, revalued certain infrastructure assets using a methodology that did not result in a reliable estimate of the fair value of the assets and failed to establish the fair value of certain contributed assets.* ***Reason for qualification of performance statement:*** *Failure to submit to the responsible Minister a Corporate Plan incorporating a Business plan and performance measures and targets in relation to 2001-02.*				
Mount Alexander Shire Council	15 Oct. 2002	✓	✓	22 Oct. 2002
Moyne Shire Council	24 Sept. 2002	✓	✓	25 Sept. 2002
Murrundindi Shire Council	17 Sept. 2002	✓	Qualified	20 Sept. 2002
Reason for qualification of performance statement: *Corporate plan for 2001-04 did not include a business plan for 2001-02 or performance targets and measures in relation to 2001-02.*				
Nillumbik Shire Council	24 Oct. 2002	✓	✓	24 Oct. 2002
Northern Grampians Shire Council	23 Sept. 2002	✓	✓	26 Sept. 2002
Port Phillip City Council	26 Sept. 2002	✓	✓	27 Sept. 2002
Prahran Market Pty Ltd	24 Sept. 2002	✓	n.a.	27 Sept. 2002
Pyrenees Shire Council	20 Sept. 2002	✓	✓	24 Sept. 2002
Queen Victoria Market Pty Ltd	11 Sept. 2002	✓	n.a.	13 Sept. 2002
Regent Management Company Pty Ltd	19 Dec. 2002	✓	n.a.	21 Jan. 2003
South Gippsland Shire Council	16 Sept. 2002	✓	✓	18 Sept. 2002
Southern Grampians Shire Council	19 Sept. 2002	✓	✓	25 Sept. 2002
Stonnington City Council	16 Sept. 2002	✓	✓	19 Sept. 2002
Strathbogie Shire Council	17 Sept. 2002	✓	✓	24 Sept. 2002
Streetsahead Cleaning Services	9 Sept. 2002	✓	n.a.	23 Sept. 2002
Surf Coast Shire Council	4 Dec. 2002	✓	✓	10 Dec. 2002

LOCAL GOVERNMENT - *continued*

Entity	Financial statements signed	Clear opinion issued: Financial statement	Clear opinion issued: Performance statement	Auditor-General's report signed
COMPLETED AUDITS				
LOCAL GOVERNMENT – MUNICIPAL COUNCILS - CONTINUED				
Swan Hill Rural City Council	7 Nov. 2002	Qualified	Qualified	18 Nov. 2002
Reason for qualification of financial statements: *Failure to undertake a condition assessment when revaluing certain non-current assets, and failure to undertake asset revaluations with sufficient regularity.* ***Reason for qualification of performance statement:*** *Business plan for 2001-02 contained in the corporate plan for 2001-04 did not include performance targets and measures in relation to 2001-02.*				
Towong Shire Council	23 Sept. 2002	✓	✓	24 Sept. 2002
Wangaratta Rural City Council	18 Sept. 2002	✓	✓	23 Sept. 2002
Warrnambool City Council	23 Sept. 2002	✓	✓	25 Sept. 2002
Wellington Shire Council	13 Sept. 2002	✓	✓	18 Sept. 2002
West Wimmera Shire Council	25 Sept. 2002	✓	✓	26 Sept. 2002
Whitehorse City Council	23 Sept. 2002	✓	✓	24 Sept. 2002
Whittlesea City Council	24 Sept. 2002	✓	✓	27 Sept. 2002
Wodonga Rural City Council	21 Nov. 2002	Qualified	Qualified	26 Nov. 2002
Reason for qualification of financial statements: *Failure to undertake a condition assessment when revaluing certain non-current assets, and failure to undertake asset revaluations with sufficient regularity.* ***Reason for qualification of performance statement:*** *Results reported in respect of certain performance measures were not supported by sufficient and appropriate evidence.*				
Wyndham City Council	16 Sept. 2002	✓	✓	18 Sept. 2002
Yarra City Council	27 Sept. 2002	✓	✓	30 Sept. 2002
Yarra Ranges Shire Council	24 Sept. 2002	✓	✓	26 Sept. 2002
Yarriambiack Shire Council	17 Sept. 2002	✓	✓	19 Sept. 2002

LOCAL GOVERNMENT – *continued*

Entity	*Financial statements signed*	*Clear opinion issued*	*Auditor-General's report signed*
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATE			
LOCAL GOVERNMENT – REGIONAL LIBRARY CORPORATIONS			
Casey - Cardinia Regional Library Corporation	11 Sept. 2002	✓	13 Sept. 2002
Central Highlands Regional Library Corporation	25 Sept. 2002	✓	27 Sept. 2002
Corangamite Regional Library Corporation	6 Sept. 2002	✓	11 Sept. 2002
Eastern Regional Library Corporation	11 Sept. 2002	✓	12 Sept. 2002
Geelong Regional Library Corporation	30 Sept. 2002	✓	4 Oct. 2002
Glenelg Regional Library Corporation	18 Sept. 2002	✓	25 Sept. 2002
Goulburn Valley Regional Library Corporation	7 Oct. 2002	✓	8 Oct. 2002
High Country Regional Library Corporation	12 Sept. 2002	✓	17 Sept. 2002
Hume-Moonee Valley Regional Library Corporation	4 Oct. 2002	✓	7 Oct. 2002
Audit report contained an "emphasis of matter" comment: *The Corporation's member councils resolved during July 2002 to dissolve the Corporation as from 31 December 2002.*			
North Central Goldfields Regional Library Corporation	30 Aug. 2002	✓	9 Sept. 2002
West Gippsland Regional Library Corporation	11 Sept. 2002	✓	16 Sept. 2002
Whitehorse Manningham Regional Library Corporation	23 Sept. 2002	✓	27 Sept. 2002
Wimmera Regional Library Corporation	25 Sept. 2002	✓	2 Oct. 2002
Yarra Melbourne Regional Library Corporation	11 Sept. 2002	✓	18 Sept. 2002
Yarra Plenty Regional Library Corporation	27 Sept. 2002	✓	1 Oct. 2002

n.a. Not applicable, as agencies were not required by legislation to produce a performance statement.

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