Department of Education and Training

AUDIT OPINION

The audits of the Department and its controlled entities' financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the parent entity.

PERFORMANCE INFORMATION

The New South Wales State Plan provides the overall direction for further improvement and is a major influence on the Department's priorities for 2008. Priorities include:

- increasing levels of attainment for all students, including increasing the number of students exceeding the national benchmarks in literacy and numeracy
- more students completing Year 12 or recognised vocational training
- closing the performance gap between Aboriginal students and all students, at schools and at the New South Wales Technical and Further Education Commission (TAFE NSW).

Literacy and Numeracy

The State Plan commits the Government to raising students' literacy and numeracy levels and improving the outcomes they achieve at school. Achievements in reading and numeracy underpin the ability of all students to learn effectively in most school subjects. The Department has a continued focus on improving the literacy and numeracy of New South Wales public school students and has developed an extensive range of programs for this purpose.

The Audit Office conducted an examination of the Department's processes to improve literacy and numeracy. We recommended a series of measures to assist the Department:

- sharpen its focus on those individual students at risk,
- more effectively target its limited resources and support the needs of individuals, and
- more rigorously review its programs and the performance of low achieving schools.

For further information regarding the report, refer to www.audit.nsw.gov.au/publications/reports/performance/performance_reports.htm.

Year 12 Retention Rates

In 2007, the Department put in place a range of strategies designed to encourage more students to complete Year 12. The Department advised us that these initiatives will start to impact positively on apparent retention rates in 2012 when the 2007 Year 7 cohort are due to reach Year 12. Over the past five years the apparent retention rates from Years 7 to 12 have remained relatively stable, with only minor fluctuations from year to year. In 2007, the overall retention rate decreased slightly by 0.6 per cent to 64.5 per cent. However, the rates for Aboriginal students, geographically isolated students and students from low socio-economic status backgrounds all improved. The large annual fluctuations in retention rates for students from non-English speaking backgrounds are largely a consequence of the movement of these students in and out of the government school system.

Retention Rates from Years 7 to 12 for Government Schools

Year ended 31 December	2003 %	2004 %	2005 %	2006 %	2007 %
All students	65.0	65.8	65.8	65.1	*64.5*
Aboriginal students	29.2	29.9	29.4	28.7	*30.9*
Students from language backgrounds other than English	104.6	108.2	109.5	105.4	*101.8*
Students from low socio-economic status backgrounds	55.0	56.4	55.5	52.9	*53.2*
Geographically isolated students	48.8	43.7	45.6	41.3	*48.6*

Source: DET Statistical Compendium 2007.
Notes:
- Retention rates are 'apparent' as they do not track individual students through their secondary schooling.
- Retention rates for students from low socio-economic status backgrounds and geographically isolated students are based on participating schools in 2007.
- Year 12 retention rates can exceed more than 100 per cent due to a number of factors including migration of students from interstate and overseas.

Retention rates for full-time students by State (2003-2007) for Years 7/8 to 12

Years	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	National
2007	*64.5*	*73.9*	*71.1*	*64.0*	*63.1*	*63.3*	*69.4*	*96.6*	*68.3*
2006	65.1	72.6	71.6	61.9	65.1	63.2	72.3	103.2	68.5
2005	65.8	74.0	73.0	61.7	65.4	65.5	70.5	99.6	69.4
2004	65.8	74.4	75.3	58.0	65.9	70.7	72.0	100.5	69.8
2003	65.0	74.9	76.1	56.8	64.8	74.5	69.0	101.0	69.6

Source: DET Statistical Compendium 2007.
Notes:
- Retention rates are 'apparent' as they do not track individual students through their secondary schooling.
- Care should be exercised in the interpretation of apparent retention rates as the method of calculation does not take into account a range of factors including:
  - Differing enrolment policies across jurisdictions (which contribute to different age-grade structures).
  - Students enrolled in Year 12 on a part-time basis or repeating a year.
  - Movements of students between States and between school sectors.
  - Impact of full-fee paying overseas students.
  - Varying enrolment patterns in which students choose to complete their secondary schooling at TAFE NSW.
- Apparent retention rates can exceed more than 100 per cent due to a number of factors including migration of students from interstate and overseas.

New South Wales retained its ranking of fifth amongst all States and Territories but is still below the national average.

The Achievement Gap for Aboriginal Students

Literacy and numeracy targets set under the New South Wales State Plan for Aboriginal students are to eliminate the gap between Aboriginal students and all students by 2016.

The comparison of Year 3 and Year 5 Aboriginal students' basic skills test (BST) results for numeracy and literacy against all student peers show significant gaps. From 2003 to 2007, BST results for Year 5 Aboriginal students have shown a gradual improvement, reducing the gap from 13.3 per cent to 11.8 per cent for numeracy. However, for literacy, the gap increased from 13.3 per cent to 14.4 per cent. The gap for Year 3 literacy has reduced from 19.3 per cent to 17.8 per cent while the gap for Year 3 numeracy increased slightly from 13.4 per cent to 13.7 per cent.

In 2007, there were 7,115 students (6,663 in 2006) who were recognised on the HSC Distinguished Achievers List, of which 0.4 per cent (0.2 per cent) were Aboriginal students.

The Department has made it a priority to allocate funding of $65.0 million over four years to improve the academic achievements of Aboriginal students, by designing specialised teaching programs in order to reduce the gap. The Department advised us that of the $13.0 million allocated in 2007-08, $9.5 million was spent.

Government Schools

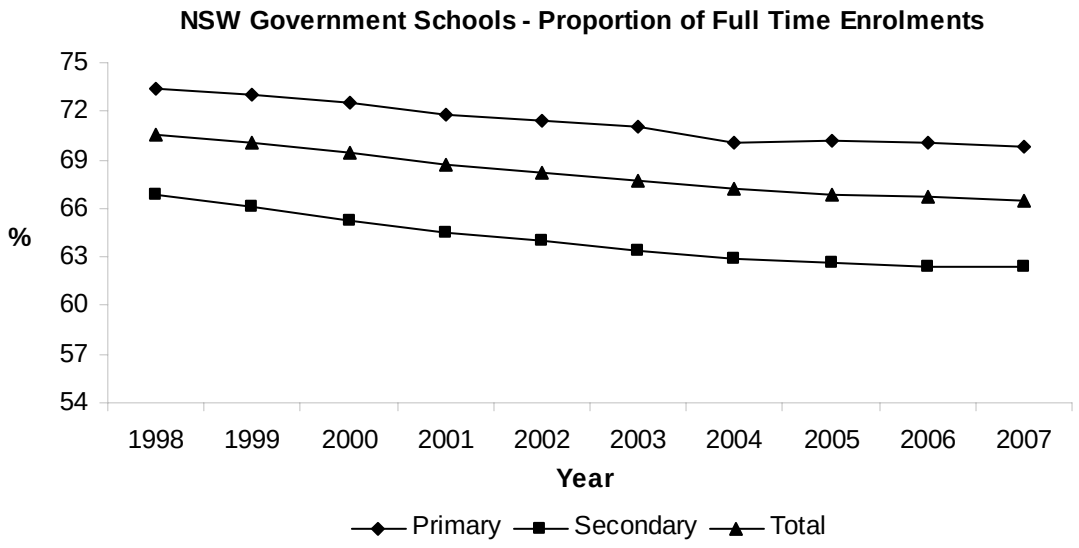
	NSW 2005-06	NSW 2006-07	National 2006-07	NSW Ranking amongst all States and Territories (d)	NSW Ranking Previous Year (d)
Recurrent Expenditure ($) per student on Government Schools (a)					
Primary	10,195	10,643	10,938	7	7
Secondary	12,823	13,329	13,315	4	5
Overall	11,279	11,756	11,874	7	6
Student to Teaching Staff Ratios – Government Schools (b)					
Primary	16.2	16.2	15.7	1	2
Secondary	12.4	12.5	12.3	4	5
Overall	14.4	14.4	14.2	2	3
Full-Time Student Enrolment – Government Schools as a percentage of all schools (c)					
Primary	70.0	69.8	70.2	5	5
Secondary	62.4	62.4	61.3	4	4
Overall	66.7	66.5	66.4	5	5

(a) Source: Ministerial Council of Education, Employment Training and Youth Affairs – National Report on Schooling in Australia, 2007. Incorporates both salaries and non-salary costs. Includes actual or notional payroll tax and notional eight per cent user cost of capital.
(b) Source: Australian Bureau of Statistics, Schools Australia 2007 (Table 26).
(c) Sources: Australian Bureau of Statistics, Schools Australia 2007 (Table 2-1, 2-2 & 2-2a).
(d) The rankings range from one to eight (highest to lowest).
Note: Care should be taken when comparing different jurisdictions as areas of non-comparability continue to exist e.g. there can be large differences between city and country staff ratios within different jurisdictions.

New South Wales' expenditure per student was higher than the national average for secondary schools in 2006-07. Expenditure per primary student in New South Wales increased from $10,195 in 2005-06 to $10,643 in 2006-07. At this level it has fallen below the national average of $10,938 and has the second lowest expenditure per primary school student. The primary and secondary student to teacher ratios remained higher than the national average. The overall ratio of 14.4 remained higher than the New South Wales private sector ratio of 13.8 students per teacher.

In comparison with other jurisdictions, New South Wales continues to be ranked fifth in attracting student enrolments to government schools.

The proportion of all students enrolling in government schools has been declining for the past ten years. The most significant decline has been in secondary schools, falling from 66.9 per cent in 1998 to 62.4 per cent in 2007. Overall, the reduction has been 4.5 per cent. The movement of students between sectors is now starting to stabilise. The chart below illustrates the decline over the last decade.



Source: Australian Bureau of Statistics, Schools Australia 2007 (Table 7)

Workers' Compensation Claims

	2006*	2007*	2008*
Workers' compensation premium ($'000)	151,125	126,120	*128,679*
Total number of claims **	10,762	12,376	*13,699*
Total number of claims incurring cost	5,782	6,008	*6,048*
Number of working days lost	36,621	43,721	*43,231*
Number of stress claims incurring cost	849	949	*829*
Number of working days lost due to stress claims	14,294	19,816	*16,733*

Source: DET Statistics.

* Figures represent data in respect of the year in which the incident occurred. Therefore the total days lost are higher for the earlier years due to the passage of more time.

** The data for 2006 and 2007 includes incident notification only claims. This data has not been recorded in previous years and therefore is not comparable to past years.

The workers' compensation insurance premium increased slightly in 2007-08 while the total number of claims incurring costs rose 0.7 per cent. The premiums paid for the financial year 2007-08 exceeded the benchmark set by the Treasury Managed Fund by $19.4 million. The Department had to fund the excess.

Under the 'Safe Working and Learning Strategy', the Department specified targets to be met by June 2008. These included a 20 per cent reduction in workplace injuries, 15 per cent reduction in the average cost of claims and 20 per cent reduction in the duration of workplace injuries.

A comparison between the 2004-05 figures (base data) and the 2006-07 figures indicate that the Department has achieved reductions, however they did not meet the specified targets. The workplace injuries reported have experienced an eight per cent increase in the frequency of claims incurring a cost. The average cost of claims returns a 14 per cent reduction and the average time lost due to workplace injury has reduced by 15 per cent.

OTHER INFORMATION

Department

We identified some minor opportunities for improvement and reported them to management.

Schools

For the school financial year ended 30 November 2007, we audited financial transactions at 57 primary schools, 11 high schools, two hospital schools, one special purpose school and one central school (K-12).

We identified opportunities for schools to improve their internal controls and general compliance with Departmental guidelines. We have written to the relevant school Principals about these matters. Many of our findings were similar to those of the previous year. The Department has advised us that they communicate common findings to all schools and direct them to take corrective action.

Connected Classrooms Program (CCP)

The CCP consists of three components with a total investment of $158 million over four years. The Interactive Classroom Project (ICP) at a cost of $66.0 million, will equip every New South Wales public school with an interactive whiteboard, data projector, control computer, network device and video conferencing components. The Learning Tools Project, costing $29.0 million, will upgrade student email, individual online working space for all students and teachers and online access to student reports for parents. The Network Bandwidth Enhancement Project, at a cost of $63.0 million for network upgrades, will increase bandwidth speed and secure browsing and content filtering to better enable interactive learning environments.

At 30 June 2008, the Department had installed 200 Interactive Classrooms and upgraded schools with additional bandwith. Costs to date are reflected in the table below:

Year ended 30 June	**2008 $'000**
Interactive Classrooms Project	*6,046*
Learning Tools Project	*2,224*
Network Bandwidth Enhancement Project	*8,918*
Total	*17,188*

Public Private Partnership Projects for New Schools

In December 2005, the Department finalised a $177 million contract to privately finance an additional ten New South Wales government schools. The 30 year contract is to design, finance, construct and provide certain operational services. These schools are located in the western, north-western and south-western sectors of Sydney as well as the Hunter and Central Coast regions.

The schools will be built on Department land and leased to the service provider, who will sublease the site back to the Department.

Seven schools under this project, Ashtonfield Public School, Halinda Special School, Tullimbar Public School, Ropes Crossing Public School, John Palmer Public School, Denison College of Secondary Education (Kelso High Campus) and Warnervale Public School have been completed to date. As at June 2008, the Department has recognised $68.0 million as assets with a corresponding liability. A further three schools, Rouse Hill High School, Elderslie Public School and Middleton Grange Public School, are to be completed in early 2009. This will result in a further recognition of about $37.2 million of assets with a corresponding liability.

Under the agreement, the Department will pay the contractor $10.7 million per annum CPI indexed, which includes the repayment of the finance lease liability, financing costs and regular service costs for all ten schools.

We understand that Kariong Mountains High School was included as a variation to the Public Private Partnership contract in October 2008 and the new school is anticipated to be completed by February 2010.

The Department has advised us that savings in the order of 23 per cent over traditional Department delivery methods of individual tenders and contracts were achieved. We will continue to monitor the progress of the projects.

School Facilities and Building Maintenance

Last year we reported that the Department's maintenance plans for school buildings had been hampered by significant maintenance backlogs. As a result of the additional funding of $30.0 million in 2007-08, the Department has completed a program of works which reduced the estimated current maintenance backlog to $50.8 million ($82.6 million in 2006-07). This maintenance backlog should be considered in the context of the estimated replacement value of school buildings of $17.9 billion.

Total school maintenance expenditure increased from $241 million in 2006-07 to $246 million in 2007-08. The additional maintenance backlog funding ($30.0 million) for periodic maintenance and urgent repairs to schools has remained constant compared to the prior year.

The Department provides advice to The Treasury, as part of the State Budget process, on its Total Asset Management Plan and funding requirements for the provision of education facilities. The Department uses proceeds from the sale of surplus parts of school sites to improve facilities. In 2007-08 the Department received $1.0 million from such sales compared to a predicted income of $6.0 million.

Planned Computer Systems Replacement

In 2006, we reported that the Department's Learning Management and Business Reform (LMBR) program will replace its finance, payroll and human resources systems and the school management system over the next four years. Phase 1 implementation costs are estimated at $153 million. The project incorporates all state government schools, the Department's regional and state office locations and TAFE NSW institutes.

A contract was signed in March 2008 and work has commenced on Phase 1 of the program. The initial stage, due to be completed in February 2009, involves defining the finance, human resources and payroll business requirements of the Department and preparing the design for an integrated finance and HR/payroll system for the Department.

Once the design of the new system is approved and accepted by the Department, a series of staged development and implementation activities will occur into 2010-11.

A Program Steering Committee has been established and is the peak governance body for the program.

A Risk Management methodology and approach has been developed and implemented. The program reports on major risks to the Department's Executive and to the Audit and Risk Management Committee.

Expenditure in the financial year 2007-08 was $20.7 million. We will continue to review its implementation and monitor its progress.

Leave Recording

The Department introduced an online leave system called eLAPS (Electronic Leave Application Processing System) in 2004-05 to improve leave recording. In the past, delays in recording leave taken have resulted in salary overpayments that were difficult to recover.

As at 30 June 2008, 33.5 per cent (19.6 per cent in 2007) of all leave applications received from teachers and 29.5 per cent (18.6 per cent) from school administrative and support staff have been submitted electronically through eLAPS. However a large number of leave applications are still recorded on the manual system.

Our testing of teacher leave records found 28 instances (13 instances) of leave not recorded in the Leave Management System.

The Department continues to promote eLAPS in schools by developing programs to educate and train users. A report on eLAPS usage by schools has been developed and provided to Regional Directors to enable them to develop strategies to increase eLAPS usage in their regions. We will continue to monitor usage of the system.

FINANCIAL INFORMATION

Abridged Consolidated Operating Statement

Year ended 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee related	*7,611,466*	7,213,992	*6,714,706*	6,343,274
Operating expenses	*1,648,682*	1,601,354	*1,346,025*	1,304,652
Depreciation and amortisation	*391,931*	344,972	*316,231*	250,320
Grants and subsidies	*209,712*	189,587	*239,379*	218,762
Other expenses	*4,741*	7,914	*4,741*	7,914
TOTAL EXPENSES	*9,866,532*	9,357,819	*8,621,082*	8,124,922
TOTAL REVENUE	*870,508*	754,361	*849,946*	759,820
Other (losses)/gains	*(8,977)*	19,055	*(7,271)*	22,695
NET COST OF SERVICES	*9,005,001*	8,584,403	*7,778,407*	7,342,407
Less Government contributions	*9,123,593*	8,753,457	*7,879,508*	7,514,922
SURPLUS	*118,592*	169,054	*101,101*	172,515

Employee related expenses represent 77.9 per cent (78.1 per cent) of total expenditure of the Department. The $370 million increase is primarily due to a three per cent salary increase to teachers in January 2008 and a four per cent salary increase to administrative staff effective July 2007.

The increase in total revenue of $90.0 million is primarily due to a $32.0 million increase in school and community revenue and external receipts, a one-off insurance recovery of $23.0 million, and a rise in overseas student fees of $8.0 million.

Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets	*730,049*	701,063	*577,133*	572,857
Non-current assets	*16,751,106*	16,579,540	*13,772,121*	13,616,822
TOTAL ASSETS	*17,481,155*	17,280,603	*14,349,254*	14,189,679
Current liabilities	*616,847*	597,637	*472,493*	475,403
Non-current liabilities	*156,261*	107,725	*155,575*	107,038
TOTAL LIABILITIES	*773,108*	705,362	*628,068*	582,441
NET ASSETS	*16,708,047*	16,575,241	*13,721,186*	13,607,238

Surplus Properties

At 30 June 2008, the value of surplus properties was $68.7 million. Under the New South Wales Government's Total Asset Management policy, the Department, as part of its 2008-09 asset strategy, developed a three year site disposal plan for surplus vacant sites.

In addition to disposal of these sites the Asset Management Directorate continues to work with Regions to identify surplus school sites for disposal.

For the financial year 2007-08, 24 school properties, that were surplus to the Department's needs and held for sale, were sold for $26.6 million ($109 million).

Abridged Program Information

The table below details the Department's consolidated net cost of services by program.

Program Description	2008			2007
	Revenue $'000	Expenses $'000	Net Cost of Services* $'000	Net Cost of Services* $'000
Pre-school education services in government schools	*2,598*	*27,865*	*25,267*	24,676
Primary education services in government schools	*245,394*	*4,151,137*	*3,903,678*	3,720,581
Secondary education services in government schools	*260,396*	*3,847,279*	*3,595,875*	3,346,313
Non-government schools assistance	*--*	*11,223*	*11,223*	9,276
TAFE education services	*310,768*	*1,610,173*	*1,301,455*	1,332,855
Grants for education and training services	*9,642*	*186,295*	*176,653*	160,336
NSW Adult Migrant English Service (AMES)	*41,706*	*32,560*	*(9,146)*	(8,322)
A.C.N. 093 230 374 Pty Limited (Formerly TAFE Global Pty Ltd)	*4*	*--*	*(4)*	(1,312)
Total all programs	*870,508*	*9,866,532*	*9,005,001*	8,584,403

* Includes gain/(loss) on sale of non-current assets.

Cost of Providing Government School Education

Using departmental statistics of government school enrolments and relevant program costs, some broad trends of cost per student for primary and secondary education over the past four years were:

Year ended 30 June	2005	2006	2007	2008
Actual enrolments(a):				
Primary students	436,551	434,366	431,618	*430,885*
Secondary students	305,027	306,049	307,018	*307,260*
Total	741,578	740,415	738,636	*738,145*
Program costs(b):				
Primary $m	3,434	3,541	3,721	*3,904*
Secondary $m	3,125	3,270	3,346	*3,597*
Total $m	6,559	6,811	7,067	*7,501*

(a) DET Census date. The 2008 figures are estimated figures derived from the NSW Budget papers 2007-08 as actual enrolment figures were not available at the time of the preparation of this Report.
(b) Program costs are net cost of services for government primary and secondary schools excluding transfer payments. Program costs used in the calculation of cost per student included non-cash items, leave and superannuation liabilities assumed by the Crown Entity.

Cost of Funding Non-Government School Education by the Department

In 2007–08, the New South Wales Government provided funding to 936 non-government schools (929 in 2006-07). Funding is mainly in the form of a per capita allowance and an interest subsidy scheme. Under the *Education Act 1990*, schools must register to be eligible for State funding assistance. Using departmental statistics of non-government school enrolments and relevant program costs, some broad trends of funding per student were:

Year ended 30 June	2005	2006	2007	2008
Average enrolments(a):				
Primary Students	184,598	185,642	186,005	*186,537*
Secondary Students	179,063	181,232	182,676	*183,399*
Total	363,661	366,874	368,681	*369,936*
Program costs(b):				
Primary $m	268.7	286.5	303.0	*322.6*
Secondary $m	363.0	372.2	390.4	*407.9*
Total $m	631.7	658.7	693.4	*730.5*
Funding per student:				
Primary $	1,455	1,543	1,629	*1,729*
Secondary $	2,027	2,054	2,137	*2,224*
Average $	1,737	1,795	1,881	*1,975*

(a) Average enrolments represent those non-government enrolments that qualified and received State recurrent funding. This does not include full fee paying overseas students.
(b) Program costs used in calculating cost per student included per capita grants, interest rate subsidies.

Average enrolments increased by 1.7 per cent over the last four years and the costs of funding per student increased by 13.7 per cent during the same period.

DEPARTMENT ACTIVITIES

The Department coordinates the delivery of education and training services in New South Wales from pre-school to tertiary. It is responsible for providing school education, vocational education and training and has certain regulatory and service responsibilities to private schools, private providers of education and training and universities.

For further information regarding the activities of the Department, refer to www.det.nsw.edu.au.

CONTROLLED ENTITIES

New South Wales Technical and Further Education Commission (TAFE NSW)

Separate comments on TAFE NSW and its controlled entities TAFE NSW Commission Division and A.C.N. 093 230 374 Pty Limited (formerly TAFE Global Pty Ltd) are included elsewhere in this Report.

NSW Adult Migrant English Service (AMES)

AMES provides English language learning opportunities for adult migrants and job seekers. The Commonwealth Government primarily funds AMES.

For further information on the Service, refer to www.ames.edu.au.

FINANCIAL INFORMATION

Year ended 30 June	2008 $'000	2007 $'000
Revenue	*44,600*	40,290
Employee related expenses	*16,674*	14,843
Other expenses	*22,328*	18,991
Surplus	*5,598*	6,456
Net assets (at 30 June)	*22,475*	16,877

Fees for services rendered increased by $3.6 million as a result of increased demand for AMES services.