

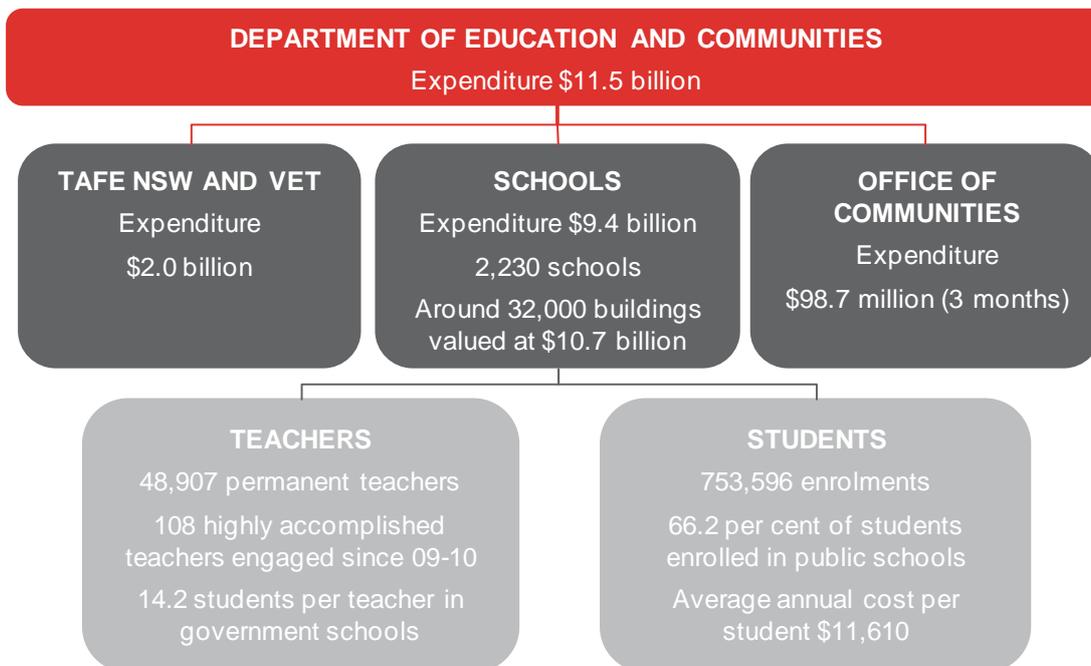
Department of Education and Communities

Audit Opinion

The audits of the Department and its controlled entities' financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

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

Operational Snapshot



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

In April 2011, the Department of Education and Training was renamed the Department of Education and Communities by way of the Public Sector Employment and Management (Departments) Order 2011. The Order also established the Office of Communities within the Department and the following functions were transferred from other government agencies:

- the staff involved in the administration of the *Children and Young Persons (Care and Protection) Act 1998*
- the Office of Veteran's Affairs
- the Office of Aboriginal Affairs.

The Office of Communities' primary responsibilities include promoting the interests of children, advancing the wellbeing of the Aboriginal people of New South Wales, providing more opportunities for participation in volunteering, sport and recreation and ensuring the sacrifices of war veterans are honoured and remembered.

The Department coordinates the delivery of education and training for 753,596 primary and secondary students in New South Wales

The former Department of Education and Training was renamed the Department of Education and Communities

The Department's computer system replacement project has been deferred to ensure it will meet future business requirements

The first phase of the Department's computer system replacement project failed to provide all expected benefits

Key Issues

Planned Computer Systems Replacement

In 2006, the Department commenced its Learning Management and Business Reform (LMBR) program to replace the finance, human resources and payroll systems, and the student administration systems. The original program was to be delivered in two phases over an eight year period:

PHASE 1

Planned Component	Original Implementation Date*	Current Status
SAP Finance		
State and Regional Office Locations	November 2009	Completed March 2010
TAFE NSW	Early 2010	Completed October 2010
Schools	2010 to 2011	Built, not deployed
SAP Human Resources and Payroll		
TAFE NSW	Late 2010	Built, not deployed

PHASE 2

Planned Component	Original Implementation Date*	Current Status
SAP Human Resources and Payroll		
State and Regional Office Locations	Mid 2011	Partially built. Pilot by late 2012
Schools	Mid 2011	Partially built. Pilot by late 2012
Student Administration System		
Schools	Late 2012	Pilot by late 2012
TAFE NSW	Mid 2013	Pilot by late 2012

*Source: LMBR Summary – LMBR Reform Progress 18 November 2008.

The implementation of SAP Finance at State and Regional Office locations in March 2010 did not provide all expected benefits to the business:

- the finance system did not fully meet the Department's needs and users had to build some manual workarounds, which resulted in lost time and additional effort and costs, not included in the original business case
- system users had some difficulty obtaining accurate and/or relevant and timely information
- the Shared Service Centre did not have the required skills, resources and knowledge to fully support the system
- system users did not have sufficient knowledge of the new system and its functionality.

In 2011, the Department reviewed the status of the project to ensure it was a solution that met current and future business requirements. As a result, the implementation dates for the majority of components were realigned to provide an integrated solution for the Department.

The Department determined a revised approach for the program, which included appointment of a Transformation Service Provider to manage implementation of the integrated, end-to-end finance, human resources, payroll and student administration system.

Since the review of the status of the project:

- a revised action plan has been developed
- a new governance model that places a high priority on stakeholder management, information transparency and business user engagement has been implemented
- the Shared Service Centre is determining its role, responsibilities and resource implications
- all training and testing procedures are being reviewed to incorporate business end-to-end processes.

I will continue to review the program's implementation and monitor its progress against revised targets.

Project Costs

The cost of Phase 1 of the project has been revised up from \$153 million to \$210 million. The estimated cost of Phase 2 (now called Stage 2) has fallen from \$218 million to \$176 million. The Department advises Treasury has approved an additional \$14.4 million to fund additional staff and training. This reflects the decision to deliver an integrated solution across the Department rather than separate implementations for finance, human resources and student administration and learning management.

During 2010–11, the Department spent \$57.0 million on the project and incurred total costs to date of \$176 million.

Building the Education Revolution (BER)

The Australian Government provided \$3.5 billion to improve the quality of facilities in New South Wales Government schools and generate jobs in the construction industry. The money had to be spent in a short time frame resulting in the Department paying higher construction costs than in a business-as-usual environment.

The Department has committed \$3.3 billion on the Building the Education Revolution programs – National School Pride, Science and Language Centres for the 21st Century and Primary Schools for the 21st Century as at 31 October 2011. Nine projects are incomplete and 131 projects still have final payments to managing contractors outstanding. The Department advises it expects total program costs to be within original budget.

The Building the Education Revolution Implementation Taskforce (the BER taskforce) reported in its interim report that many government school stakeholders acknowledged the Primary Schools for the 21st Century program:

- was unique in size
- was about stimulus, preserving and creating jobs
- required haste to get construction started and therefore the business-as-usual processes and timetables for major capital works projects did not apply.

At 30 June 2011, the Department had spent \$176 million of the total project cost, estimated at \$386 million

New South Wales Government Schools received \$3.5 billion in Australian Government Building the Education Revolution funding

Total estimated cost of the BER program expected to be within the original budget

Up to 31 October
2011, 2,353
projects have
been completed
at 1,775 schools
under the BER

The National
School Pride
program was
completed within
the approved
budget

The Science and
Language Centre
program was
completed within
the approved
budget

Funding was provided to deliver the following three programs:

Program Year Ended 30 June	Funding 2012 \$m	Funding 2011 \$m	Funding 2010 \$m	Funding 2009 \$m	Total Funding \$m
Primary Schools for the 21st Century*	131	1,149	1,648	98	3,026
National School Pride*		--	203	88	292
Science and Language Centres for 21st Century Secondary Schools*		--	153	--	153
Total	131	1,149	2,004	187	3,471

Source: DEC Statistics (unaudited).

* These amounts include an administrative allocation of \$47.4 million.

Primary Schools for the 21st Century (P21)

This program built or upgraded large scale infrastructure such as libraries, halls and classrooms in government primary schools in New South Wales. Approved funding and payments to 30 June 2011 by region are detailed below:

Region	Approved Project Funding \$'000	Payments to 30 June 2011 \$'000
Hunter/Central Coast	436,554	379,333
Illawarra and South East	301,164	277,575
New England	99,337	91,251
North Coast	284,015	267,888
Northern Sydney	307,346	272,960
Riverina	173,074	163,057
South Western Sydney	454,253	442,418
Sydney	357,004	303,244
Western New South Wales	177,007	165,890
Western Sydney	395,346	373,944
Unassigned	--	9,000
Total	2,985,100	2,746,562

Source: DEC Statistics (unaudited).

The P21 program comprised of 2,362 individual projects across 1,782 government schools. At 31 October 2011, 2,353 projects had been completed.

Last year, I reported that the Department appeared to have delivered on the key objectives of the P21 program, a rapid construction of school facilities, but this appeared to have come at a higher cost than in a business-as-usual environment and with some reduced flexibility to meet the preferences of the local community.

My report included recommendations to the Department, which for the most part, the Department has either actioned or agreed to implement for future projects.

National School Pride

This program provided funding of up to \$200,000 for primary, secondary and central schools that refurbished and renewed existing infrastructure and undertook minor building works. Approximately \$287 million was spent on 2,179 public schools over a two year period.

In July 2011, the National School Pride program was completed \$651,000 under the program budget.

Science and Language Centres for 21st Century Secondary Schools

This program provided funding to refurbish or build new science laboratories and language learning centres in secondary schools across New South Wales. Approximately \$140 million was spent on 118 projects in New South Wales up to 30 June 2011.

Performance Information

The New South Wales State Plan provides overall direction for improvements in performance and it significantly influenced the Department's priorities for 2011. Its priorities included:

- increasing levels of attainment for all students, including increasing the percentage of students exceeding the national benchmarks in reading and numeracy
- more students completing Year 12 or recognised vocational education and training
- closing the performance gap between Aboriginal students and all students, at schools and at TAFE NSW
- increasing the proportion of population aged 15–64 participating in vocational education and training.

The Department measures whether it is achieving its priority outcomes by using performance indicators associated with:

- literacy and numeracy
- year 12 retention rates
- achievement gap for Aboriginal students
- government school enrolments.

Literacy and Numeracy

Since 2008, all Australian schools use the National Assessment Program – Literacy and Numeracy (NAPLAN) to assess the literacy and numeracy learning of students at Years Three, Five, Seven and Nine. Students participate in NAPLAN tests in May of each year and 2011 is the fourth year of testing.

The results of the 2011 national tests indicate New South Wales students continue to perform consistently better than the national average. Although the changes for New South Wales are mostly consistent with the trends nationally, the State's ranking relative to other States and Territories improved from 2010.

The Department advises it spent \$262 million (\$230 million in 2009–10) on the literacy and numeracy plan in 2010–11, and intends spending \$959 million from 2010 to 2014.

New South Wales students continue to perform consistently better than the national average

New South
Wales' Year 12
retention rates
are 4.7 per cent
below the
national average

Year 12 Retention Rates

Over the past five years the retention rates have improved for all New South Wales government school students and those from targeted equity groups.

Year ended 31 December	2010 %	2009 %	2008 %	2007 %	2006 %
All students	68.4	66.3	64.6	64.5	65.1
Aboriginal students	35.1	33.1	32.2	30.9	28.7
Students from language backgrounds other than English	111.1	108.0	106.0	101.8	105.4
Students from low socio-economic status backgrounds	57.9	53.9	54.5	53.2	52.9
Geographically isolated students	45.9	46.8	41.1	48.6	41.3

Source: DEC Statistical Compendium 2010 (unaudited).

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 for 2002 to 2006, 2007 to 2008 and 2009 to 2010 are based on participating schools in 2007, 2008 and 2010 respectively
- 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
- care should be exercised in interpreting changes in apparent retention rates for Aboriginal students and students from geographically isolated areas due to the small numbers involved
- the 2010 rate for all students is consistent with the confidential data published in Table 5.03 of the DEC Statistical Compendium 2010 and sourced from ABS Schools Australia.

The Department advises some of the improvement in 2009 to 2010 can be attributed to the increase in the compulsory years of schooling. Under the *Education Amendment Act 2009*, all students are now required to stay at school until the end of Year 10, after which they must continue in education, training or paid work until they turn 17.

Retention Rates of Full-time Students for Government Schools by State (2006 to 2010)

Years	NSW %	Vic %	Qld %	SA %	WA %	Tas %	NT %	ACT %	National %
2010	68.4	74.7	75.8	75.2	73.5	72.9	60.0	107.2	73.1
2009	66.3	73.2	72.8	69.1	69.2	61.3	61.2	99.5	70.1
2008	64.6	71.9	70.3	64.7	68.2	61.3	67.6	95.9	68.3
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

Source: DEC Statistical Compendium 2010 (unaudited).

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.

Although retention rates in New South Wales improved in 2010, they still fell below the national average. The State's ranking relative to other States and Territories improved slightly, moving from seventh to sixth.

Full-time Participation Rates for 15 to 24 Year Olds

Years	2010 %	2009 %	2008 %	2007 %	2006 %
New South Wales	81.6	81.7	83.4	82.4	81.8
National	81.5	81.0	83.9	83.6	82.8

Source: Australian Bureau of Statistics, Survey of Education and Work, 2006 to 2010 (unaudited).

Notes: Full-time participation is defined as participation in full-time education or training or full-time work, or a combination of both part-time education or training and part-time work.

The Survey of Education and Work completed by the Australian Bureau of Statistics estimates the proportion of 15 to 24 year olds participating in full-time education or training, full-time work, or a combination of part time education or training and part time work. Overall, the State's ranking relative to other States and Territories improved slightly from fourth to third.

Nationally, and for most States and Territories, there was a fall in the full-time participation rate from 2008, which is thought to be due to the impact of the global financial crisis.

The Department has a range of strategies to encourage more young people to improve their post-school education and employment options. In 2010-11, this included the allocation of \$75.3 million to fund additional teachers and classrooms to meet increased student demand, and additional support services aimed at engaging students who may otherwise have left school.

Legislation was introduced in 2009 to increase the school leaving age. Since January 2010, all students are required to complete school to Year 10 and then either stay on at school, get a job, or go to TAFE NSW until they at least turn 17. Under the Learn or Earn initiative, young people up to the age of 18, who have neither completed Year 12 nor found a job, have a guaranteed training place at TAFE NSW. In addition, the Continuing Apprentices Placement Service (CAPS) helped retrenched apprentices and trainees find a new employer to continue their apprenticeship or traineeship.

Achievement Gap for Aboriginal students

The government's target is to halve the achievement gap between Aboriginal students and non-Aboriginal students by 2018.

The results of the 2010 national tests indicated similar results to 2009:

- Aboriginal students in New South Wales performed consistently better than the national average for Aboriginal students
- the comparison against non-Aboriginal students shows significant gaps and there is no indication that these gaps are closing
- the gaps against non-Aboriginal students are less in the early years of schooling than in the later years.

Between 2006 and 2010, the Department received funding of \$65.0 million to improve the academic outcomes of Aboriginal students. The Department advises that of the \$10.6 million allocated in 2010–11 (\$11.3 million), \$10.7 million (\$9.4 million) was spent. The Department has allocated \$10.9 million to improve the academic outcomes for Aboriginal students in 2011-12.

In 2004, the Department undertook a major review of Aboriginal Education. It found Aboriginal students were the most educationally disadvantaged group in Australia. In 2012, I will undertake a performance audit to examine whether the Department's processes to improve the literacy of Aboriginal students in New South Wales are likely to be successful. My report is expected to be released in the fourth quarter of 2011–12.

The achievement gap between non-Aboriginal and Aboriginal students remains significant

Government Schools

New South Wales' expenditure per student was lower than the national average for both primary and secondary schools in 2009–10.

At 30 June	NSW 2010	NSW 2009	NSW 2008	NSW Ranking Amongst All States and Territories*	NSW Ranking Previous Year*
Recurrent Expenditure (\$) per Student-Government Schools (a)					
Primary	13,042	12,054	11,148	7	6
Secondary	15,638	14,957	13,977	5	4
Overall	14,123	13,260	12,324	6	4
Student to Teaching Staff Ratios - Government Schools (b)					
Primary	15.7	15.9	15.9	1	1
Secondary	12.5	12.4	12.4	4	4
Overall	14.2	14.2	14.3	3	3
Full-Time Student Enrolment – Government Schools as a percentage of all schools (c)					
Primary	69.5	69.6	69.6	5	5
Secondary	62.1	61.9	62.0	3	4
Overall	66.2	66.2	66.3	4	4

Sources:

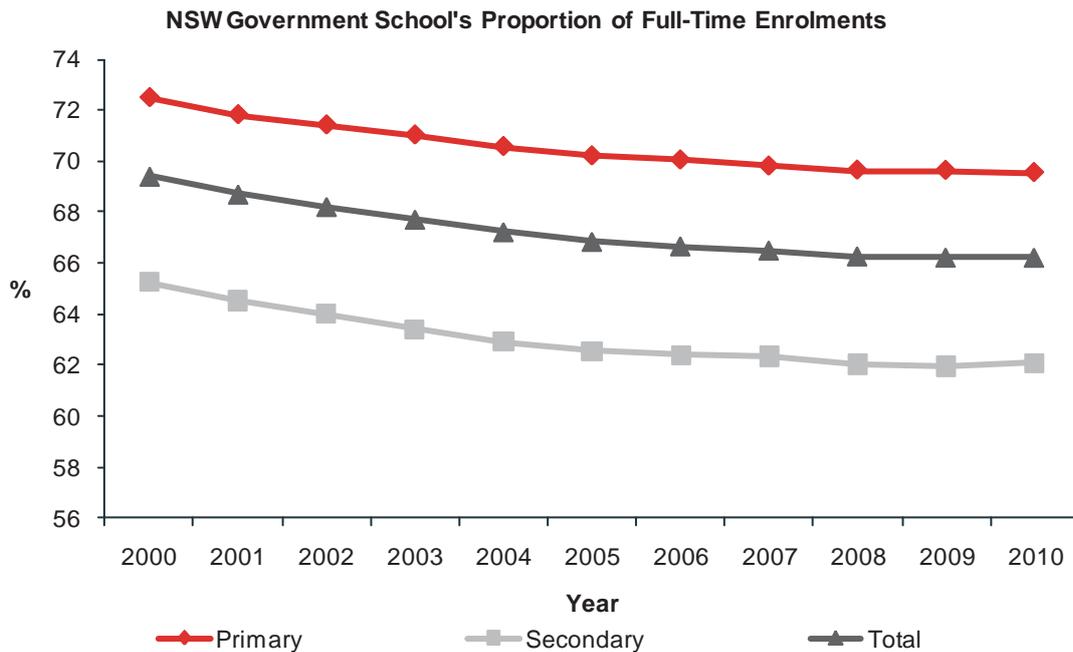
- a Australian Curriculum, Assessment and Reporting Authority (ACARA) – National Report on Schooling in Australia, 2010. Incorporates both salaries and non-salary costs. Includes actual or notional payroll tax and notional eight per cent user cost of capital (unaudited).
 b Australian Bureau of Statistics, Schools Australia 2010 (Table 53a).
 c Australian Bureau of Statistics, Schools Australia 2010 (Table 7).

* 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).

Student to teacher ratios for New South Wales were marginally higher than the national average. The overall ratio of 14.2 was higher than New South Wales non-government schools of 13.9 students per teacher.

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 65.3 per cent in 2000 to 62.1 per cent in 2010. The movement of students between sectors now seems to be stabilising. The chart below illustrates the decline over the last decade.



Source: Australian Bureau of Statistics, Schools Australia 2010 (Table 7) (unaudited).

Other Information

Local Schools, Local Decisions

On 11 August 2011, the government announced it would be seeking to make changes to empower schools to make more locally based decisions to help them better meet the needs of students.

The Department undertook a consultation process to allow the people of New South Wales the opportunity to comment on the proposed reforms. In addition to contributions through this process, the Department will also take into account:

- outcomes of the School Based Management Pilot currently being undertaken in 47 schools
- Empowering Local Schools – the Australian Government's policy to give school communities more authority in governance, finance and human resources
- the Australian Government's Review of School Funding.

The School Based Management Pilot provided schools with increased flexibility and authority for making local decisions. An independent review of the pilot by ARTD Consultants found:

Schools based management was successfully implemented in the pilot schools. The principals of these schools were innovative and creative in finding staffing solutions to better meet the needs of their schools. They were overwhelmingly positive about the benefits of school based management for their schools and had evidence of positive outcomes.

The review identified the following challenges:

- implementing school based management in New South Wales faces significant cultural and organisational challenges
- a highly regulated staffing system
- complex budgeting systems
- difficulty of initiating change in a large system.

The next step is to develop a framework to be presented to the Minister for Education by February 2012.

Participation in sport and recreation across New South Wales is consistently below the national average

The Department has spent \$137 million on the Connected Classrooms Program

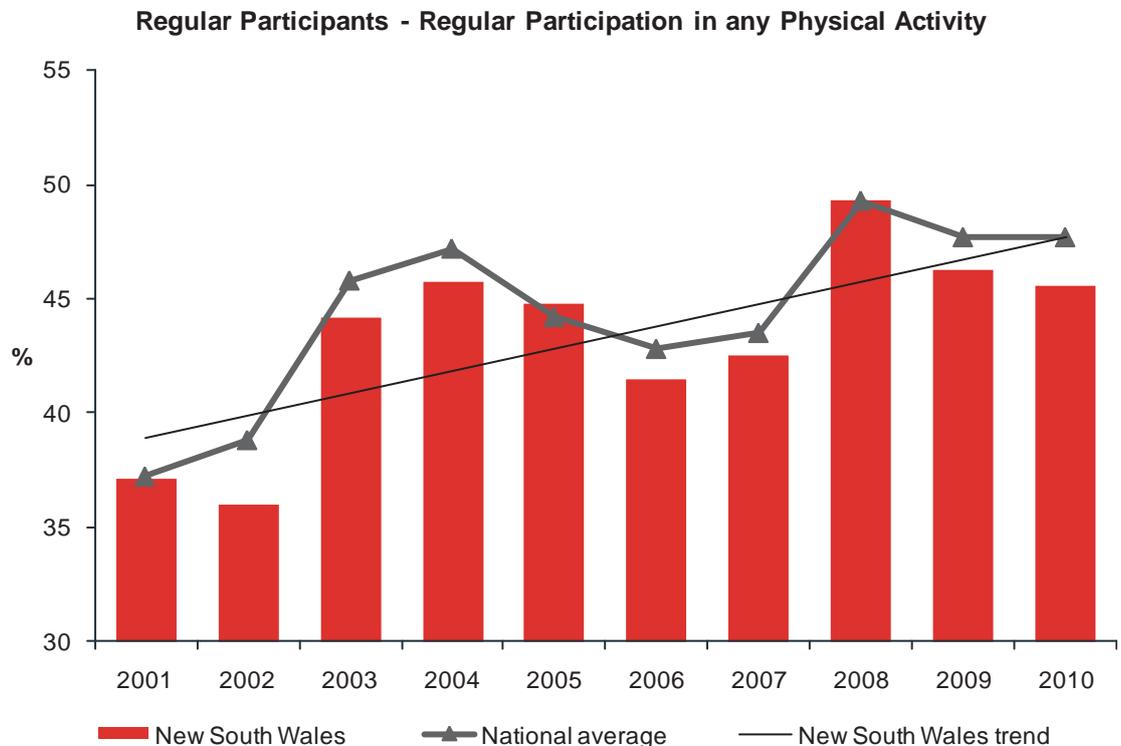
Sport and recreation participation in New South Wales

The Office of Communities is responsible for encouraging participation in sport and recreation across New South Wales. Over the last five years, it has provided around \$20.0 million to local councils and community organisations for programs and facilities that will increase levels of physical activity.

In June 2011, the Australian Standing Committee on Recreation and Sport released its 2010 annual report. The report provides a snapshot of participation in sport and physical activity by people over 15 years old across Australia.

The results show that whilst regular participation rates in New South Wales have improved over the past decade, the rate is consistently below the national average. Participation rates in New South Wales over the last two years have been the second lowest compared to other states and territories.

The following graph shows the rates of regular participation in physical activity over time:



Source: Participation in Exercise, Recreation and Sport Annual Report 2010, Australian Sports Commission (unaudited).

The Office of Communities advises the 2008 result may be inflated due to a difference in data collection methodology.

Connected Classrooms Program (CCP)

The Connected Classrooms Program (CCP) commenced in 2007–08. It consists of the following three components and represents a total investment of \$158 million over four years:

- the Interactive Classroom Project – 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 – will upgrade student email, provide an individual online working space for all students and teachers and online access to student reports for parents
- the Network Bandwidth Enhancement Project – for network upgrades, which will increase bandwidth speed and provide secure internet browsing and content filtering to better enable interactive learning environments.

Year ended 30 June	2011		
	Total Budget Over four Years \$'000	Actual Costs \$'000	Total Costs to Date \$'000
Interactive Classrooms Project	66,507	1,812	55,325
Learning Tools Project	31,067	9,848	27,195
Network Bandwidth Enhancement Project	60,388	13,120	54,142
Total	157,962	24,780	136,662

Source: DEC Statistics (unaudited).

The Department advises it had installed Interactive Classrooms in 2,204 (1,778) schools at 30 June 2011 and upgraded 2,494 Department sites with bandwidth.

Data Collaboration and Lesson Creation software has been deployed to all New South Wales public schools along with access to the online collaborative Learning Tool, 'blogED'. The eBackpack online data sharing environment, online access to student reports and enhanced student portals are all about to be released to a trial environment.

Digital Education Revolution (DER)

The DER program aims to provide all secondary students in Years 9 to 12 with a laptop computer by December 2011. New South Wales has received \$366 million to date with further funding of \$81.0 million to be made available in instalments up to December 2012.

The Department aims to provide a wireless enabled laptop computer to all Years 9 to 12 students for their individual use.

Contracts awarded to date include:

- \$150 million to supply approximately 260,000 student laptops
- \$70.0 million for wireless network access
- on-costs of \$189 million to cover agreed additional expenditure. The on-costs agreement includes funding for wireless connectivity, professional learning and curriculum support and the employment of over 500 technology support officers, mostly school based.

Achievements to date include:

- completion of a third rollout of student laptops (192,000 laptops issued to date)
- completion of a wireless network rollout in schools (approximately 22,000 wireless access points installed across 483 school sites)
- technology support officers established in 463 schools across ten regions as well as 50 Jumpstart ICT cadet positions across the State.

Total expenditure on the DER program to 30 June 2011 was \$272 million (\$177 million).

At 1 July 2011, 1,815 laptops had been reported as lost or stolen (less than one per cent of total laptops). Of these, 58 have been recovered and 345 have been written off by schools.

The Department has installed Interactive Classrooms in 2,204 schools

192,000 laptops have been issued to students

Approximately 1,815 (less than one per cent) of laptops provided under the program have been stolen or lost

The average cost of providing schooling in 2011 was \$11,610 per student

The Department provided \$828 million to non-government schools during 2011

In 2011, the New South Wales Government provided an average of \$2,177 per non-government school student

Cost of Providing Government School Education

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

Year ended 30 June	2011	2010	2009	2008
Enrolments(a):				
Primary students	436,738	432,884	431,447	430,885
Secondary students	316,858	316,129	314,290	307,260
Total	753,596	749,013	745,737	738,145
Service Group Costs(b):				
Primary \$m	4,671	4,517	4,250	3,904
Secondary \$m	4,078	4,019	3,816	3,597
Total \$m	8,749	8,536	8,066	7,501
Cost per Student:				
Primary \$	10,695	10,435	9,851	9,060
Secondary \$	12,870	12,713	12,142	11,707
Average \$	11,610	11,396	10,816	10,162

Source: DEC Statistics.

a The 2008 to 2011 figures are (unaudited) estimates provided by the Human Resource Planning Unit. The school enrolments above differ from those published in ACARA, which are sourced from ABS, Schools Australia 2010 (Table 7) and from the Department's Statistical Compendium

b Service group costs are net cost of services for government primary and secondary schools excluding transfer payments. Service group costs used in the calculation of cost per student included non-cash items, leave and superannuation liabilities assumed by the Crown Entity (audited).

Average enrolments increased by 2.1 per cent over the last four years and costs per student increased by 14.2 per cent over the same period.

Funding of Non-Government School Education by the Department

In 2011, the New South Wales Government provided funding to 934 (926) non-government schools. Some broad trends of funding per student were:

Year ended 30 June	2011	2010	2009	2008
Average Enrolments(a):				
Primary students	190,204	188,499	187,406	186,537
Secondary students	190,285	187,143	185,451	183,399
Total	380,489	375,642	372,857	369,936
Funding(b):				
Primary \$m	365	344	336	323
Secondary \$m	463	438	422	408
Total \$m	828	782	758	731
Funding per Student:				
Primary \$	1,918	1,824	1,791	1,729
Secondary \$	2,436	2,339	2,276	2,224
Average \$	2,177	2,080	2,033	1,975

Source: DEC Statistics (unaudited).

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 Funding is inclusive of per capita grants and interest rate subsidies.

Average enrolments increased by 2.9 per cent over the last four years and funding per student increased by 10.2 per cent over the same period.

School Facilities and Building Maintenance

Total school maintenance expenditure decreased from \$378 million in 2009–10 to \$261 million in 2010–11. This was primarily due to the Australian Government funded school maintenance programs of \$114 million related to National School Pride.

The Department is currently undertaking a conditional assessment of school buildings to determine the maintenance requirements for the next two years.

Schools

For the school financial year ended 30 November 2010, I audited financial transactions at 56 primary schools, 12 high schools, one central school (K-12) and three senior schools.

I identified opportunities for schools to improve their internal controls and general compliance with departmental guidelines, which I reported to school principals. Many of my findings were similar to those of the previous year. The Department advises it communicates common findings to all schools and directs them to take corrective action.

Human Resources

Annual Leave Balances

Last year, I recommended the Department continue to review the effectiveness of its policies for managing excessive annual leave balances. During 2010–11, the number of employees with annual leave balances over 40 days increased from 815 to 838, which represents a liability of \$13.3 million (\$12.6 million).

The Department advises that the Human Resources Directorate reviews leave balances annually. Employees with balances in excess of 40 days are advised to reduce their leave balance or obtain approval to retain excess leave balances.

Entitlement (days) at 30 June 2011	No. of Employees	Total Days	Liability \$'000
>100	20	2,797	890
81–100	20	1,780	688
61–80	90	6,130	1,759
41–60	708	33,590	9,995
Total	838	44,297	13,332

Forty four per cent of New South Wales teachers are over 50 years of age

Teacher Age Profiles

I reviewed the employee age profile to identify the number of permanent teachers nearing retirement age and actions taken to address any risks arising. I found many permanent teachers are likely to retire over the next five to ten years increasing the risks associated with the significant loss of knowledge and skills for the Department.

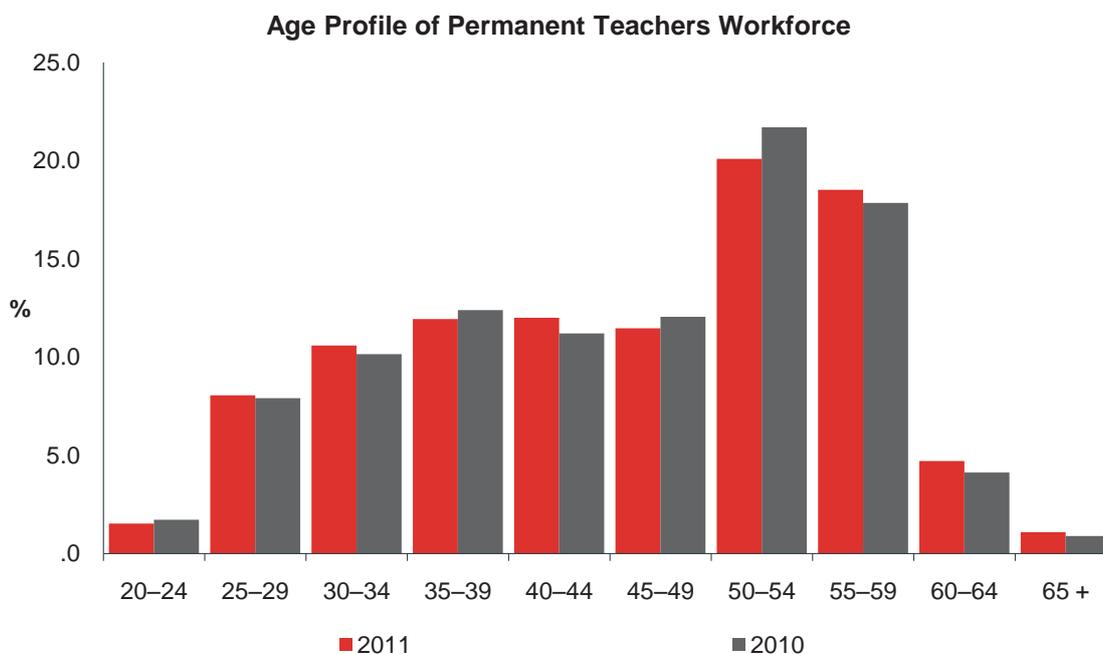
The Department has advised it has strategies in place to manage these risks.

The table below details the age profile of permanent teachers:

At March Age Group	2011		2010	
	No. of Teachers	%	No. of Teachers	%
20–24	745	1.5	842	1.7
25–29	3,941	8.1	3,879	7.9
30–34	5,182	10.6	4,984	10.2
35–39	5,835	11.9	6,084	12.4
40–44	5,873	12.0	5,501	11.2
45–49	5,611	11.5	5,919	12.1
50–54	9,826	20.1	10,647	21.7
55–59	9,055	18.5	8,762	17.8
60–64	2,307	4.7	2,029	4.1
65+	532	1.1	437	0.9
Total	48,907	100.0	49,084	100.0

Source: DEC Personnel system (unaudited).

Statistics show 44.4 per cent (44.5 per cent) of school teachers are aged 50 years or over and the Department advises many of these employees may retire over the next six years.



To ensure an adequate supply of teachers, the Department continues to undertake comprehensive workforce planning to develop teacher supply and demand projections for permanent teachers over a seven year period. These projections are used to advise the Minister, Director General, universities, and State and Australian Government bodies of changing needs for permanent teachers in government schools, identify current and potential areas of shortfall, and develop strategies to address these areas.

The workforce plan for teachers is updated at least annually and more frequently if needed. In preparing the plan, the Department:

- monitors the demographic profile of its teaching workforce
- analyses the major supply sources of teachers
- examines factors, such as student enrolments, resignations and retirements, which affect the demand for permanent teachers.

The Department has a number of initiatives in place to attract people to areas of potential shortfalls such as:

- active promotion of teaching as a career
- supporting current and future teachers to gain teaching qualifications in curriculum and specialist areas of workforce need
- teacher education scholarships and retraining programs
- an incentives scheme for rural New South Wales.

The Department advises it has a very stable workforce and the teacher separation rates are relatively low, varying between three per cent and five per cent since 1997. Several initiatives have contributed to the retention of experienced teachers, including competitive teacher salaries, and comprehensive training and mentoring programs.

Use of Contract Staff

Last year, I recommended the Department:

- create and maintain a central record of all contract employees to determine, monitor and analyse the cost of contract employees, the number of contract employees and the period of service for all contract employees
- periodically review the roles and responsibilities of all contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the Department for an extended period of time
 - use of contract employees continues to represent value for money.

The Department advises it is subject to a staffing freeze, except for positions approved by the Department of Premier and Cabinet, such as those required for major projects like the BER and LMBR programs. Managers within the Department are required to lodge a business case and submit it to the Review Committee for endorsement prior to obtaining approval from the Director-General to engage new contractors or extend the engagement of existing contractors.

In 2010–11, the Department paid \$72.1 million (\$76.3 million) to a total of 1,010 contractors. There were 440 contractors engaged for periods greater than 12 months and 448 new contractors were engaged during the year. The retention of contract employees for extended periods may result in additional costs to the Department.

Financial Information

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Employee related	8,635,727	8,350,553	7,674,580	7,379,479
Operating expenses	1,970,172	2,085,718	1,598,944	1,731,616
Depreciation and amortisation	467,020	406,060	385,817	329,631
Grants and subsidies	441,050	303,213	511,589	341,260
Other expenses	17,116	11,812	17,116	11,812
Total Expenses	11,531,085	11,157,356	10,188,046	9,793,798
Total Revenue	980,361	998,609	930,357	905,260
Other gains/(losses)	(5,350)	1,743	(2,888)	6,555
Net Cost of Services	10,556,074	10,157,004	9,260,577	8,881,983
Less government contributions	11,970,316	12,262,598	10,648,511	10,907,412
Surplus	1,414,242	2,105,594	1,387,934	2,025,429
Other Comprehensive Income/Expense	1,855	(3,215)	--	60
Total Comprehensive Income	1,416,097	2,102,379	1,387,934	2,025,489

Employee related expenses represent 75.3 per cent (75.4 per cent) of total expenditure. The \$295 million increase was primarily due to a 3.8 per cent salary increase for teachers in January 2011 and a four per cent salary increase for administrative staff effective July 2010.

Grants and subsidies increased by \$170 million primarily due to the amalgamation of the former Communities NSW and additional grant payments for the National Partnership Agreement for Productivity Places.

The net decrease in government contributions of \$259 million was due to a rise in recurrent appropriation from the amalgamation of the former Communities NSW, a fall in capital appropriation due to the completion of BER projects and a \$90.1 million fall in employee benefits accepted by the Crown.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	938,131	932,085	752,463	745,144
Non-current assets	21,058,667	19,291,514	17,958,802	16,221,370
Total Assets	21,996,798	20,223,599	18,711,265	16,966,514
Current liabilities	953,489	1,013,478	724,384	784,713
Non-current liabilities	356,088	302,617	355,309	301,783
Total Liabilities	1,309,577	1,316,095	1,079,693	1,086,496
Net Assets	20,687,221	18,907,504	17,631,572	15,880,018

Non-current assets increased \$1.7 billion due largely to the BER program.

Current liabilities decreased by \$60.3 million due mainly to the timing of GST payments.

The increase in non-current liabilities of \$53.5 million was due primarily to loans from Treasury of \$55.0 million for the Principals Priority Building Project.

Abridged Service Group Information

The Department's consolidated net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2011 Budget* \$'000	2011 Actual \$'000	2010 Actual \$'000	2011 Actual \$'000	2010 Actual \$'000
Children's services (including all pre-schools)	27,070	77,085	28,540	(2,512)	(2,077)
Primary education services in government schools	4,568,081	4,670,649	4,517,076	10,522,694	8,525,917
Secondary education services in government schools	4,174,509	4,077,905	4,018,826	5,601,952	6,238,771
Non-government schools	25,716	13,474	12,546	(98)	(99)
TAFE NSW and community education	1,426,507	1,348,225	1,364,729	3,115,261	3,079,135
Vocational education and training	265,068	285,694	224,431	(4,715)	(4,266)
Sport and recreation services**	--	39,239	--	353,471	--
Support Aboriginal culture and community resilience**	--	8,486	--	1,630	--
Citizenship and communities**	--	31,612	--	3,316	--
Personnel services**	--	379	--	(189)	--
NSW Adult Migrant English Service (AMES)	--	3,326	(9,144)	(11,748)	(5,447)
Not Attributable***	--	--	--	1,108,159	1,075,570
Total All Service Groups	10,486,951	10,556,074	10,157,004	20,687,221	18,907,504

* Per the 2010–11 Budget Papers – net of transfer payments.

** These service groups were transferred to the Department on 1 April 2011, hence there are no budget figures for 2011 or comparatives for 2010 and the 2011 figures relate to the three month period ending 30 June 2011.

*** Represents items that could not be reliably allocated to a 'service group'.

Primary Education Services increased by \$154 million from 2009–10 primarily due to:

- employee related expenses increasing by \$243 million due to temporary staff costs and variations in staff entitlements
- Offset by other operating expenses decreasing by \$96.5 million due to the completion of the National School Pride program in 2010.

Vocational Education Services increased by \$61.3 million due to additional grant payments for the National Partnership Agreement for Productivity Places.

Children's Services, formerly known as Preschool Education Services, increased by \$48.5 million due to the amalgamation of the former Communities NSW in April 2011.

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
- certain regulatory and service responsibilities to private schools, private providers of education and training and universities.

From 1 April 2011, the Department includes the Office of Communities. Its responsibilities include promoting the interests of children and advancing the wellbeing of the Aboriginal people of New South Wales, providing more opportunities for participation in volunteering, sport and recreation and ensuring the sacrifices of war veterans are honoured and remembered.

Controlled Entities

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

Separate comments on TAFE NSW and its controlled entity TAFE NSW Commission Division are included elsewhere in this report.