

---

**New South Wales Auditor-General's Report**  
Financial Audit

**Volume Thirteen 2014**

Focusing on Education and Communities

---



## The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

[audit.nsw.gov.au](http://audit.nsw.gov.au)



© Copyright reserved by the Audit Office of New South Wales. All rights reserved. No part of this publication may be reproduced without prior consent of the Audit Office of New South Wales.

The Audit Office does not accept responsibility for loss or damage suffered by any person acting on or refraining from action as a result of any of this material.



GPO Box 12  
Sydney NSW 2001

The Legislative Assembly  
Parliament House  
Sydney NSW 2000

The Legislative Council  
Parliament House  
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*,  
I present Volume Thirteen of my 2014 report.

A handwritten signature in black ink, appearing to read 'Grant Hehir'.

**Grant Hehir**

Auditor-General

12 December 2014

# Contents

---

## **Part One – Education and Communities 3**

### **Section One 3**

Executive Summary	4
Education and Communities	4
Financial and Performance Reporting	8
Financial Controls	24
Governance	40
Service Delivery	45

### **Section Two – Appendices 57**

Appendix One – Summary Financial Information	58
Appendix Two – Performance Against Budget	59
Appendix Three – Financial Sustainability	60
Appendix Four – Cluster Information	62

## **Part Two - New South Wales Aboriginal Land Council 63**

### **Section One 63**

New South Wales Aboriginal Land Council	64
Financial and Performance Reporting	65
Financial Controls	68
Governance	69
Service Delivery	71

### **Section Two – Appendices 74**

Summary Financial Information	75
-------------------------------	----



# Part One - Section One

Education and Communities

---



# Executive Summary – Education and Communities

## Introduction

This report sets out the results of the financial statement audits of the Education and Communities cluster agencies for the year ended 30 June 2014. The report analyses the agencies' results and makes key observations and recommendations in the following areas:

- Financial and Performance Reporting
- Financial Controls
- Governance
- Service Delivery.

A snapshot of the Education and Communities cluster for the year ended 30 June 2014 is shown below.

 	<b>Early childhood education and care</b> <ul style="list-style-type: none"><li>• 4,910 approved service providers</li><li>• 47,700 funded childcare places</li></ul> 
   	<b>Primary and secondary schools</b> <ul style="list-style-type: none"><li>• 755,346 school students</li><li>• 2,218 schools</li><li>• 48,411 permanent school teachers</li><li>• \$903 million provided to non-government schools</li></ul> 
   	<b>Vocational education and training</b> <ul style="list-style-type: none"><li>• 570,036 enrolments</li><li>• 130 TAFE campuses</li><li>• 89 per cent of graduates satisfied with TAFE NSW</li></ul> 
    COMMUNITY RELATIONS COMMISSION FOR A MULTICULTURAL NSW	<b>Communities</b> <ul style="list-style-type: none"><li>• \$3.5 billion worth of assets</li><li>• 24 Sport and Recreation Centres and Venues</li><li>• 438,087 participants in a program/service provided by Sport and Recreation</li></ul> 

## Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. Confidence in public sector decision making, financial management and transparency is enhanced when financial and performance reporting is accurate, timely and clear.

The audit opinions on all the Education and Communities agencies' 30 June 2014 financial statements were unqualified. No significant matters were identified. Over the last five years, reported misstatements identified during the audit have fallen significantly.

Agencies in the Education and Communities cluster were largely successful in performing early close procedures mandated by NSW Treasury. This facilitated early resolution of accounting issues and enabled the financial statements to be submitted earlier than the previous year.

The Department of Education and Communities currently records the Sydney Conservatorium of Music's land and buildings in its financial statements, but the supporting basis for the control of assets at this site needs further clarification.

Service Level Agreements define the roles and responsibilities of all parties. A number of agencies in the cluster operate without formal service level agreements with their corporate service providers.

Agencies must generate sufficient revenues and cash flows to fund operations and remain financially stable. The liquidity ratio for Venues NSW is positive, but significant deficits over the past three years (after adjusting for capital grants) suggest it may not be able to meet its short term obligations in the future if this trend continues.

Most cluster agencies had very low or negative self-financing and capital replacement ratios, indicating they may not have sufficient cash from operations to fund new assets. For the major asset based agencies, Venues NSW and Sydney Olympic Park Authority, it is essential they work with NSW Treasury to establish capital structures and funding arrangements that allow them to maintain and renew their assets.

In 2011-12, 229 NSW public schools were invited to participate in the 'Empowering Local Schools' National Partnership. In 2013-14, these schools received all three components of funding under the Department's new Resource Allocation Model (RAM). The model is designed to achieve a simpler, fairer and more transparent distribution of government school funding.

At 30 June 2014, schools held total cash of \$648 million, an increase of \$90.1 million (or 16.1 per cent) from the previous year. The Department advised contributing factors for the increase included the additional funding received under the RAM, allocation of 19.5 per cent salary oncosts to schools and the impact of schools operating on a calendar year rather than a financial year basis. The average cash balance was \$804,381 for secondary schools and \$223,506 for primary schools.

## Financial Controls

Appropriate financial controls help ensure the efficient and effective use of resources and the implementation and administration of policies. They are essential for quality and timely decision making and financial management to achieve desired outcomes.

Audits of the Education and Communities cluster identified areas where internal controls could be improved. These were reported to the relevant agencies' management. Within the cluster, a total of 137 issues were reported, 38 of which were repeat issues.

Information systems audits examine the information technology (IT) processes and controls supporting the integrity of financial data used to prepare agency financial statements. Twenty five IT issues were identified in the Education and Communities cluster agencies, a 79 per cent increase from the previous year. Four issues raised were reported in the previous year and related to information security. If these issues are not addressed in a timely manner, agencies may be exposed to security attacks which could result in data integrity issues, fraud or identity theft.

Four of five agencies surveyed had not established and regularly reviewed disaster recovery plans for critical financial systems. Without adequate testing, these agencies have little comfort over the effectiveness of their disaster recovery plans.

The Department expects the Learning Management and Business Reform (LMBR) program to modernise the way the Department manages itself. The 229 schools involved in the 'Student Management, Student Wellbeing' and Schools Finance rollout experienced considerable difficulties transitioning to the new systems.

Managing excess annual leave continues to challenge many agencies in the Education and Communities cluster. The management of excess annual leave needs to be improved in all cluster agencies if they are to meet the 30 June 2015 target of all staff having annual leave balances of 30 days or less.

The Department faces the potential loss of thousands of staff over the next few years with around 35 per cent of the teaching workforce reaching notional retirement age in the next five years. Around 53 per cent of school teachers are aged 45 or older, 27 per cent of permanent teachers are aged 55 or over and over 72 per cent of TAFE teachers are 50 or older.

At March 2014, more than 44,000 people were seeking permanent employment as teachers. There were 2,111 classroom teachers appointed during 2013.

The Department has an estimated maintenance backlog of \$548 million. The Department should work with NSW Treasury to establish an appropriate response to backlog maintenance.

## Governance

Governance refers to the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled. It includes the systems agencies, and those charged with governance, use and are held to account by others.

In 2013-14, the Education and Communities cluster had several major restructures, including the creation of the Board of Studies, Teaching and Educational Standards and the establishment of the NSW Skills Board. From 1 July 2014, further restructures occurred including, separating the Technical and Further Education Commission (TAFE NSW) from the Department and transferring the Sport and Recreation Portfolio to the Premier and Cabinet cluster.

The risk management frameworks and processes of agencies in the cluster are at different levels of maturity. Some cluster agencies did not meet the 'core requirements' of TPP 09-05 'Internal Audit and Risk Management Policy for the NSW Public Sector' and some smaller agencies failed to establish and maintain legal compliance registers to respond to the risk of significant non-compliance.



## Service Delivery

The Department of Education and Communities has twenty-four performance targets for early childhood through to tertiary education. Seven of these are either not being achieved or unlikely to be achieved. Primary and secondary school children's reading and numeracy results are over 90 per cent but are not meeting the targets for improvement. The proportion of school starters with the necessary literacy and numeracy skills is not increasing. Targets for young people in further education, training or employment are unlikely to be achieved along with the proportion of 20-24 year old rural and regional students completing year 12 or the equivalent. The percentage of people reaching the target level of tertiary education is also unlikely to meet its target.

The achievement of Government outcomes can be improved through effective commissioning of the right mix of services. Commissioning involves agencies assessing their needs, determining priorities, designing and sourcing appropriate services, and monitoring and evaluating performance.

The Department is implementing reforms to improve the quality of teaching in schools, the outcomes for all students as well as providing schools with more authority to meet their community needs. These include, 'Local Schools, Local Decisions', National Education Reform Agreement, 'Great Teaching, Inspired Learning' program, 'Smart and Skilled' and 'Connected Communities

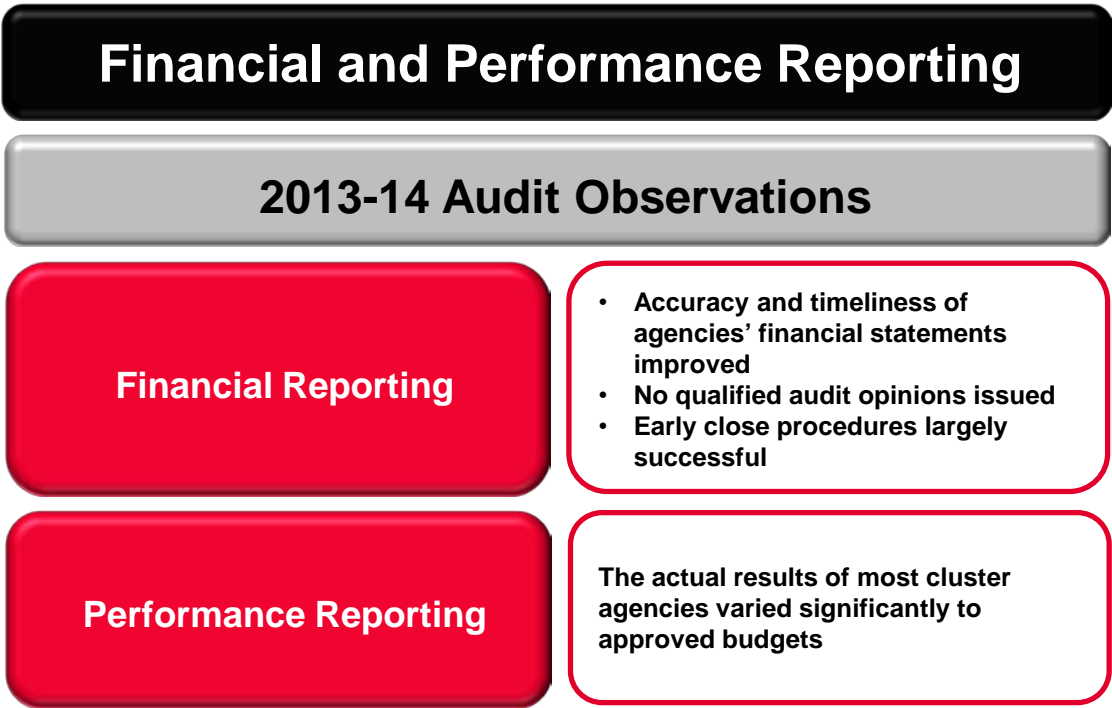
## Recommendations

1. Some cluster agencies should finalise service level agreements with their corporate service provider.
2. Venues NSW and Sydney Olympic Park Authority should work with NSW Treasury to establish a capital structure and funding arrangement that supports financial sustainability.
3. Cluster agencies should address repeat issues from previous audits in a timely manner.
4. Cluster agencies should fully test their disaster recovery plans.
5. For future rollouts, more effective training and communications for the 'Learning Management and Business Reform' project staff, including contractors, is required to improve awareness of IT security and change management policies and procedures. Compliance with these policies and procedures should be monitored throughout the project.
6. Agencies should meet the 'core requirements' of TPP 09-05 'Internal Audit and Risk Management Policy for the NSW Public Sector' or obtain an exception from the Portfolio Minister.
7. Smaller agencies within the cluster need to establish and maintain a legal compliance register.
8. The Department should work with NSW Treasury to establish an appropriate response to backlog maintenance.

# Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. Confidence in public sector decision making, financial management and transparency is enhanced when financial and performance reporting is accurate, timely and clear. The NSW Government requires accurate and timely financial and performance information from public sector agencies to enable effective decision-making.

The 2013-14 results of the Education and Communities cluster agencies are summarised below.



## Quality of Financial Reporting

**Unqualified audit opinions were issued on the financial statements of all agencies in the Education and Communities cluster for the year ended 30 June 2014.**

No significant matters were reported in 2014. Reported misstatements across the cluster fell from 78 in 2009-10 to 46 in 2013-14, partly due to early close procedures introduced by NSW Treasury in 2012. All material misstatements were corrected in the 2013-14 financial statements.

2014 Audit Result			Reported misstatements for the year ended 30 June				
Agency	Modified opinion?	Number of significant matters	2014	2013	2012	2011	2010
<b>Cluster lead entity</b>							
Department of Education and Communities (including TAFE Commission)	No	--	3	3	6	9	16
<b>Education related entities</b>							
Board of Studies, Teaching and Educational Standards	No	--	11	N/A	N/A	N/A	N/A
NSW Skills Board	No	--	3	N/A	N/A	N/A	N/A
Technical Education Trust Funds*	N/A	--	N/A	--	1	1	1
Technical and Further Education Commission	No	--	5	4	8	2	13
<b>Communities related entities</b>							
Combat Sports Authority of NSW	No	--	--	2	1	1	3
Community Relations Commission for a Multicultural NSW	No	--	2	3	7	1	4
New South Wales Institute of Sport	No	--	12	5	10	9	5
Newcastle International Sports Centre Club	No	--	--	--	1	N/A	N/A
State Sporting Venues Authority	No	--	1	1	3	N/A	N/A
Sydney Cricket and Sports Ground Trust	No	--	4	6	3	7	21
Sydney Olympic Park Authority	No	--	--	3	7	5	7
The Trustees of the ANZAC Memorial Building	No	--	3	5	20	N/A**	8
Venues NSW	No	--	2	4	11	N/A	N/A
<b>Other entity</b>							
NSW Commission For Children and Young People***	N/A	--	N/A	7	1	2	--
<b>Total</b>		--	<b>46</b>	<b>43</b>	<b>79</b>	<b>37</b>	<b>78</b>

\* Technical Education Trust Funds has a 31 December year end.

\*\* The Trustees of ANZAC Memorial Building changed from a 31 December year end to 30 June year end in 2012. Audits were performed at 31 December 2010 and 30 June 2012. No audit was performed in 2010-11.

\*\*\* The NSW Commission for Children and Young People is expected to be abolished by the end of 2014. Financial statements for the period 1 July 2013 to the date of abolition will be prepared and audited. Hence no audit opinion was issued for 2013-14.

N/A The Board of Studies, Teaching and Educational Standards was established on 1 January 2014. The Skills Board was established on 27 November 2013 and Venues NSW was formed on 2 March 2012. The State Sporting Venues Authority prepared financial statements for the first time in 2011-12.

Source: Audit Office of New South Wales.

## Timeliness of Financial Reporting

**The Audit Office was able to complete the audits of the financial statements and issue audit opinions within the earlier deadlines.**

The timeliness of agency financial reporting in the cluster is detailed below.

Agency	Early close procedures		Financial statements		Audit	
	Received by statutory date?*	Days late	Received by statutory date?	Days late	Completed by statutory date?	Days late
<b>Cluster lead entity</b>						
Department of Education and Communities (including TAFE Commission)	Yes	--	Yes	--	Yes	--
<b>Education related entities</b>						
Board of Studies, Teaching and Educational Standards	No	25	Yes	--	Yes	--
NSW Skills Board	N/A	N/A	Yes	--	Yes	--
Technical Education Trust Funds	N/A	N/A	Yes	--	No	50
Technical and Further Education Commission	Yes	--	Yes	--	Yes	--
<b>Communities related entities</b>						
Combat Sports Authority of NSW	N/A	N/A	Yes	--	Yes	--
Community Relations Commission for a Multicultural NSW	No	1	Yes	--	Yes	--
New South Wales Institute of Sport	N/A	N/A	No	38	Yes	--
Newcastle International Sports Centre Club	N/A	N/A	Yes	--	Yes	--
State Sporting Venues Authority	Yes	--	Yes	--	Yes	--
Sydney Cricket and Sports Ground Trust	N/A	N/A	Yes	--	Yes	--
Sydney Olympic Park Authority	Yes	--	Yes	--	Yes	--
The Trustees of the ANZAC Memorial Building	N/A	N/A	Yes	--	Yes	--
Venues NSW	Yes	--	Yes	--	Yes	--
<b>Other entity</b>						
NSW Commission For Children and Young People	N/A	N/A	Yes	--	No**	--

\* Pro-forma financial statements and supporting documents were received by statutory dates.

\*\* The NSW Commission for Children and Young People is expected to be abolished by the end of 2014. Financial statements for the period 1 July 2013 to the date of abolition will be prepared and audited. Hence no audit opinion was issued for 2013-14.

N/A These agencies were not required to complete early close procedures under the NSW Treasury Circular 14/02 'Mandatory Early Close Procedures for 2014'.

Source: Audit Office of New South Wales.

Most cluster agencies submitted financial statements on time except the NSW Institute of Sport and Staff Agency (38 days late). The NSW Institute of Sport and Staff Agency's financial statements were delayed because key finance staff left the organisation in late June 2014 and were not replaced until a new Manager, Financial Services was appointed on 11 August 2014.

All but one audit of the Education and Communities cluster agencies were finalised within the eight week reporting timetable set out in TC 14/02 'Mandatory early close procedures for 2014'. The Technical Education Trust Funds audit was finalised fifty days after the statutory deadline because key audit issues mainly relating to legislative compliance needed to be addressed.

## Outcomes of Early Close Procedures

**Agencies in the Education and Communities cluster were largely successful in performing early close procedures and submitted financial statements earlier than the previous year.**

Consistent with its practice of the past four years, NSW Treasury issued TC 14/02 'Mandatory early close procedures for 2014'. The circular is designed to achieve continuous improvement in the quality and timeliness of agencies' annual financial statements.

The Education and Communities cluster agencies were largely successful in performing early close procedures. The delay by the Board of Studies, Teaching and Educational Standards (BOSTES) was primarily due to a restructure during the year, merging the Office of the Board of Studies and related entities with NSW Institute of Teachers into BOSTES from 1 January 2014.

Pro-forma financial statements prepared by the Education and Communities cluster agencies as part of the early close procedures substantially complied with accounting standards and NSW Treasury Policy Paper TPP 14-02 'Accounting Policy: Financial Reporting Code for NSW General Government Sector Entities'. Non-compliance was generally due to agencies using prior year disclosures without updating them in 2013-14, including new disclosures required by AASB 13 'Fair Value Measurement'.

Other shortcomings in the early close procedures, for some agencies within the cluster, included:

- not resolving accounting issues impacting the financial statements
- not actioning improvements to financial reporting recommended in prior year management letters
- some reconciliations of key account balances were not reviewed or contained old reconciling items that needed investigation
- poor analysis and explanations for variances between year-to-date actuals and actuals for a comparable period in the previous year.

## Key Issues from Financial Audits

### Department of Education and Communities – Control over the Conservatorium of Music's land and buildings

**The supporting basis for the Conservatorium of Music's site requires further clarification.**

The Department of Education and Communities records the Sydney Conservatorium of Music's land and buildings, valued at \$159 million, in its financial statements.

Conservatorium activities include:

- non-exclusive operations of a Conservatorium High School managed by the Department
- commercial venue hire and community outreach managed by the Department
- Sydney Conservatorium of Music managed by the University of Sydney.

During 2013-14, management determined that the Department controlled the Conservatorium's assets. The Department's assessment did not consider:

- which entities use the Conservatorium of Music assets and receive most of the economic benefits
- agreements or leases for use of the assets by the Department or other agencies.

## Cluster Agencies - Service Level Agreement

### Recommendation

**Some cluster agencies should finalise a Service Level Agreement with their corporate service provider.**

Some agencies in the cluster used the Department of Education and Communities' corporate services without formal service level agreements in place. These agencies include State Sporting Venues Authority, the Trustees of the ANZAC Memorial Building, Combat Sports Authority of NSW and Venues NSW.

Service level agreements define the roles and responsibilities of all parties. They establish clear expectations and performance standards that should be met by all parties. Not having formal service level agreements in place increases the risk of performance gaps in key corporate service functions.

As most of these agencies have now transferred to the Department of Premier and Cabinet cluster, effective 1 July 2014, they should finalise service level agreements with their new corporate service provider.

## Key Financial Information

### Summary of Key Financial Information

Key financial information for the Education and Communities cluster agencies is in Appendix One to this Volume. The following commentary focuses on the Department of Education and Communities (including TAFE Commission).

### Analysis of the Financial Position

At 30 June	2014 \$'000	2013 \$'000
Current assets	1,281,225	1,294,577
Non-current assets	25,699,959	25,665,680
<b>Total assets</b>	<b>26,981,184</b>	<b>26,960,257</b>
Current liabilities	1,918,108	1,595,529
Non-current liabilities	206,953	346,796
<b>Total liabilities</b>	<b>2,125,061</b>	<b>1,942,325</b>
<b>Net assets</b>	<b>24,856,123</b>	<b>25,017,932</b>

Source: Department of Education and Communities Financial Statements 2014 (audited). Where prior period errors were identified, balances have been restated.

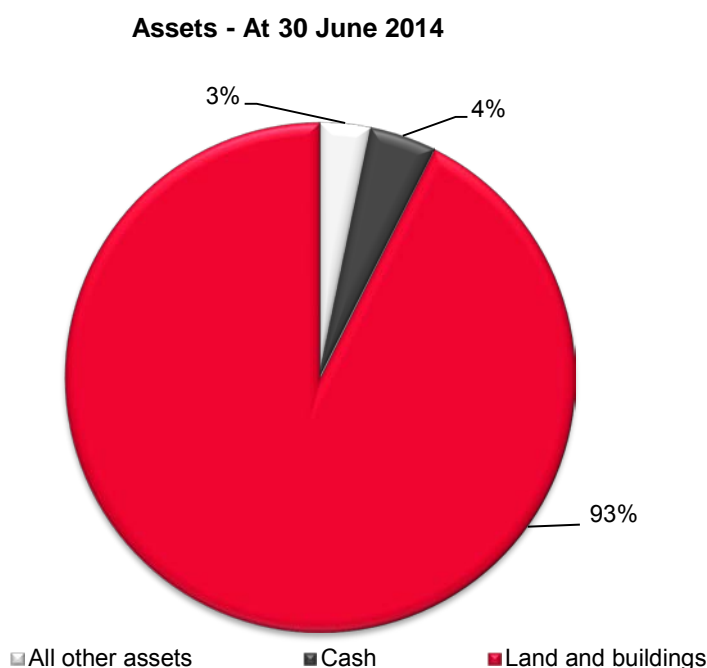
## Assets

**The Department's assets have increased by \$6.8 billion or 33.7 per cent since 2010.**

Total assets increased from \$20.2 billion at 30 June 2010 to \$27.0 billion at 30 June 2014 (33.7 per cent over five years), an average annual growth rate of 8.1 per cent. Almost all of this growth occurred in property, plant and equipment due to increases in asset valuations.

### Land and Buildings

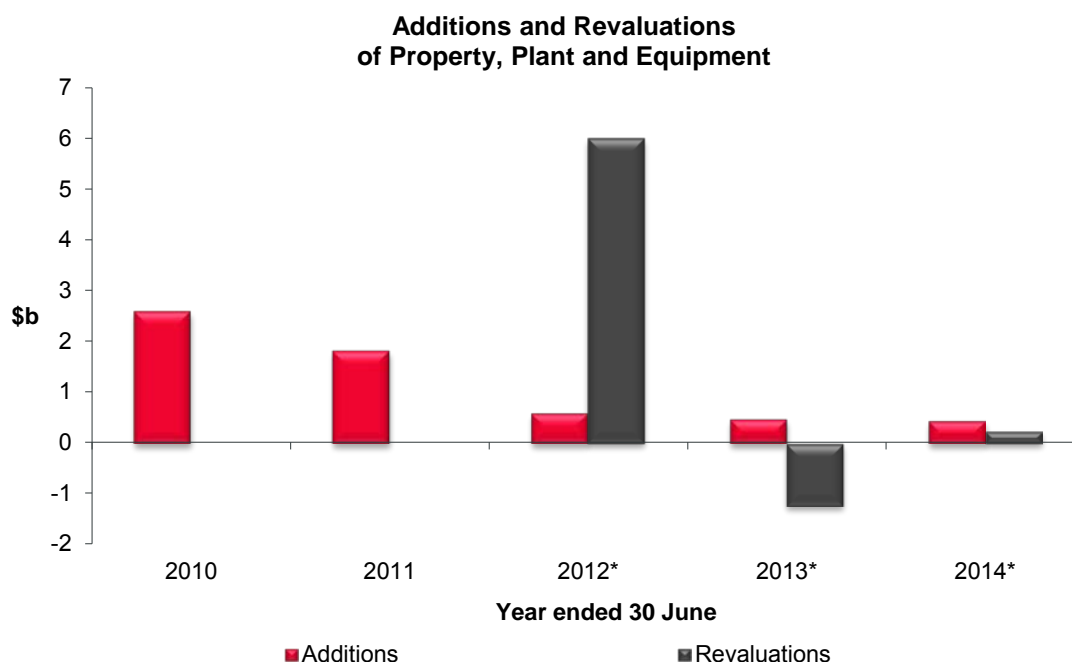
Land and buildings make up over 93 per cent of the Department's assets:



Source: Department of Education and Communities Financial Statements 2014 (audited).

The Department measures these assets at fair value, usually represented by the cost to replace the remaining service potential of the assets. Movements in the total value of assets are caused by the purchase or disposal of assets, or revaluations of existing assets.

The impact of asset additions and revaluations on the fair value of property, plant and equipment over the last five years is shown in the following graph.



\* Balances include the Office of Communities.

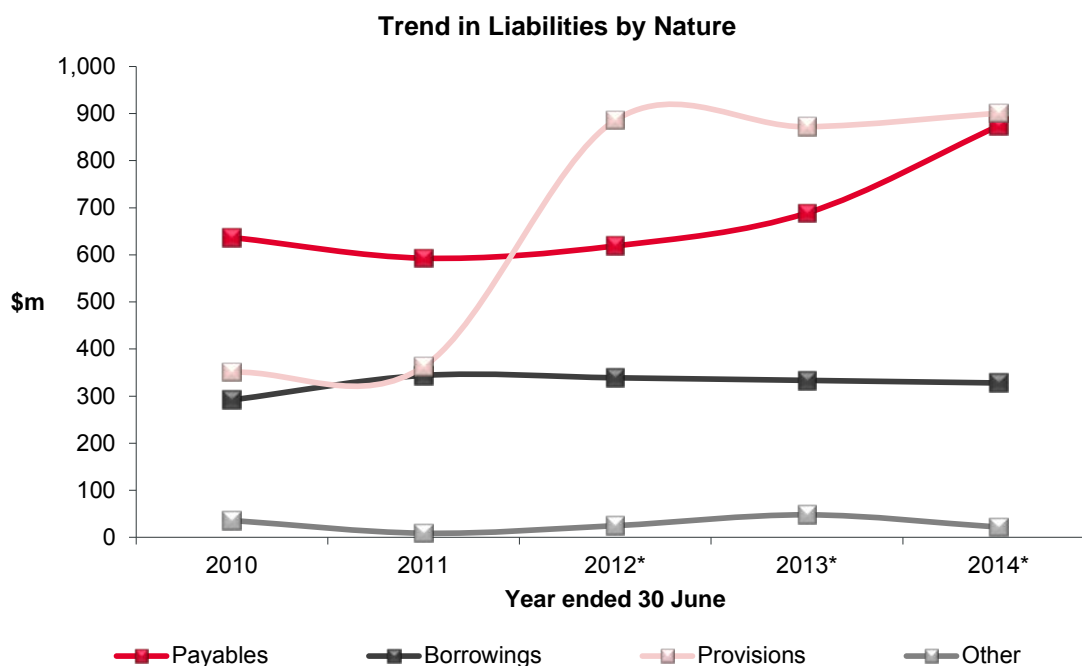
Note: Disposals have not been included in the graph above as they were not significant.

Source: Department of Education and Communities Financial Statements 2010 – 2014 (audited).

In 2013-14, the Department revised its revaluation methodology resulting in an increase of \$241 million in its asset values.

Over the past five years, the Department has spent more than \$5.9 billion mainly on school buildings and infrastructure.

## Liabilities



\* Balances include the Office of Communities.

Source: Department of Education and Communities Financial Statements 2010 to 2014 (audited). Where prior period errors were identified, balances have been restated.



Employee entitlement liabilities at 30 June 2014 increased by \$550 million (156.7 per cent) since 2009-10 largely due to the initial recognition of liabilities associated with teachers' leave in 2011-12. The total liability for this leave was \$320 million at 30 June 2014 (\$358 million at 30 June 2013).

Borrowings decreased by \$5.5 million in 2013-14 and the Department reclassified \$141 million owed to the Crown Entity from non-current to current.

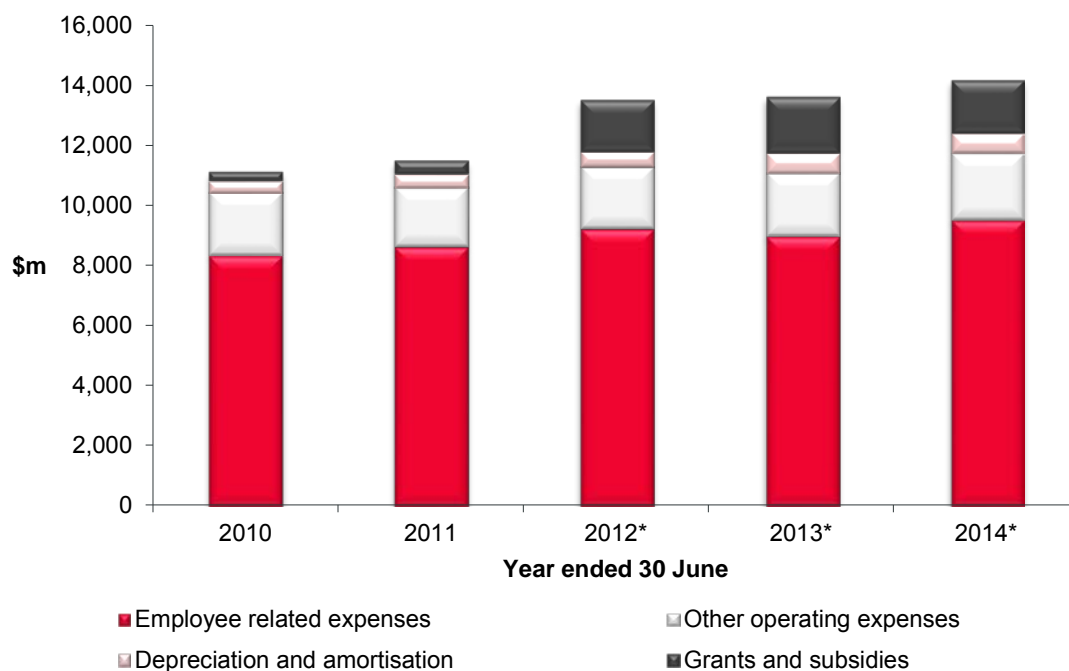
The increase in payables from \$689 million at 30 June 2013 to \$874 million at 30 June 2014 was mainly due to a rise in accrued salaries and wages and unearned VET-FEE Help revenue.

## Trends in Expenses and Revenues

Year ended 30 June	2014 \$'000	2013 \$'000	% Change
Employee related expenses	9,522,020	8,988,054	5.9
Depreciation and amortisation	674,025	660,506	2.0
Grants and subsidies	1,765,556	1,868,001	-5.5
Finance costs	19,590	19,167	2.2
Other expenses	2,206,338	2,102,668	4.9
<b>Total expenses</b>	<b>14,187,529</b>	<b>13,638,396</b>	<b>4.0</b>
Government contributions	12,730,330	12,571,416	1.3
Sale of goods and services	520,239	481,293	8.1
Investment revenue	38,217	46,062	-17.0
Other revenue	531,391	548,396	-3.1
<b>Total revenues</b>	<b>13,820,177</b>	<b>13,647,167</b>	<b>1.3</b>
Other losses	10,767	26,614	-59.5
<b>Net result –(deficit)</b>	<b>(378,119)</b>	<b>(17,843)</b>	<b>2,019.1</b>
<b>Other comprehensive income</b>			
Net increase/(decrease) from revaluation of assets	241,241	(1,236,939)	-119.5
Superannuation actuarial gains	2,697	21,088	-87.2
<b>Total other comprehensive income/(expense)</b>	<b>243,938</b>	<b>(1,215,851)</b>	<b>-120.1</b>
<b>Total comprehensive (expense)</b>	<b>(134,181)</b>	<b>(1,233,694)</b>	<b>-89.1</b>

Source: Department of Education and Communities Financial Statements (audited). Where prior period errors have been identified, balances have been restated.

## Expenses



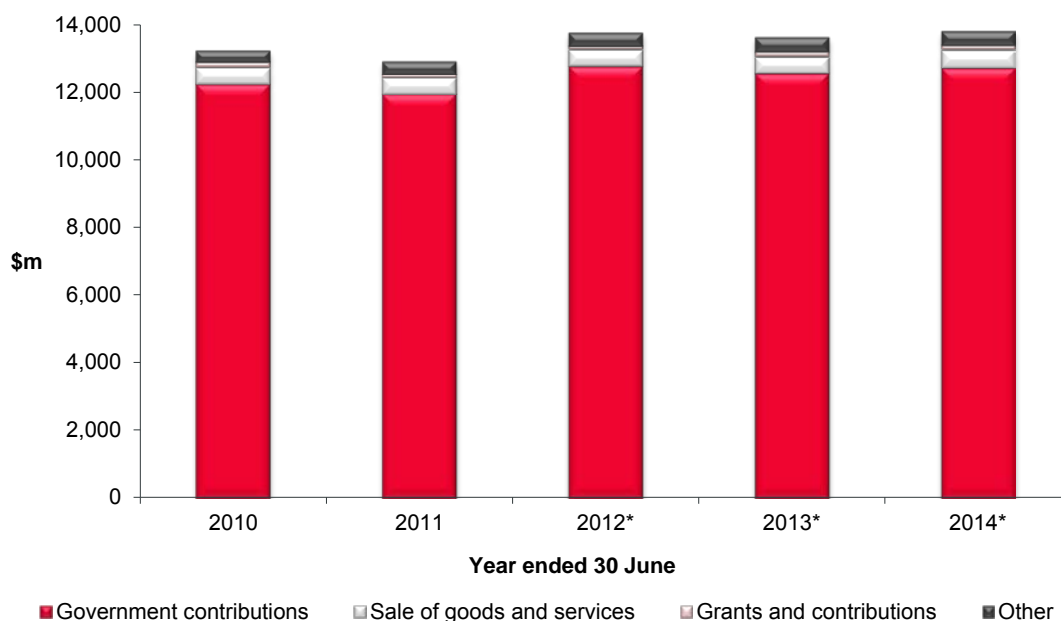
\* Balances include the Office of Communities.

Source: Department of Education and Communities Financial Statements 2010 to 2014 (audited). Where prior period errors were identified, balances have been restated.

Employee related costs grew by \$1.2 billion or 14 per cent from 2009-10 to 2013-14, an average annual growth rate of three per cent. The increase from 2012-13 to 2013-14 was \$534 million, primarily due to movements in the discount rate used to value long service leave liabilities.

Grants and subsidies increased by \$1.5 billion from 2009-10 to 2013-14, mainly due to a change in the way the Department recorded some grant payments. Before 2010-11, most grants were recorded as transfer payments and not recorded in the Statement of Comprehensive Income.

## Revenue



\* Balances include the Office of Communities.

Source: Department of Education and Communities Financial Statements 2010 to 2014 (audited). Where prior period errors were identified, balances have been restated.

Government contributions accounted for 92.1 per cent of the Department's total revenues in 2013-14, which increased by \$159 million from 2012-13. This was primarily due to movements in the discount rate used to value long service leave liabilities, resulting in an increase of \$173 million in the amount recoverable from the Crown Entity.

## Assets Revaluations across the Cluster

In 2013-14, Sydney Olympic Park Authority and State Sporting Venues Authority engaged independent valuers to perform full revaluations of their assets. This increased the Sydney Olympic Park Authority's infrastructure asset values by \$84.8 million and the State Sporting Venues Authority's land and buildings by \$20.0 million.

The Department revised its asset revaluation methodology, which increased its asset values by \$241 million. Key management assumptions and estimates were reviewed to ensure the revaluation results were valid.

## Performance against Budget

Comparing agency performance against budget assists in understanding how public funds are being used to achieve NSW Government policy objectives.

At various forums the Treasurer has continued to communicate to agency Chief Financial Officers the importance of accurate financial information. The Treasurer's request for the Auditor-General to review the estimates and forecasts in the 2013-14 'Half Yearly Budget Review' and 2014-15 'Budget Papers' was also aimed at improving the overall quality of budgets and projections.

## Budget Performance for the Education and Communities Cluster

The table at Appendix Two compares the 2013-14 actual results of cluster agencies to their 2013-14 budgets and highlights variances.

The following cluster agencies were allocated a budget in 2013-14:

- Department of Education and Communities (including TAFE Commission)
- Sydney Olympic Park Authority
- Community Relations Commission.

The table shows these agencies' actual net results, current assets and total liabilities varied by more than five per cent against budget. The reasons for the significant variances are disclosed in each entity's financial statements and in the following sections of this report.

#### **Department of Education and Communities (including TAFE Commission)**

In 2013-14, the Department's total recurrent expenditure budget was \$14.2 billion. The total recurrent expenditure for the year varied from budget by less than one per cent.

At 30 June 2014, its total assets were \$927 million (or four per cent) over budget mostly due to changes in its revaluation methodology in 2012-13 and the purchase of \$388 million of land and buildings of during the year.

Total liabilities were \$680 million (or 47 per cent) over budget primarily due to an increase in payables (\$286 million) and increases in TAFE and school teacher leave provisions (\$478 million).

#### **Sydney Olympic Park Authority**

The Authority's net deficit was \$2.5 million (or 17 per cent) above budget mainly due to additional car parking and investment revenue of \$7.0 million, offset by increased maintenance operating expenses of \$1.5 million. There was also an increase in depreciation and amortisation charges by \$2.5 million as a result of the revaluation of infrastructure assets in 2013-14.

Net assets were \$125 million (or seven per cent) above budget, predominately due to a \$72.0 million upward revaluation of infrastructure assets and a \$38.3 million increase in the value of its land and buildings.

### **Financial Sustainability across the Cluster**

As with any well run business, agencies should manage their finances so they can meet current and future spending commitments to provide high quality services and invest in future growth.

Most agencies within the Education and Communities cluster receive some government funding. However, they still need to generate sufficient revenues and cash flows to fund their operations and remain financially sustainable.

The following table shows the performance of the Education and Communities cluster agencies against some commonly used sustainability indicators at, and for the year ended 30 June 2014.

Cluster Agencies	Underlying Result	Liquidity	Self Financing	Capital Replacement	Overall Assessment
<b>Education related entities</b>					
Board of Studies, Teaching and Educational Standards	3%	5.3	2%	1.3	●
NSW Skills Board	47%	20.2	33%	N/A	●
Technical Education Trust Funds	30%	3166.8	32%	N/A	●
Technical and Further Education Commission	0%	2.6	16%	1.4	●
<b>Communities related entities</b>					
Community Relations Commission for a Multicultural NSW	4%	7.9	6%	0.8	●
New South Wales Institute of Sport	-2%	4.8	1%	0.2	●
State Sporting Venues Authority	8%	N/A	N/A	N/A	●
Sydney Cricket and Sports Ground Trust	46%	1.0	53%	13.2	●
Sydney Olympic Park Authority	-13%	6.1	10%	0.2	●
The Trustees of the ANZAC Memorial Building	20%	3.7	-3%	5.4	●
Venues NSW	-38%	1.8	-7%	0.3	●

N/A NSW Skills Board and the Technical Education Trust Funds have no property plant and equipment. State Sporting Venues Authority operates by way of in-kind contributions from the Department, who maintain the Authority's assets.

Note: The above assessment excludes the principal Department, staff agencies and dormant entities. Refer to Appendix Three for descriptions of ratios and the risk assessment criteria.

Source: Financial Statements 2014 (audited).

Sydney Olympic Park Authority and Venues NSW had negative underlying results.

## Recommendation

**Venues NSW and Sydney Olympic Park Authority should work with NSW Treasury to establish a capital structure and funding arrangement that supports financial sustainability.**

While the overall assessment suggests a risk, Sydney Olympic Park Authority appears to receive sufficient recurrent grants (\$28.0 million) to meet its short term obligations (\$21.0 million).

The liquidity ratio for Venues NSW is positive, but significant deficits over the past three years (after adjusting for capital grants) suggest it may not be able to meet its short term obligations in the future if this trend continues.

Most cluster agencies had very low or negative self-financing and capital replacement ratios indicating they may not have sufficient cash from operations to adequately maintain and/or fund new assets. This is important for the major asset based agencies, such as Venues NSW and Sydney Olympic Park Authority, so they can continue to provide high quality services to the general public and assure the safety of their facilities.

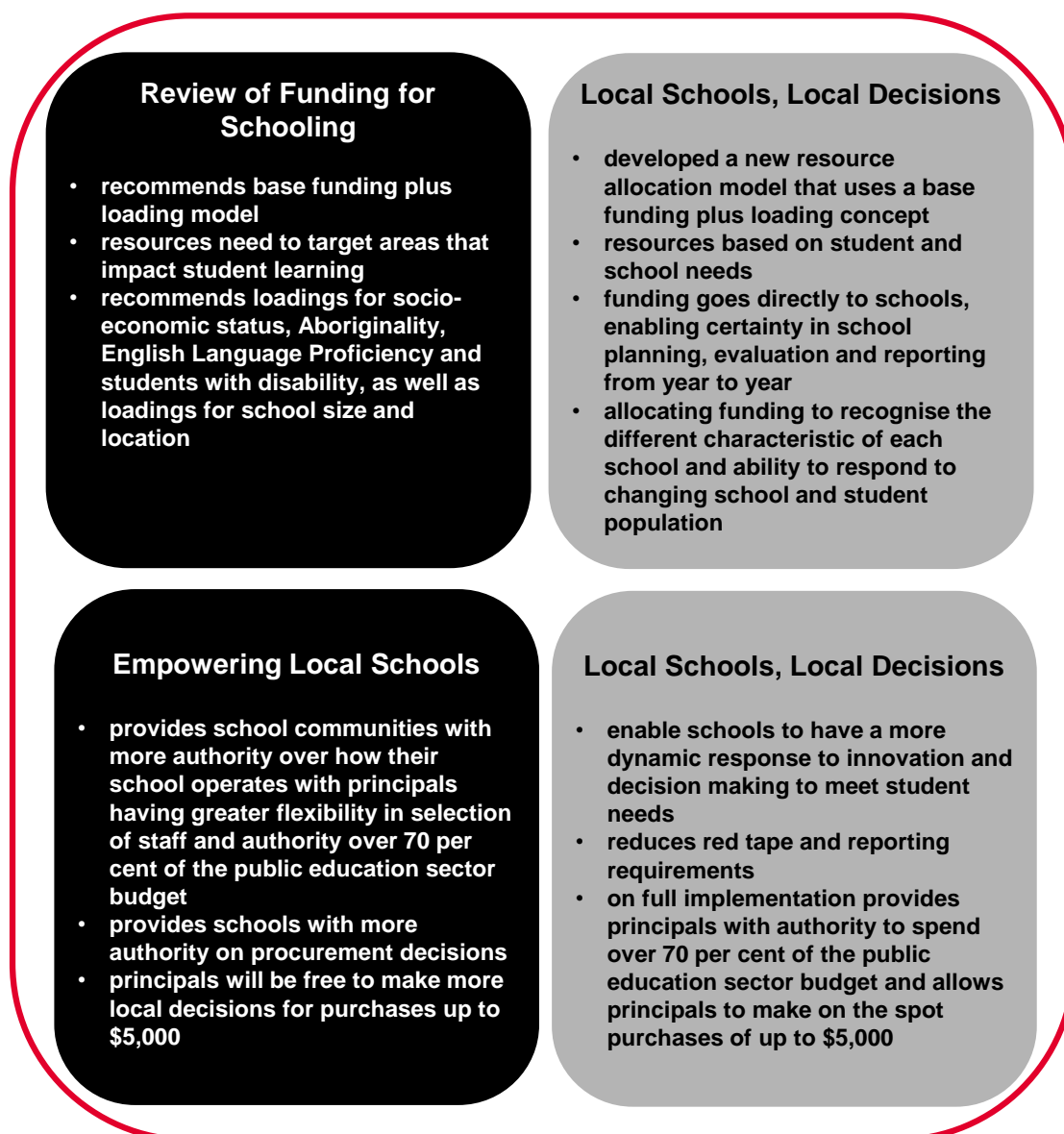
## Government Funding

The State's budgeted expenditure for the education sector, including its contribution to non-government schools, was \$13.6 billion in 2013-14. This has increased to \$14.2 billion in the 2014-15 budget. From 2010-11 to 2014-15, education funding increased by an average annual rate of 3.9 per cent or \$2.0 billion over four years.

## Funding of Government Schools

### Impact of the New Resource Allocation Model

In March 2011, the NSW Government announced its 'Local Schools, Local Decisions' reform intended to give schools greater local authority to manage budgets and human resources more effectively. It is broadly consistent with recommendations made in the 'Review of Funding for Schooling' report and the Australian Government's 'Empowering Local Schools' National Partnership.



To support the 'Local Schools, Local Decisions' reform and enable a shift of funding to the school level, the Department developed a new, needs-based Resource Allocation Model (RAM). The RAM is designed to achieve a simpler, fairer and more transparent distribution of the State public school education funding and to transform the way resources are managed in the public school system. The model recognises that students and school communities are not all the same. They have different needs and require different levels of support.

The NSW Government signed an agreement to participate in the 'Empowering Local Schools National Partnership' on 17 January 2012. The NSW Department of Education and Communities invited schools to apply to participate and 229 schools were chosen.

The RAM has three components:

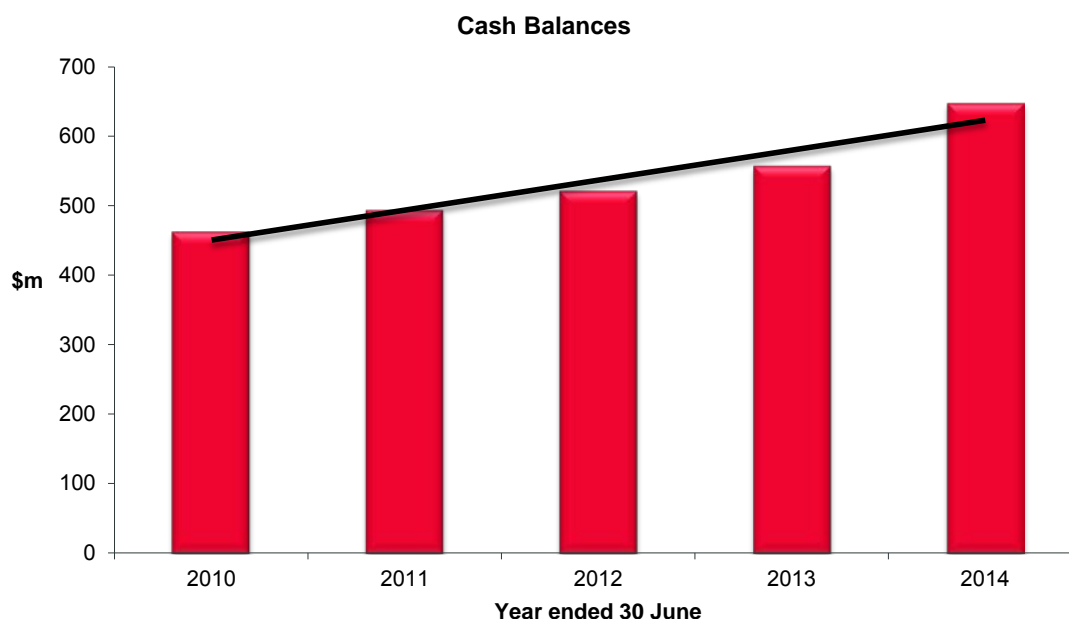
- **Targeted (individual student) funding:** provided for students with a need for specific additional support, or to schools to meet specific student needs.
- **Equity loadings:** funding to support students with needs related to low level adjustment for disability, English language proficiency, Aboriginal and socio-economic backgrounds.
- **Base school allocation:** funding to cover the base cost of educating a school's students and operating a school.

From 2014, the 229 schools received a total school allocation budget under the RAM. All other schools received targeted funding and funding resources under two equity loadings (Aboriginal background and Socio-economical background). In 2015, all schools will receive funding for the remaining equity loadings.

In 2013-14, the 229 schools transitioned to SAP under the Learning Management and Business Reform (LMBR) program. As part of this transition, all 229 schools had their bank accounts consolidated into one central operating account and one central deductible gift recipient account.

Due to the transition to SAP and the consolidation into two bank accounts, the 229 schools were allocated a budget rather than receiving actual cash funding. The remaining NSW public schools bank accounts will also be consolidated when they transition to SAP. To date, the Department has not yet confirmed when this will occur.

### School Cash Balances



Source: Department of Education and Communities Financial Statements (audited).

The cash balances held by schools as at 30 June 2014 totalled \$648 million, an increase of \$90.1 million (or 16.1 per cent) compared to the previous year. The Department advised contributing factors for the increase in schools' cash balances included additional funding received under the RAM, allocation of 19.5 per cent salary oncosts to schools and the impact of schools operating on a calendar year rather than a financial year basis.

The table below shows the five schools with the highest cash balances at 30 June 2014, which totalled \$18.7 million. This excludes the 229 schools in the Empowering Local Schools initiative, because they do not have separate bank accounts.

At 30 June 2014		
School name	Type	Cash balance
Chifley College Mount Druitt Campus	Secondary	\$5,081,614
Sydney Girls High School	Secondary	\$4,734,142
Farrer Memorial Agricultural High School	Secondary	\$3,319,803
Hurlstone Agricultural High School	Secondary	\$2,943,285
Dubbo College Senior Campus	Secondary	\$2,622,247

Source: Provided by Department of Education and Communities (unaudited).

In comparison, the following five schools had the lowest cash balances at 30 June 2014, which totalled \$17,699.

At 30 June 2014		
School name	Type	Cash balance
Hampton Public School	Primary	\$6,933
North Star Public School	Primary	\$5,505
Euchareena Public School	Primary	\$4,838
Mulbring Public School	Primary	\$3,302
Perthville Public School	Primary	\$(2,879)

Source: Provided by Department of Education and Communities (unaudited).

Generally, secondary schools held more cash than primary schools. The average cash balance for secondary schools was \$804,381 while primary schools had an average of \$223,506.

At 30 June 2014, schools held term deposits of \$22.2 million. Chifley College Mount Druitt Campus and Hurlstone Agricultural High School held \$2.9 million (57.6 per cent) and \$1.0 million (34.8 per cent) of their total cash balances in term deposits.

## Funding of Non-Government Schools

**The Department provided \$903 million to non-government schools during 2014.**

In 2013-14, the NSW Government provided \$903 million in funding to non-government schools. Some broad trends in funding per student are shown below.

Year ended 30 June	2014	2013	2012	2011	2010
<b>Funding*:</b>					
Primary \$m	389	380	367	365	344
Secondary \$m	514	495	471	463	438
<b>Total \$m</b>	<b>903</b>	<b>875</b>	<b>838</b>	<b>828</b>	<b>782</b>
<b>Funding per student:</b>					
Primary \$	1,963	1,950	1,911	1,918	1,824
Secondary \$	2,551	2,518	2,423	2,436	2,339

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

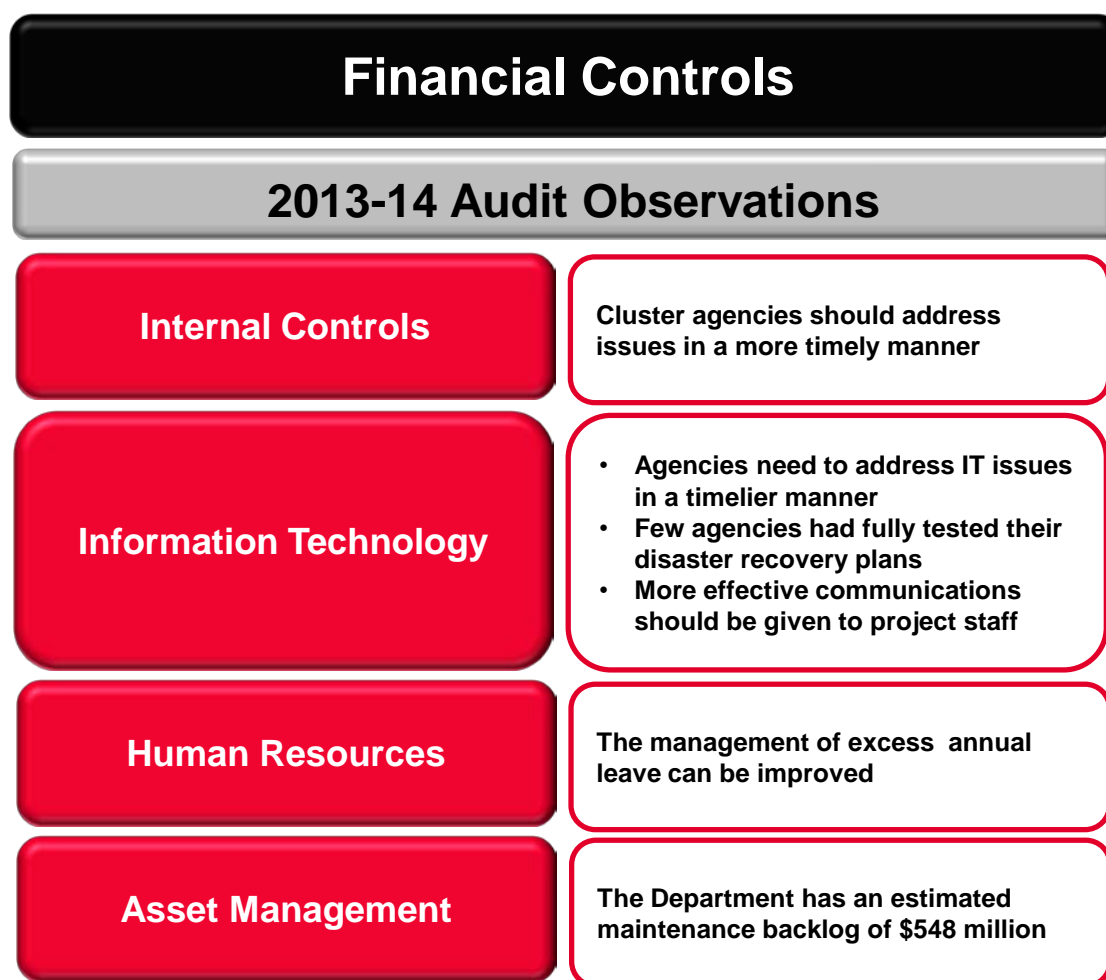
Source: Department of Education and Communities Statistics (unaudited).



From 2009-10 to 2013-14, the average annual growth rate for enrolments in non-government schools was 1.3 per cent for primary and 1.9 per cent for secondary students respectively. The average annual growth rate of funding per primary and secondary school student was 1.9 and 2.2 per cent respectively.

# Financial Controls

Appropriate financial controls help ensure the efficient and effective use of resources and the implementation and administration of policies. They are essential for quality and timely decision making to achieve desired outcomes.



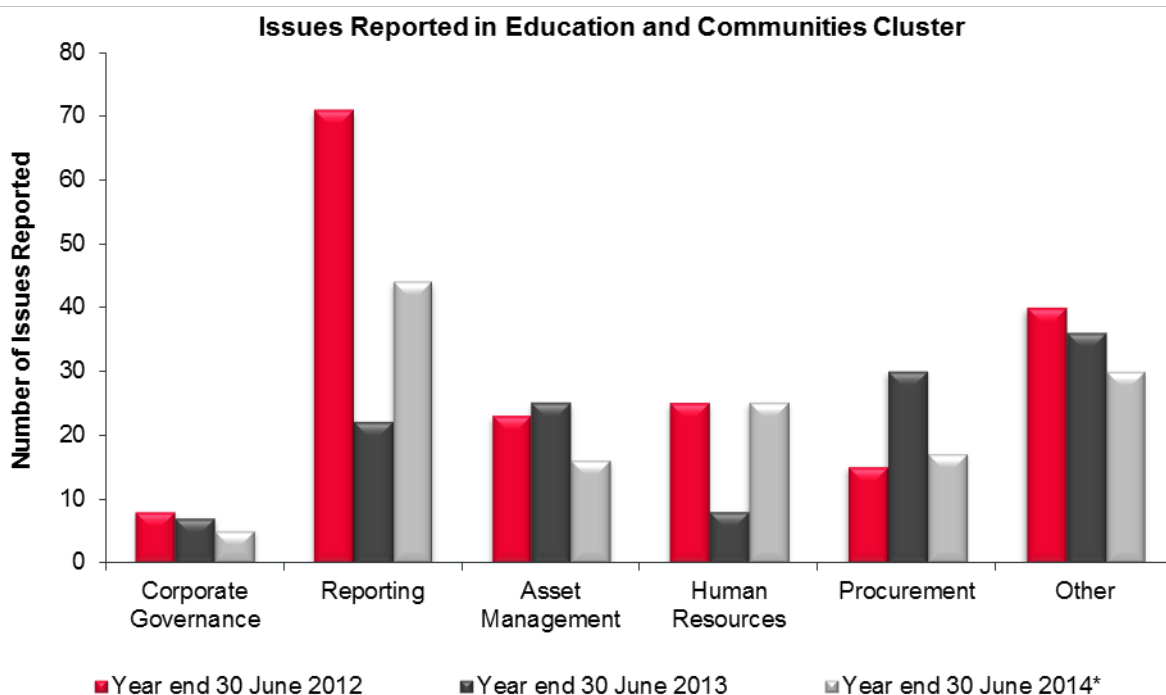
## Internal Controls

Audits involve performing procedures to obtain sufficient evidence to support the amounts and disclosures in financial statements. The procedures depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements. When assessing risks, the auditor considers internal controls relevant to the preparation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Breakdowns and weaknesses in internal controls significantly increase the risk of fraud and error.

Audits of the Education and Communities cluster agencies identified and reported 137 issues, 48 less than the 185 issues reported in 2011-12. The decrease was mainly due to improved financial reporting as a result of early close procedures introduced by NSW Treasury in 2012.

Common issues identified across cluster agencies included:

- agencies not maintaining centralised contract registers, which should include details of each contract.
- agencies not maintaining current compliance registers for laws and regulations and policies for legislative compliance
- agencies not formalising service level agreements with their corporate service providers
- non-compliance with TPP 09-05 'Internal Audit and Risk Management Policy for the NSW Public Sector'
- weaknesses in financial reporting processes to identify unrecorded transactions and ensure the appropriate accounting treatment for employee leave entitlements.



\* Management letters for 2013-14 are not yet finalised (they have been sent to management in draft for responses).

Source: Audit Office of New South Wales.

Repeat issues fell from 45 in 2012-13 to 38 in 2013-14, a decrease of 15.6 per cent. While repeat issues decreased, agencies need to ensure management responds to audit recommendations effectively and on a timely basis.

### Recommendation

**Cluster agencies should address repeat issues from previous audits in a timely manner.**

## Management Letter Recommendations Issued by the Audit Office

Year ended 30 June	Number of recommendations			Number of repeat recommendations		
	2014*	2013	2012	2014*	2013	2012
<b>Agency</b>						
<b>Cluster lead entity</b>						
NSW Department of Education and Communities (including TAFE Commission)	18	26	28	2	3	7
<b>Education related entities</b>						
Board of Studies, Teaching and Educational Standards****	6	N/A	N/A	--	N/A	N/A
NSW Skills Board****	8	N/A	N/A	N/A	N/A	N/A
Technical Education Trust Funds**	N/A	5	5	N/A	4	2
Technical and Further Education Commission***	35	39	37	13	12	14
<b>Communities related entities</b>						
Combat Sports Authority of NSW	2	1	4	--	1	--
Community Relations Commission for a Multicultural NSW	3	4	5	1	1	1
New South Wales Institute of Sport	23	6	5	4	1	2
State Sporting Venues Authority***	4	9	N/A	3	N/A	N/A
Sydney Cricket and Sports Ground Trust	7	13	9	4	8	4
Sydney Olympic Park Authority	4	4	5	1	--	2
The Trustees of the ANZAC Memorial Building	10	12	48	5	10	6
Venues NSW	14	7	33	5	5	N/A
<b>Other agencies</b>						
NSW Commission For Children and Young People	3	2	3	--	--	--
<b>Total</b>	<b>137</b>	<b>128</b>	<b>182</b>	<b>38</b>	<b>45</b>	<b>38</b>

\* Management letters for 2013-14 are not yet finalised (they have been sent to management in draft for responses).

\*\* Technical Education Trust Funds has a year end of 31 December.

\*\*\* One management letter was issued to cover both 2011-12 and 2012-13.

\*\*\*\* The Board of Studies, Teaching and Educational Standards commenced operations on 1 January 2014. NSW Skills Board was established on 27 November 2014.

N/A Not applicable.

Source: Audit Office of New South Wales.

The departure of key financial staff during 2013-14 resulted in more issues being identified and reported at the New South Wales Institute of Sport in 2013-14. The Technical and Further Education Commission continues to reduce the number of issues raised each year. In 2013-14, several issues specifically related to the implementation of the SAP payroll system and the reliability of fixed asset information from the building assets data migration review.

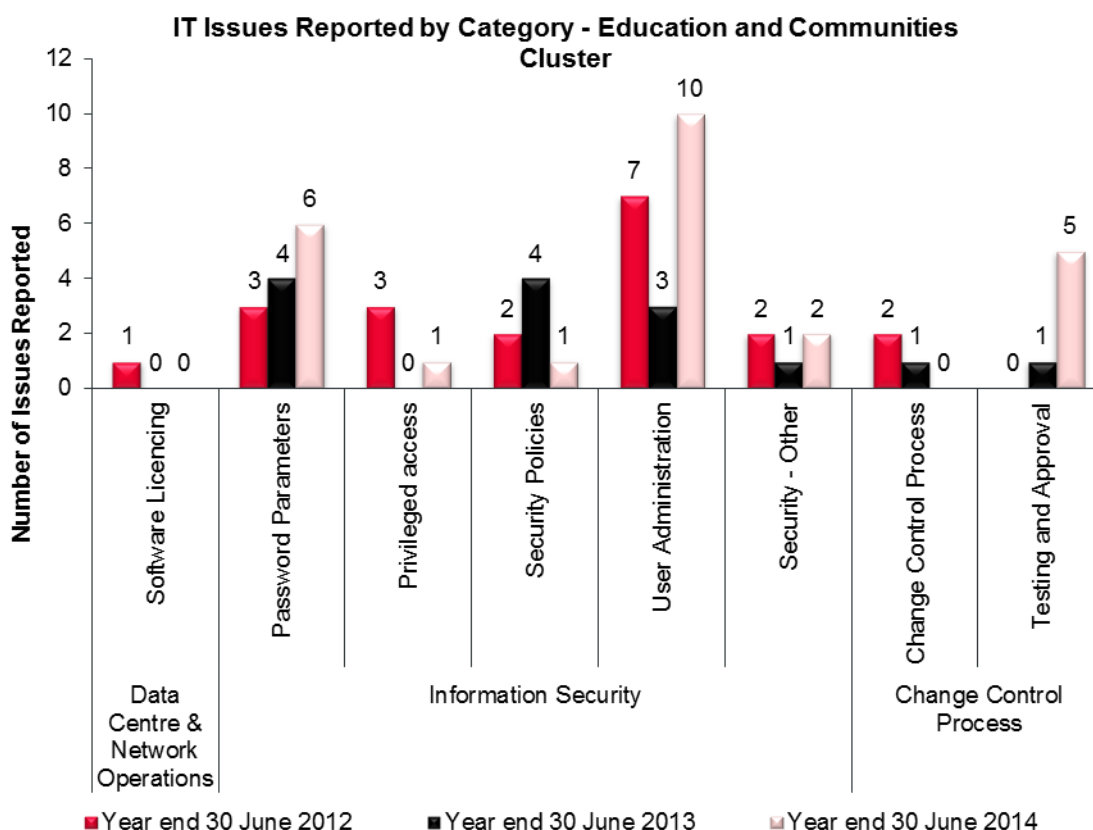
## Information Technology

### Information Systems Issues

Information systems audits focus on the information technology (IT) processes and controls supporting the integrity of financial data used to prepare agencies' financial statements. The audits identified 25 IT issues for agencies within the Education and Communities cluster, an increase of 79 per cent from 2012-13.

**IT issues increased by 79 per cent across the cluster. Agencies need to address IT issues in a timelier manner.**

Four issues identified in 2013-14 were reported in the previous year, all relating to information security. Information security issues that are not addressed promptly may expose agencies to security attacks resulting in data integrity issues, fraud or identity theft.



Source: Information Systems Management Letters issued by the Audit Office.

Information security issues accounted for 80 per cent of the IT issues identified in 2013-14 for the cluster.

User administration issues accounted for 50 per cent of the IT security issues, and included creation of new user accounts and inadequate periodic user reviews for financial systems. These weaknesses increase the risk of unauthorised or excessive access to financial systems.

The remaining 30 per cent related to weak password settings for financial systems, which were not configured in line with agencies' policies and better practice standards. Weak password settings increase the risk of security attacks, data integrity issues, data privacy breaches and identity theft.

## Disaster Recovery Planning

### Recommendation

**Cluster agencies should fully test their disaster recovery plans.**

In 2014, five surveyed agencies self-assessed their disaster recovery planning and testing capabilities. Of these, only Board of Studies, Teaching and Educational Standards had fully tested its recovery capabilities and plans. The other four agencies, Community Relations Commission, the Technical and Further Education Commission, Department of Education and Communities and Venues NSW reported they had not established or regularly reviewed disaster recovery plans for critical financial systems. Without adequate testing, agencies have little comfort the disaster recovery plans will quickly and effectively restore financial processes and systems in the event of a disaster.

### Compliance with IT Security and change management policies during the LMBR Program

The Learning Management and Business Reform (LMBR) Program is a major project to replace legacy finance, human resources and payroll systems. In early 2014, the SAP Payroll module was implemented for TAFE Institutes. The focus of the rollout was to deliver the new system, but application of the standard IT security and change management policies and processes was not consistent. Some project staff were given access to the system without appropriately documented management approvals. User access was not always revoked in a timely manner and the approach to managing changes during the project was not consistent. Some changes were implemented without adequately documented approvals and testing. This was compounded by high staff and contractor turnover during the rollout, making it difficult to ensure compliance with the IT security and change management controls.

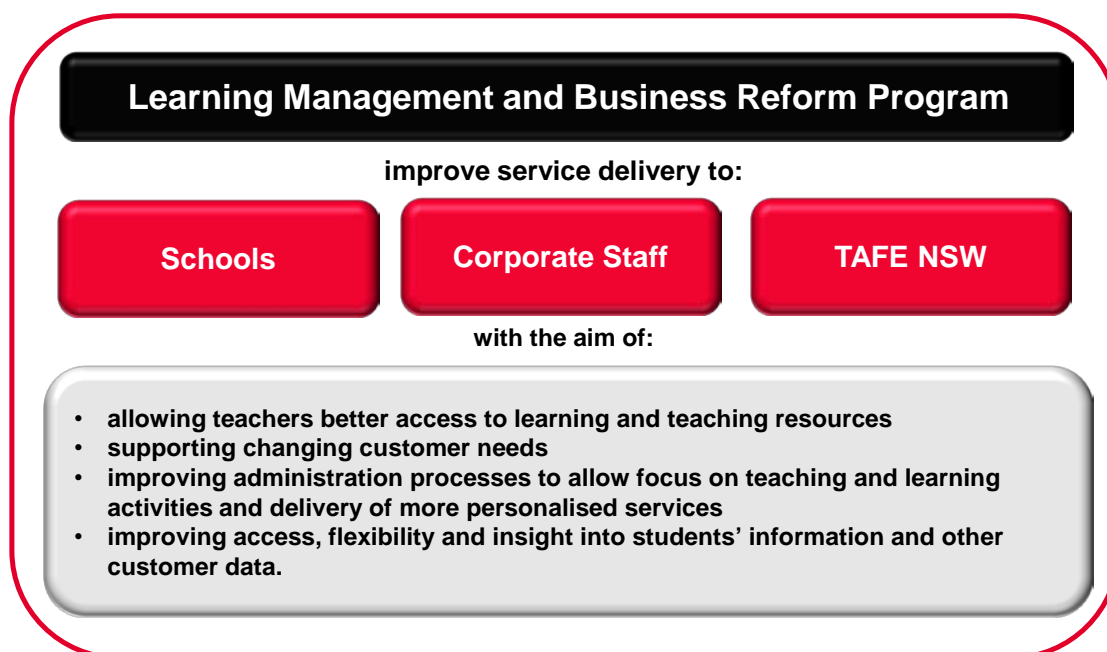
### Recommendation

**For future rollouts, more effective training and communications for the Learning Management and Business Reform project staff, including contractors, is required to improve awareness of IT security and change management policies and procedures. Compliance with these policies and procedures should be monitored throughout the project.**

## Information Technology Projects

### Learning Management and Business Reform Program

The Learning Management and Business Reform (LMBR) program was established in 2006 to modernise the way the Department manages and delivers student enrolment and administration, learning management, support services, finance, human resources and technology services to schools, TAFE NSW and the Department's corporate offices.



### LMBR Program Cost

**The Department spent \$405 million or 2.0 per cent more than the revised LMBR capital budget at 30 June 2014.**

The original LMBR program was to be delivered in two phases over eight years and expected to incur capital costs of \$386 million. The capital budget was increased to \$397 million in 2012-13 to accommodate emerging business requirements of TAFE NSW, but had incurred capital costs of \$405 million at 30 June 2014.

Only the capital cost of the LMBR program was budgeted. The original business case acknowledged non-capital expenses would be incurred, but could not be quantified due to uncertainties associated with the service delivery model and transition of the program to 'business as usual'. These costs have now been estimated and are included in the following table as recurrent costs. The total recurrent costs incurred on the program to 30 June 2014 were \$127 million.

Program costs to date are shown below.

	2014 \$m
Total capital cost for the year ended 30 June 2014	31.5
Total capital cost at 30 June 2014	404.7
Total recurrent cost for the year ended 30 June 2014	91.2
Total recurrent cost at 30 June 2014*	126.7
Total estimated cost (Stage 1 and 2)	570.2

\* Excludes TAFE/ Corporate Finance Upgrade and the TAFE Revenue Recognition of \$24.7 million as this was additional to the original scope and funds were allocated to the LMBR Program by the Department's Executive in order to complete this work.

Source: Department of Education and Communities (unaudited).

### Significant Releases during 2013-14

The 'Human Resource and Payroll' solution was deployed to the TAFE Institutes from August 2013 to January 2014. The Department advises deployment was completed on time with positive feedback from across the State.

The Department implemented Schools 'Student Management, Student Wellbeing' and Schools Finance systems to 229 pilot schools during 2013-14. The implementation encountered considerable difficulties, including:

- inaccuracies of school readiness assessments
- differences between training materials and final solutions
- the need for interim manual work arounds
- timing of the deployment
- the capacity of schools to complete implementation set up activities and deliver day to day school activities.

In response to the challenges experienced by the 229 schools, the Department's Secretary formed an LMBR taskforce on 25 February 2014. The taskforce has analysed lessons learnt from the initial implementation, which will form the basis for changes to the deployment approach in the remaining schools.

**229 schools experienced considerable difficulties in transitioning to the new systems.**



The Department is considering the challenges for future schools deployments, including:

- **Deployment window in a year** – schools have peak periods of activity particularly at the beginning of Term 1 and end of Term 4.
- **Length of deployment** - ensuring schools are not overwhelmed by transitioning too quickly to the new systems and the Department does not run different systems across the State for a lengthy period of time.
- **Economies of scale** - there are certain key technical activities, such as data migration and technical cutover, which require schools to be grouped appropriately.
- **Geography** - geographically grouped deployment groups has benefits for providing support.
- **Local resources for technical and business support** – pool of resources required to support groups of schools going live concurrently.
- **Training** – delivery, methodology and timing.
- **Cost of implementation** – simple and effective methodology to reduce costs where appropriate.
- **Resources** – limited resources with the knowledge to train and support schools.

### Timing of Future Releases

By November 2014, most Stage 2 releases had been deployed.

The following table summarises the delivery schedule for Stage 2 of the LMBR program.

Stage 2 - release	Timeline at November 2013	Timeline now
SALM Student Management and Finance – 229 schools	November 2013	Deployed November 2013
HR/Payroll-Remaining six institutes (Western Sydney, New England, North Coast, Illawarra, Riverina and Western)	January 2014	Deployed January 2014
TAFE Finance upgrade – All ten institutes	March 2014	Deployed July 2014
SALM TAFE – All ten institutes	November 2013	Deployed October 2014
Corporate Finance Upgrade	March 2014	Deployed July 2014
HR/Payroll – 229 schools	2014 (exact date to be confirmed)	Exact date is subject to a revised Business Case scheduled for consideration by Government before the end of 2014
HR/Payroll, Finance and SALM – Remaining 2000+ schools	2014 (exact dates to be confirmed)	Refer to above

Source: Information provided by the Department of Education and Communities (unaudited).

The Department is evaluating options for deploying Schools 'Student Management, Student Wellbeing' and Schools Finance systems to the remaining schools (LMBR Stage 3). The business case for Stage 3 is scheduled to be completed and through the gateway review and approval processes during 2015.

## Expected Benefits of the LMBR Program

**The LMBR program is expected to modernise the way the Department manages itself.**

The LMBR Program will replace several of the Department's legacy software systems, which are old, inefficient, costly and slow. It will also replace some manual administrative processes performed by staff in schools, TAFE and corporate offices.

The Department has advised the key benefits, at an organisational level, include:

- access for the first time to a single source of reliable and accurate information about schools, TAFE and corporate areas across NSW. The Department will be able to extract information centrally to support reporting and evidence based decision making
- reduced requirement to manually collect, collate, analyse and report on specific programs in schools, releasing teaching staff for front line service
- economies of scale for schools' purchasing power
- standard systems and processes for staff moving between NSW public schools, increasing workforce mobility
- enhanced ability to plan and monitor plans versus actuals by directorate and at a school and college level, facilitating local decision making
- enhanced workforce management and planning capability through an integrated view of the workforce across the Department
- faster access to information which allows better management decision making
- enhanced ability to respond effectively to change and customer needs through access to up to date, reliable and accurate information.

The success of the Department's future programs, such as the Local Schools, Local Decisions reform, relies heavily on the success of the LMBR program.

A performance audit on LMBR program is being conducted. It will assess the Department's progress in implementing the LMBR program and whether it will achieve the expected benefits. This report is expected to be tabled in December 2014.

## Funding of Other Information Technology Projects

The Department has another significant information technology project, the Technology for Learning program.

This program will provide the annual allocation of computers and other information technology hardware to all NSW public schools. It includes projects which provide enhanced Technology for Learning servers and services, and Local Area Network remediation for improving schools' network infrastructure. The program's annual budget is \$35.3 million. The program is expected to continue each year funding is approved.

The program supports teaching and learning in schools by establishing a high quality, easily managed information and communications technology (ICT) platform which in turn will allow the Information Technology Directorate to provide a higher level of support in a standardised environment. The program will also empower schools to make better local investment decisions that complement the ICT environments.

## Human Resource Information

### Excess Annual Leave

**Most of the agencies need to do more to reduce their excess annual leave balances to meet the 2015 NSW Treasury targets.**

Managing excess annual leave is a continual challenge for most public sector agencies. The health and welfare of staff can be adversely affected if they do not take sufficient leave and employee related fraud is more likely to be detected when employees are on leave.

NSW Treasury Circular 14/11 'Reduction of Accrued Recreation Leave Balances' requires agencies to make all reasonable attempts to gradually reduce employee leave accruals to a maximum of 40 days by 30 June 2013, 35 days by 30 June 2014 and 30 days by 30 June 2015.

The table below summarises the compliance trend across the Education and Communities cluster.

At 30 June		2014		2013	
Education and Communities cluster agencies	Trend	> 35 days No. of staff	> 35 days % of total staff	> 40 days No. of staff	> 40 days % of total staff
NSW Department of Education and Communities	↑	846	7	634	5
Board of Studies Teaching and Education Standards	~	13	4	N/A	N/A
NSW Commission for Children and Young People	↑	1	13	1	7
Community Relations Commission for a Multicultural NSW	↓	7	7	7	9
New South Wales Institute of Sport	↑	18	25	12	21
Sydney Cricket and Sports Ground Trust	↑	28	25	18	16
Sydney Olympic Park Authority	↑	2	2	5	3
Technical and Further Education Commission	↑	887	10	536	5
The Trustees of the ANZAC Memorial Building	↑	3	33	2	25
Venues NSW	~	3	12	3	12
<b>Total</b>	↑	<b>1,808</b>	<b>8</b>	<b>1,241</b>	<b>5</b>

↑ Trend upwards, ↓ Trend downwards, ~ No trend.

\* Board of Studies, Teaching and Educational Standards commenced operation on 1 January 2014.

Note: Combat Sports Authority of NSW, Technical Education Trust Funds, NSW Skills Board, Newcastle International Sports Centre Club and State Sporting Venues Authority have been excluded from the above table as these agencies do not directly employ staff.

N/A Not applicable.

Source: Annual leave liability report for each agency (audited).

At 30 June 2014, 1,825 staff (eight per cent) of total cluster employees had excess annual leave balances, an increase of three per cent from the prior year. There were 3,272 staff with balances in excess of 30 days.

Most agencies need to do more to reduce excess annual leave balances if they are to meet the 2015 target set by NSW Treasury.

## Ageing Teachers Workforce

### School Teachers

The Department is facing the potential loss of thousands of staff over the next few years, as indicated by the following statistics:

- 27.0 per cent of permanent teachers are aged 55 and older
- 53.0 per cent of permanent teachers are aged 45 and older.

**Around 53 per cent of the Department's school teachers are 45 years of age or older and over 67 per cent of school principals are 50 years of age or older.**

The table below shows the age profile of permanent school teachers in NSW public schools.

At 31 March	2014		2013	
Age group	No. of teachers	%	No. of teachers	%
20–24	768	1.6	711	1.5
25–29	3,849	8.0	3,961	8.2
30–34	5,718	11.8	5,601	11.5
35–39	5,687	11.7	5,546	11.4
40–44	6,748	13.9	6,726	13.8
45–49	5,842	12.1	5,611	11.5
50–54	6,723	13.9	7,386	15.2
55–59	8,757	18.1	9,279	19.1
60–64	3,439	7.1	3,062	6.3
65+	880	1.8	741	1.5
<b>Total</b>	<b>48,411</b>	<b>100.0</b>	<b>48,624</b>	<b>100.0</b>

Source: Department of Education and Communities personnel system (unaudited).

The ageing profile of teachers older than 50 has decreased by 1.2 percentage points from 42.1 per cent in 2012–13 to 40.9 per cent in 2013–14. The Department advises approximately 35 per cent of the teaching workforce (all school-based teachers, including principals and other executives) will reach the notional retirement age (55 for females and 60 for males) in the next five years.

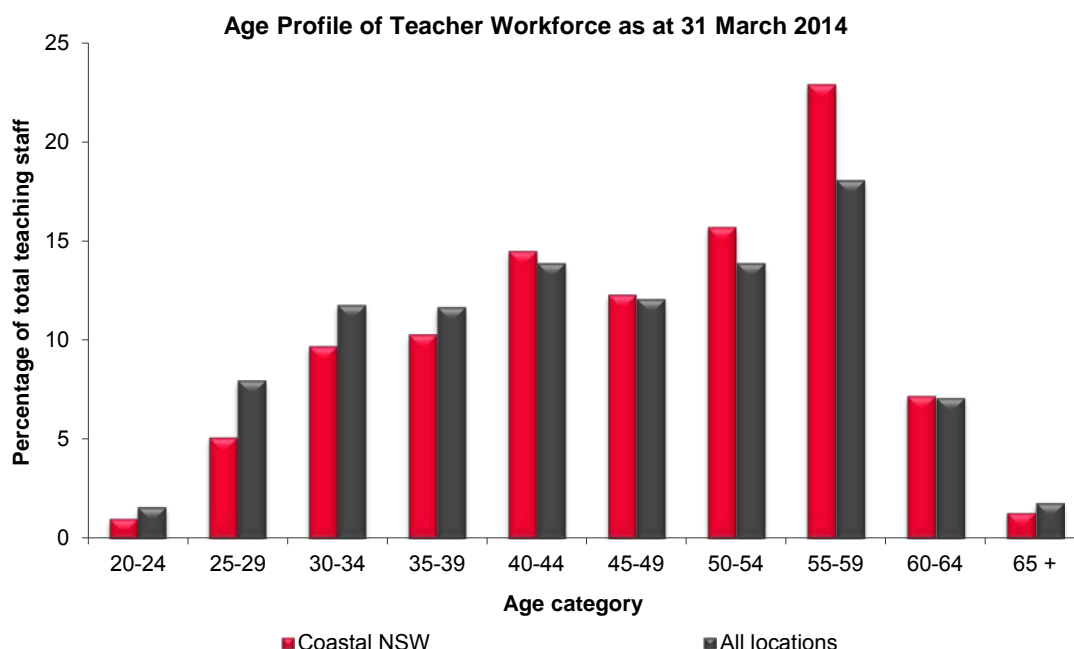
The Department has a stable school teacher workforce and separation rates are generally lower than for the public sector as a whole. They have varied between 3.2 and 5.0 per cent since 1998.

Retirement rates (including medical retirements) for teachers have varied between 1.4 and 4.1 per cent since 1998. The rate has been trending up as a result of 'baby boomers' reaching retirement age.

Resignation rates for teachers have varied between 0.8 and 2.1 per cent since 1998. Several initiatives have contributed to the retention of new and experienced teachers including competitive teacher salaries and comprehensive professional learning programs.

The age profile of school principals shows:

- 67.4 per cent are aged 50 and older
- 46.6 per cent are aged 55 and older
- 12.6 per cent are aged 60 and older.



Source: Department of Education and Communities personnel system (unaudited).

Reforms such as ‘Empowering Local Schools’, ‘Local Schools, Local Decisions’, and the associated Resource Allocation Model rely heavily on principals making informed decisions and being accountable for managing the funding of their respective schools. It is unknown if the increasing number of principals moving to retirement will impact the success of these reforms.

## Workforce Planning

The Department undertakes a workforce planning each year to develop projections for public school teacher supply and demand over a seven year period. According to the plan, more than 44,000 applicants were seeking permanent teaching positions at March 2014.

The Department appointed 2,111 new permanent school teachers during 2013. It is projected the demand for school teachers will continue to increase from around 3,000 in 2014 to 3,500 in 2020.

**More than 44,000 applicants are seeking permanent teaching positions.**

The Department’s workforce planning for the period to 2020 indicates:

- a more than adequate supply of primary teachers across the State, except for a small number of positions in specific geographical locations
- an adequate supply of secondary teachers, except in the areas of mathematics, science with physics, some subjects in technology and applied studies, some specialist teachers, and some specific subjects in particular geographical locations.

The Department has strategies to retain teachers, executives and principals in rural and remote schools, including:

- retention benefit for teachers in 40 of the most remote schools
- incentives such as rental subsidies, locality allowance and additional leave
- priority for transfers to vacancies in agreed locations or areas following the required period of service
- promoting teaching as a career through the teach.NSW campaign
- supporting current and future teachers to gain teaching qualifications in curriculum and specialist areas of workforce need.

The 'Great Teaching, Inspired Learning' reform includes initiatives to attract more of the brightest and motivated school leavers and university students into teaching.

## TAFE Teachers

Many TAFE NSW permanent teachers are likely to retire over the next five to ten years increasing the risk of significant loss of knowledge and skills for TAFE NSW.

**Over 72 per cent of TAFE Teachers are 50 years of age and over.**

The age profile of TAFE NSW's permanent teachers is shown below:

Year ended 30 June	2014		2013	
Age group	No. of teachers	%	No. of teachers	%
Below 30	4	0.1	10	0.2
30–34	55	1.4	73	1.8
35–39	144	3.6	188	4.6
40–44	367	9.2	370	9.1
45–49	524	13.2	597	14.6
50–54	901	22.7	963	23.6
55–59	1,015	25.5	1,030	25.2
60–64	695	17.5	602	14.7
65+	270	6.8	254	6.2
<b>Total</b>	<b>3,975</b>	<b>100.0</b>	<b>4,087</b>	<b>100.0</b>

Source: Workforce Profile (headcount), TAFE NSW (unaudited).

The number of TAFE teachers older than 50 has increased by 2.8 percentage points from 69.7 per cent in 2012-13 to 72.5 per cent in 2013-14. TAFE NSW advises it has implemented strategies to ensure succession planning, including phased retirements, flexible work options and knowledge transfer strategies.

To ensure an adequate supply of teachers with the skills to meet its needs, TAFE NSW undertakes regular workforce planning. It also has initiatives to attract and retain teachers, including targeted recruitment campaigns, retention of younger teachers and promotion of TAFE teaching as a career.

## Workplace Health and Safety

The Department's previous Corporate Safety Strategy 'Safe Working and Learning' includes initiatives and programs designed to improve accountability and injury prevention.

**Total injury claims have decreased from 6,673 in 2009 to 5,288 in 2013.**

The Department is developing a new 'Work Health, Safety and Wellbeing' strategy for the period 2014-17. Its continued investment in safety has led to improved workers' compensation premium performance. In 2013, 5,288 claims were submitted at a cost of \$47.8 million.

Type	Office of Communities	Schools and Corporate	TAFE NSW	Total
Sprains, strains, injuries	11	1,218	128	1,357
Laceration contusion superficial injuries	10	1,200	57	1,267
Psychological injuries	2	551	55	608
Fracture dislocation injuries	2	275	19	296
Other injuries	11	1,607	142	1,760
<b>Total</b>	<b>36</b>	<b>4,851</b>	<b>401</b>	<b>5,288</b>

Source: Department of Education and Communities – number of workers compensation claims which have incurred a cost in 2013 (unaudited).

The number of claims has significantly decreased from 2009 to 2013:

	2013	2012	2011	2010	2009
Total number of injuries	5,288	6,566	6,969	7,060	6,673
Total cost of injuries (\$m)	47.8	65.6	84.3	86.0	80.6

Source: Department of Education and Communities (unaudited).

Cost of claims reported above includes the amount spent to date and the estimated future cost of the claim.

The fall in workers' compensation claims and estimated future claims costs contributed to lower costs in 2013 for NSW Schools and Corporate and TAFE NSW.

## Employee Performance and Conduct

Employee underperformance and misconduct are referred to the Department's Employee Performance and Conduct Directorate (EPAC) for assessment, investigation and where required, external reporting. EPAC investigates all allegations of teacher misconduct relating to child protection, employee misconduct and staff performance.

**There were 416 sustained allegations of a child protection nature during 2013-14.**

In 2013-14, child protection continued to have the most sustained reports with 416 sustained allegations.

	Notification*	Sustained**	Unsustained***
Child protection	1,563	416	317
Misconduct	240	68	62
Performance	51	32	8
<b>Total</b>	<b>1,854</b>	<b>516</b>	<b>387</b>

\* Notification: includes sustained and unsustained allegations, enquiries and ongoing matters.

\*\* Sustained: when the investigation supports the allegation.

\*\*\* Unsustained: when the investigation does not support the allegation.

Source: 2014 employee performance and conduct (unaudited).

If an investigation sustains an allegation, disciplinary or remedial action, which may include dismissal, may be taken against the employee.

## Asset Management

### Funding of Major Investments

The Department's major investments in schools are shown below.

Project description	2013-14 Budgetary allocation \$m	2013-14 expenditure \$m	Current status	Delays?	Estimated completion date?
Major works – 9 new projects	25	8	In progress	No	January 2016
LMBR project- Capital Budget	29	27	Completed	No	June 2014
Work-in-progress (exclude LMBR project) – 23 projects	99	98	In progress	No	January 2017
BER – Primary Schools for the 21 <sup>st</sup> Century	51	53	Completed	No	June 2014
Trade Training Centres	13	0*	In design	No	June 2017
School infrastructure upgrades	137	146	Completed	No	Completed June 2014
Technology for Learning and ICT	61	56	Completed	No	Completed June 2014
Other minor works	6	1**	Completed	No	Completed June 2014

\* The Australian Government delayed approval of the Trade Training Centres project, which delayed programme delivery.

\*\* Self-funded works not undertaken.

Source: Department of Education and Communities (unaudited).



The Department's major investments in TAFE NSW assets are shown below.

Project description	2013-14 Budgetary allocation \$m	2013-14 expenditure \$m	Current status	Delays?	Estimated completion date?
Nine major new TAFE projects	16	4	In progress	3 – Yes* 6 - No	September 2016
Continuing 20 major TAFE projects	75	60	8- In progress 12- Completed	2 – Yes** 18 - No	October 2015
TAFE minor works	16	17	Vast majority completed	No	Vast majority completed by June 2014

\* Delayed due to reassessment of budget priorities and associated cash-flows.

\*\* Delayed due to finalisation of Development Consent Conditions with Council and unexpected structural repairs.

Source: Department of Education and Communities (unaudited).

## School Facilities and Building Maintenance

### Recommendation

**The Department should work with NSW Treasury to establish an appropriate response to backlog maintenance.**

Total school maintenance funding increased from \$318 million in 2012-13 to \$321 million in 2013-14.

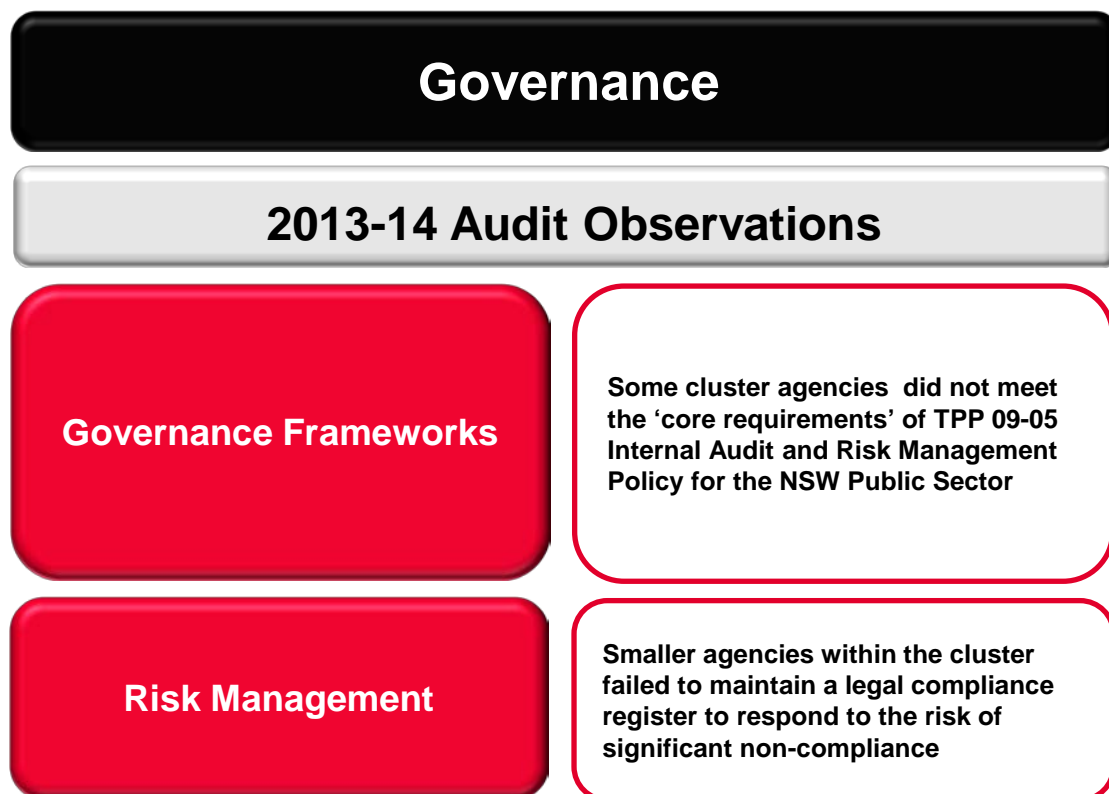
The Department uses Life Cycle Costing to measure and predict maintenance and capital renewal liabilities now and into the future, and to prioritise maintenance and renewal activities.

The Department completed the initial Life Cycle Costing assessments for all schools in September 2013, which cost the Department \$13.0 million. The assessments indicate a current maintenance backlog of \$548 million, around 2.3 per cent of the assessed replacement value of the schools. The Department is recommending to NSW Treasury that maintenance be funded at a level to keep the yearly backlog maintenance liability to 1.5 per cent of asset replacement values.

The Department will continue to undertake condition, functionality and asset revaluation assessments to ensure the Life Cycle Costing data is validated on a regular basis.

# Governance

Governance refers to the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled. It includes the systems the agencies, and those charged with governance, use and are held to account by others.



## Government Restructure

In 2013-14, the Education and Communities cluster had several major restructures.

### Creation of the Board of Studies, Teaching and Educational Standards

On 1 January 2014, the NSW Institute of Teachers and the NSW Board of Studies and related entities were amalgamated to create the Board of Studies, Teaching and Educational Standards. The new entity aims to improve teacher quality and student outcomes through the use of assessment data and knowledge of the curriculum.

The *Board of Studies, Teaching and Educational Standards Act 2013* confers the functions exercised by the Board of Studies under the *Education Act 1990* and the NSW Institute of Teachers under the *Institute of Teachers Act 2004*.

### Establishment of the NSW Skills Board

On 27 November 2013, the NSW Skills Board replaced the NSW Board of Vocational Education and Training to provide strategic oversight of the NSW Vocational Education and Training Sector. The NSW Skills Board provides oversight of the 'Smart and Skilled' reforms to ensure skills education and training continue to meet the needs of employers.

Further significant restructures occurred from 1 July 2014.

## Separation of TAFE NSW

Effective 1 July 2014, TAFE NSW became a separate reporting entity under the *Public Finance and Audit Act 1983* and is no longer part of the Department of Education and Communities due to changes in the *Public Finance and Audit Amendment (TAFE Commission) Regulation 2014*. From 2014-15, the financial transactions of TAFE NSW will not form part of the Department's financial statements, decreasing net assets by \$4.6 billion.

## Transfer of the Sport and Recreation Portfolio

From 1 July 2014, the Sport and Recreation portfolio within the Education and Communities cluster transferred to the Premier and Cabinet cluster.

## Governance Frameworks

Effective corporate governance arrangements are essential to the performance, integrity and transparency of public sector organisations. In March 2008, the Government approved corporate governance practices to strengthen the 'whole of government' policy and regulatory arrangements for internal audit and risk management.

NSW Treasury Circular TC 09/08 'Internal Audit and Risk Management Policy' draws on best practice principles across the public and private sectors. NSW Treasury Policy Paper TPP 09-05 'Internal Audit and Risk Management Policy for the NSW Public Sector' sets out the requirements of this policy.

The policy aims to ensure NSW departments and statutory bodies maintain organisational arrangements that provide additional assurance, independent from operational management, on internal audit and risk management.

To achieve this, the policy mandates 'core requirements' departments and statutory bodies must implement for consistent application across the sector, some of which include the requirement to:

- establish and maintain an Internal Audit function
- establish and maintain an Audit and Risk Committee
- appoint an independent chair and a majority of independent members
- implement a risk management process.

The table below shows the Education and Communities cluster' compliance with some 'core requirements'.

Agency	Audit and Risk Committee			Internal Audit	
	Exists?	Has an independent chair?	Composition of independent members	Exists?	Internal Audit Plan exists?
<b>Cluster lead entity</b>					
Department of Education and Communities (including TAFE Commission)	Yes	Yes	100%	Yes	Yes
<b>Education related entities</b>					
Board of Studies, Teaching and Educational Standards <sup>4</sup>	Yes	Yes	75%	Yes	Yes
NSW Skills Board	No	No	N/A	No	No
Technical Education Trust Funds	No	No	N/A	No	No
Technical and Further Education Commission	Yes <sup>2</sup>	Yes	100%	Yes <sup>3</sup>	Yes
<b>Communities related entities</b>					
Combat Sports Authority of NSW	Yes <sup>2</sup>	Yes	100%	No	No
Community Relations Commission for a Multicultural NSW <sup>4</sup>	Yes	Yes	67%	Yes	Yes
New South Wales Institute of Sport <sup>4</sup>	Yes	Yes <sup>1</sup>	50%	Yes	Yes <sup>5</sup>
Newcastle International Sports Centre Club	Yes <sup>2</sup>	Yes	100%	Yes <sup>3</sup>	Yes
State Sporting Venues Authority	Yes <sup>2</sup>	Yes	100%	No <sup>1</sup>	No <sup>1</sup>
Sydney Cricket and Sports Ground Trust <sup>4</sup>	Yes	Yes	33% <sup>1</sup>	Yes	Yes
Sydney Olympic Park Authority	Yes	Yes	100%	Yes	Yes
The Trustees of the ANZAC Memorial Building	Yes <sup>2</sup>	Yes	100%	Yes	Yes
Venues NSW	Yes <sup>2</sup>	Yes	100%	Yes	Yes
<b>Other entity</b>					
NSW Commission For Children and Young People	Yes <sup>2</sup>	Yes	100%	No <sup>1</sup>	No <sup>1</sup>

<sup>1</sup> These entities have an approved exception to the core requirement (s) from the Portfolio Minister.

<sup>2</sup> These entities have a shared Audit and Risk Committee arrangement.

<sup>3</sup> These entities have a shared Internal Audit function arrangement.

<sup>4</sup> These entities include a Staff Agency.

<sup>5</sup> This entity is currently reviewing its internal audit documentation.

Source: Data provided by the individual agencies (unaudited).

## Recommendation

**Agencies should meet the 'core requirements' of TPP 09-05 'Internal Audit and Risk Management Policy for the NSW Public Sector' or obtain an exception from the Portfolio Minister.**

Most agencies in the cluster met the 'core requirements' of TPP 09-05 apart from the NSW Skills Board, Technical Education Trust Funds and Combat Sports Authority. These agencies intend to apply for an exception from the Portfolio Minister due to their size and risk profile.

## Risk Management

Risk Management is the process of identifying, assessing and prioritising risks to minimise, monitor and control the impact of unforeseen events or to maximise the realisation of opportunities. An agency's risk management framework should be integrated with its organisational management systems and processes.

One core requirement in TPP 09-05 is to implement a risk management process appropriate to the needs of the department or statutory body and consistent with the current risk standard. TPP 12-03 'Risk Management Toolkit' was developed to help agencies implement their risk management processes.

The following table outlines this core requirement for the Education and Communities cluster.

Risk management criteria				
Entity	A Risk management policy has been developed and endorsed?	A Risk register is maintained and updated periodically (Min pa.)?	Has the agency developed a strategy and action plan for identified risk?	A legal and regulatory compliance register is maintained and periodically reviewed?
<b>Cluster lead agency</b>				
Department of Education and Communities (including TAFE Commission)	Yes	Yes	Yes	Yes
<b>Education related agencies</b>				
Board of Studies, Teaching and Educational Standards	Yes	Yes	Yes	Yes <sup>5</sup>
NSW Skills Board	No	No	No	No
Technical Education Trust Funds	No	No	No	No
Technical and Further Education Commission	Yes	Yes	Yes	Yes
<b>Communities related agencies</b>				
Combat Sports Authority of NSW	Yes	Yes	Yes	No
Community Relations Commission for a Multicultural NSW	Yes	Yes	Yes	Yes
New South Wales Institute of Sport	Yes <sup>4</sup>	No <sup>4</sup>	No	No
State Sporting Venues Authority	Yes	Yes	Yes	No
Sydney Cricket and Sports Ground Trust	Yes	Yes	Yes	No <sup>1</sup>
Sydney Olympic Park Authority	Yes	Yes	Yes	Yes
The Trustees of the ANZAC Memorial Building	Yes <sup>2</sup>	Yes <sup>2</sup>	Yes	No
Venues NSW	No	Yes	Yes	Yes
<b>Other entity</b>				
NSW Commission For Children and Young People	Yes	No <sup>3</sup>	Yes	No <sup>3</sup>

<sup>1</sup> No formal legal or statutory compliance register is maintained, but a legal compliance framework exists.

<sup>2</sup> A risk management policy was endorsed on 29 September 2014 and a risk register is in draft.

<sup>3</sup> This entity has an approved exception to the core requirements from the Portfolio Minister.

<sup>4</sup> This entity is reviewing and updating its risk management documentation.

<sup>5</sup> A legal and regulatory compliance register was endorsed on 8 September 2014.

Source: Data has been provided by the individual agencies (unaudited).

At 30 June 2014, the Department of Education and Communities, TAFE NSW, Community Relations Commission for a Multicultural NSW, the Board of Studies, Teaching and Educational Standards and Sydney Olympic Park Authority complied with all key criteria in the Risk Management Toolkit. The NSW Skills Board and Technical Education Trust Funds did not meet any key criteria.

The NSW Skills Board is seeking NSW Treasury approval for exemption from TPP 09-05.

Combat Sports Authority, State Sports Venues Authority, Technical Education Trust Funds and The Trustees of the ANZAC Memorial Building relied on the Department's policies and procedures to comply with TPP 09-05. There is currently no agreement in place to formalise this arrangement.

NSW Institute of Sport's risk register did not meet risk register guidelines in TPP 12-03.

### Recommendation

**Smaller agencies within the cluster need to establish and maintain a legal compliance register.**

At 30 June 2014, eight agencies within the Education and Communities cluster did not maintain separate legal and regulatory compliance registers. TPP 12-03 'Risk Management Toolkit' requires individual agencies to identify legislative and policy requirements applicable to each agency. Agencies should monitor compliance with these requirements. A legal compliance register provides a centralised source of information, which can be readily reviewed and updated to improve the management of risk in an agency.

# Service Delivery

The achievement of Government outcomes can be improved through the effective commissioning of the right mix of services. Commissioning involves the process by which agencies assess their needs, determine priorities, design and source appropriate services, and monitor and evaluate performance.



## Key Reform

The Department is implementing reforms to improve the quality of teaching in schools and outcomes for all students, and to give schools more authority to meet their community needs.

In addition, vocational education and training reforms will give people the opportunity to gain the skills they need to get a job and advance their careers.

## National Education Reform Agreement

In April 2013, the NSW Government and former Australian Government agreed to the National Education Reform Agreement (NERA). Funding under the agreement supports comprehensive NSW reforms in the five key areas of quality teaching, quality learning, empowered school leadership, meeting student needs and transparency and accountability.

Initially, the agreement was to deliver \$5.0 billion of additional school investment during 2014 to 2019, of which \$1.76 billion is to come from the NSW Government and \$3.27 billion from the Australian Government. The Australian Government has subsequently revised the funding contribution down by \$1.27 billion after 2017.

In 2013-14, the Department received additional funding of \$76.0 million under the agreement. NSW Treasury's Budget Estimates indicate the Department will receive \$230 million in additional funding in 2014-15.

## Local Schools, Local Decisions

In March 2011, the NSW Government announced its 'Local Schools, Local Decisions' reform intended to give schools greater local authority to manage budgets and human resources more effectively.

The reform acknowledges teachers and principals best understand the learning needs of their students and should be given a greater say on how to use resources to meet these needs. The reform will change the way funds are managed and how decisions are made in schools.

During 2013-14, the reform continued to provide public schools with more authority to manage their resources to meet the needs of the students. The Government started a phased implementation of the new resource allocation model to 229 schools who participated in the 'Empowering Local Schools' initiative to achieve a simpler, fairer and more transparent distribution of public school funding.

## **Great Teaching, Inspired Learning**

Great Teaching, Inspired Learning is the NSW Government's plan to improve the quality of teaching and learning in the State's schools. Initiatives focus on every stage of the teacher career path. New measures included a new model of support for beginning teachers, and new 'teach.Rural' scholarships, cadetships and internships to attract high-quality teachers to rural and remote schools.

During 2013-14, the new model of support for beginning teachers progressed and funding for just over 1,500 permanent beginning teachers was delivered to more than 850 schools.

In September 2014, the Minister for Education announced all teachers are to be accredited by the end of 2017 and introduced legislation to make it mandatory.

Accreditation will require full-time teachers to:

- undertake 100 hours of professional development over five years
- demonstrate that their professional practice meets the standards every five years.

## **Smart and Skilled**

In October 2012, the Minister for Education announced the Smart and Skilled reform for NSW's Vocational Education and Training system. The primary objective is to meet State Plan goals by increasing productivity and participation with a skilled workforce.

During 2013-14, the NSW Government:

- commenced the staged implementation of the 'Smart and Skilled' reforms to vocational education and training (VET)
- continued to transform TAFE NSW's business model to promote efficiency and competitive behaviour in the Smart and Skilled environment. This included the development of a Statement of Owner Expectations to clarify the role of TAFE NSW
- released the 2014 and 2015 NSW Skills List, which defines the industry skill priorities that will be eligible for government funding, and the NSW Quality Framework that sets the benchmark for training providers.

## **Connected Communities**

'Connected Communities' is an approach to address the educational and social aspirations of Aboriginal children and young people living in a number of complex and diverse communities in NSW. The strategy positions schools as community hubs that will deliver a range of services from birth, through school, to further training and employment. 'Connected Communities' schools work in partnership with Aboriginal leaders in the local community to help improve education outcomes for young Aboriginal people.

The NSW Government continued to implement the 'Connected Communities' Strategy, including programs to:

- increase preschool and kindergarten enrolments and support young children transition to school
- personalise learning programs for all students
- form partnerships with TAFE NSW, universities and other local service providers to support students moving into further education, training or employment.

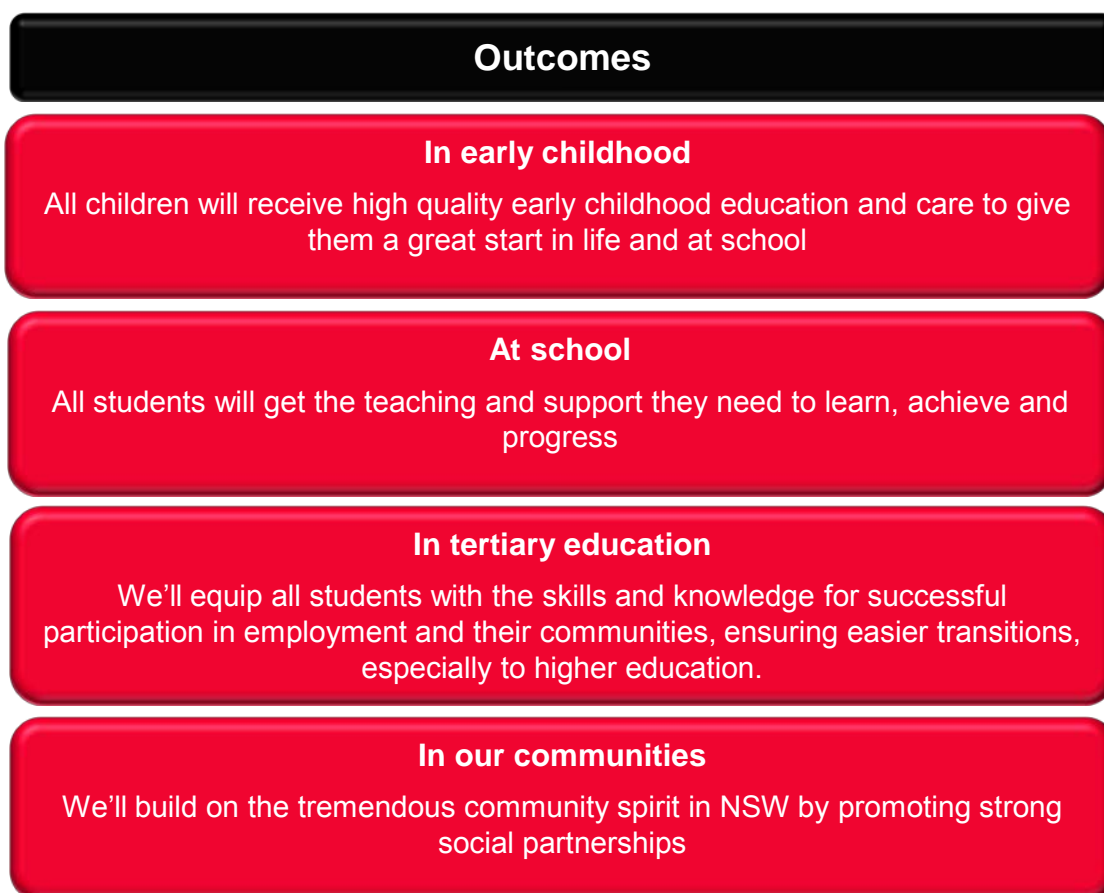


## NSW 2021 Performance

The NSW Government's ten year plan, NSW 2021, includes the following performance goals for the Education and Communities cluster:

- improve education and learning outcomes for all students
- strengthen the New South Wales skill base
- make it easier for people to be involved in their communities
- enhance cultural, creative, sporting and recreation opportunities
- foster opportunity and partnership with Aboriginal people.

The Department's Strategic Plan 2012-2017 sets performance targets that align with those in the NSW 2021 Plan. The performance targets provide a basis for determining if the Department is on track to meet the following outcomes.



Source: Department of Education and Communities Strategic Plan 2012-2017.

The Department's progress in meeting performance targets relating to education is assessed in the following four sections.

**Seven of the 24 performance targets for early childhood, school and tertiary students are at risk.**

### In Early Childhood

A key strategic outcome of the Department is all students will receive high quality early childhood education and care to promote a great start in life and at school.

### What are the Department's Performance Targets?

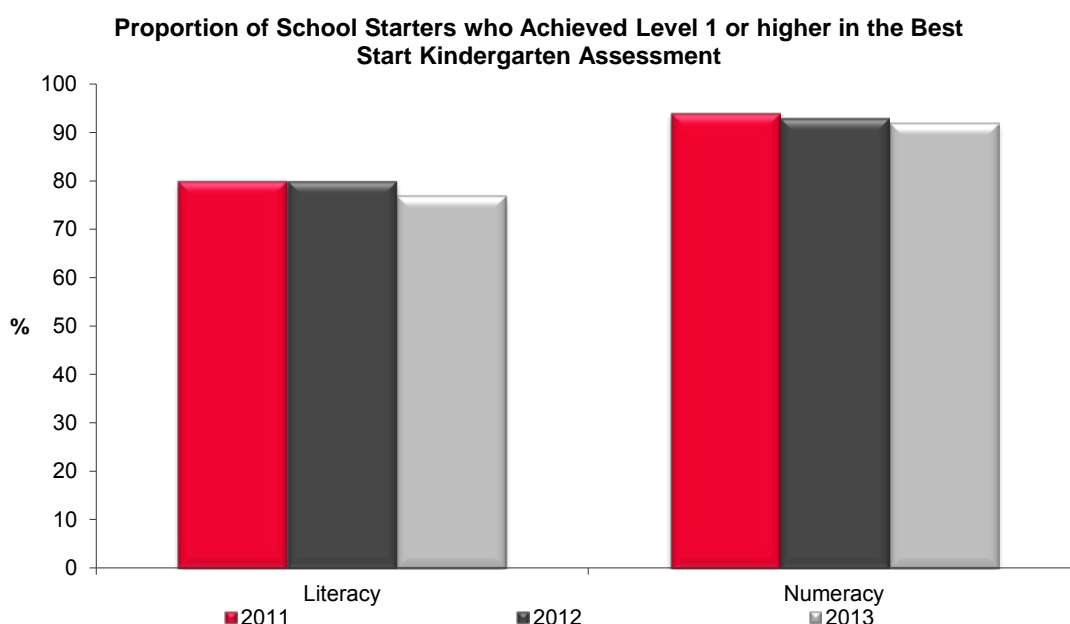
The Department's Strategic Plan 2012-2017 includes the following performance measures to track performance against this outcome:

- ensure all children have access to a quality early childhood education program in the 12 months prior to formal schooling, by 2013
- ensure all Aboriginal four-year-olds have access to a quality early childhood education program by 2013
- increase the proportion of children ready for school, as measured by the Best Start literacy and numeracy assessment, when children start school.

### What's at risk?

**Target at Risk: increasing the proportion of children with literacy and numeracy skills they need for the best start at school.**

The Department undertakes a 'Best Start' kindergarten assessment each year. The results for the last three years are shown below.



Source: Department of Education and Communities Annual Report (unaudited).

In the 2013 calendar year, 92 per cent of students achieved level one or higher on at least one aspect of the numeracy assessment and 77 per cent achieved level one or higher on at least one aspect of the literacy assessment. The results indicate a reduction of 1.0 and 3.0 percentage points respectively compared to 2012.

### **What is the Department doing to ensure these targets will be met in the future?**

The *NSW 2021 Performance Report 2014/15* shows the Department is exceeding its target for the proportion of children with access to a quality early childhood education program in the year before school.

Data shows 96.2 per cent of children accessed a preschool program, up from 81.9 per cent in 2008, and above the nationally agreed target of 95 per cent. NSW also exceeds its target for preschool participation of Aboriginal children with 97.9 per cent accessing preschool in 2013.

The Department implemented a suite of early intervention programs including:

- Language, Learning and Literacy (L3)
- Reading Recovery
- Count Me in Too
- Targeted Early Numeracy (TEN).

### **Further Early Childhood Information**

The following commentary is not related to the NSW 2021 Plan and is not used as a performance measure in the Department's Strategic Plan.

#### **NSW Progress with the National Partnership Agreement on Universal Access to Early Childhood Education**

The National Partnership Agreement on Universal Access to Early Childhood Education was endorsed by the Council of Australian Governments on 19 April 2013. Under the agreement, New South Wales received \$4.8 million in 2012-13, \$131 million in 2013-14 and will receive a further \$76.0 million in 2014-15 to provide access to quality early childhood education programs.

In May 2014, a review of the National Partnership was undertaken by Woolacott Research Pty Ltd on behalf of all governments to assess the extent to which the objectives and outcomes of the National Partnership have been achieved.

While the National Quality Framework (NQF) received positive feedback from those consulted in the review, the following improvements emerged:

- further streamlining of the assessment and rating process
- addressing some paperwork, documentation and administration issues to reduce administrative burden.

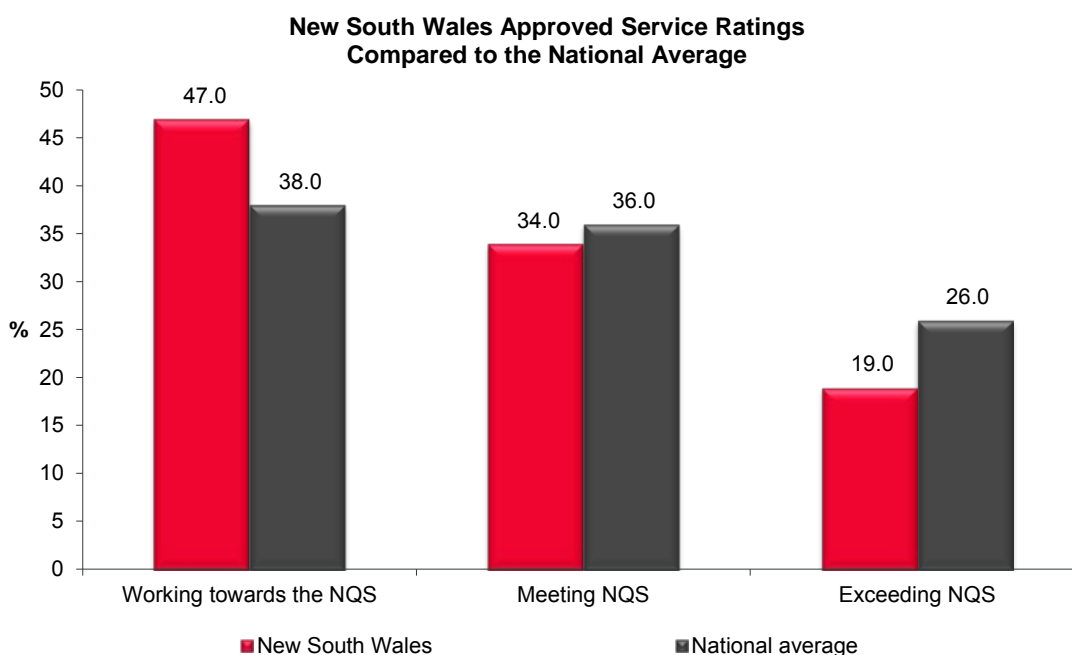
#### **Regulation of early childhood education and care and results for New South Wales**

In August 2014, the Australian Children's Education and Care Quality Authority released the 'NQF Snapshot Q2 2014' which provided an analysis and information on the state of the sector, progress of assessment and rating, quality ratings of services and waivers held by services. At 30 June 2014, New South Wales had:

- 4,910 approved services, comprising 4,664 centre-based care services and 246 family day care services
- 2,370 approved services with the following quality ratings
  - one approved service with a quality rating of Significant Improvement Required
  - 1,106 approved services with a quality rating of Working Towards the National Quality Standards (NQS)
  - 815 approved services with a quality rating of Meeting NQS
  - 445 approved services with a quality rating of Exceeding NQS
  - three approved services with an Excellent rating.

Working towards meeting the NQS means services may be meeting the NQS standards in a range of areas, but one or more areas were identified for improvement. In 2014, the percentage of approved services meeting or exceeding the national quality standard was lower than the assessed national average.

**47 per cent of approved services with a quality rating are working towards meeting the National Quality Standard.**



Note: Caution should be taken when making comparisons between jurisdictions. Some have only rated a small number of services and the services rated may not be representative of all services.

Source: Australian Children's Education and Care Quality Authority – NQF Snapshot Q2 2014 (unaudited).

### **Funding to Early Childhood Education and Care**

In October 2013, the Minister for Education announced that preschool children are to benefit from a new funding model, which will increase current funding by 20 per cent to \$150 million available to community preschools across NSW.

The new Preschool Funding Model will provide:

- increased base subsidies for children aged four and five in their year before school and three year old children from disadvantaged backgrounds
- an additional year of access to three year old children from Aboriginal or Torres Strait Islander backgrounds, or from disadvantaged families holding Commonwealth low income Health Care Cards.

The model will be implemented over a three-year period to give services time to adjust to the new arrangements.

## At School

A key strategic outcome of the Department is all students will receive the teaching and support they need to learn, achieve and progress.

### What are the Department's performance targets?

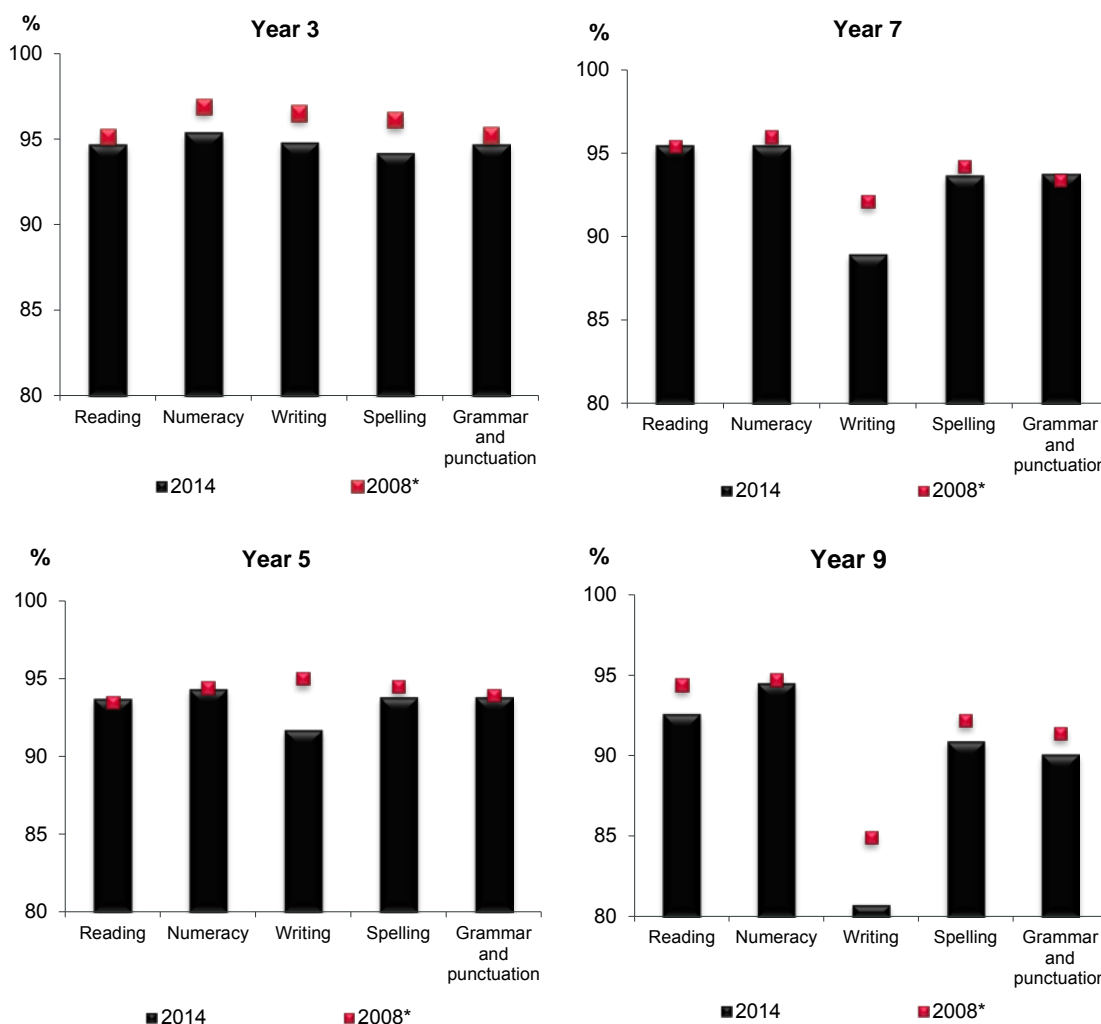
The Department has set twelve targets to assess its performance in student learning, achievement and progression. These are outlined in the Department's Strategic Plan 2012-2017 and in the NSW Government's 2021 State Plan.

### What targets are at risk?

**Target at risk: increase the proportion of students achieving at and above the national minimum standards in reading and numeracy.**

NAPLAN is an annual assessment for all students in Years 3, 5, 7 and 9 and has been part of the school calendar since 2008. NAPLAN comprises tests in five areas (or 'domains'), Reading, Numeracy, Persuasive Writing, Spelling, Grammar and Punctuation.

### Proportion of NSW students at or above national minimum standards



Note: In the graphs above, only Reading and Numeracy are included in the Department's Strategic Plan 2012-2017 and the NSW 2021 Plan.

\* 2011 NAPLAN results used as a comparative year for Persuasive Writing.

Source: Australian Curriculum, Assessment and Reporting Authority 2008, 2011 and 2014 NAPLAN summary report (unaudited).

The Department aims to increase the proportion of students achieving at or above national minimum standards. Between 2008 (the first year of NAPLAN) and 2014, the following trends were identified:

- **Reading:** The proportion of Year 3 and Year 9 students above the national minimum standard fell by 0.4 and 1.8 percentage points respectively. Year 5 improved by 0.2 of a percentage point.
- **Numeracy:** The performance of Years 3, 5, 7 and 9 declined. The largest decrease was Year 3, which fell by 1.5 percentage points, followed by Year 7 which fell 0.5 of a percentage point, Year 9 by 0.2 of a percentage point, and Year 5 by 0.1 of a percentage point.

Analysis of other NAPLAN domains indicate there are other areas, while not performance targets in the Department's Strategic Plan, which may require further improvement, specifically in the Writing of Year 7 and Year 9 students. Persuasive Writing commenced in 2011, replacing Narrative Writing, which was used from 2008 to 2010:

- **Persuasive Writing:** The proportion of students at or above national minimum standard for writing decreased since 2011 for all grades. Year 9 had the largest decline of 4.1 percentage points, followed by Year 5 which fell by 3.3 percentage points, and then Year 7 by 3.1 percentage points.
- **Spelling:** The proportion of students at or above national minimum standard for spelling continued to decline for all grades. Since 2008, Year 3 had a 1.9 percentage point decline.
- **Grammar and punctuation:** The proportion of Year 7 students achieving at or above national minimum standard increased by 0.4 percentage points since 2008.

***Target at risk: increase the proportion of students in the top two performance bands in reading and numeracy***

The State Plan and the Department's target focuses on results in Reading and Numeracy as part of its Strategic Plan. An analysis of these results between 2008 and 2014 indicates:

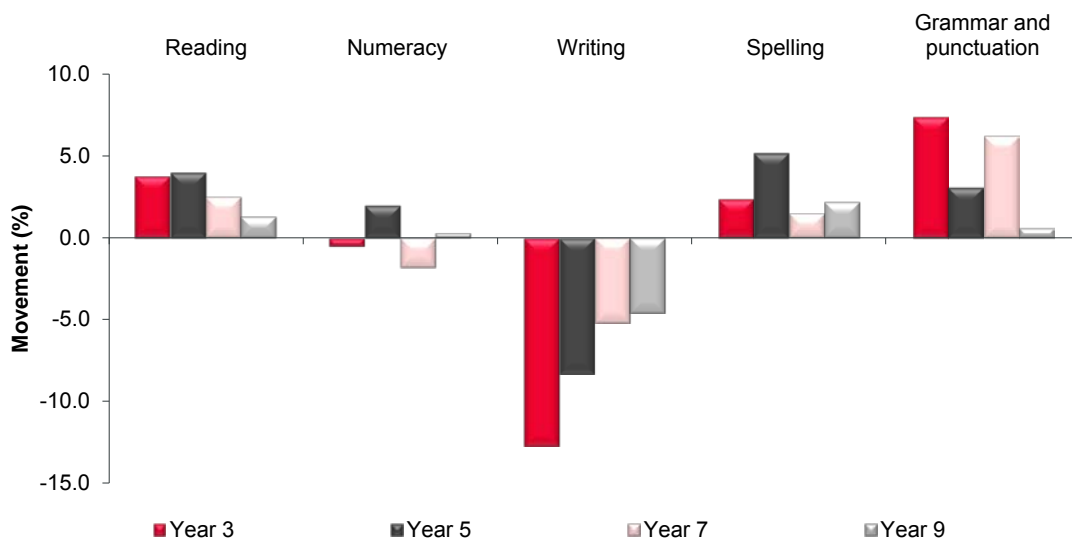
- **Reading:** The proportion of students achieving the top two performance bands has increased for all Years in Reading. Significantly, Year 3 shows an increase of 3.8 percentage points from the baseline year.
- **Numeracy:** Years 3 and 7 Numeracy results fell by 0.5 and 1.8 percentage points respectively.

While the State Plan and Strategic Plan does not report on its performance against Grammar and Punctuation, Spelling or Writing, analysis of these results identified the following trends:

- **Spelling and Grammar and Punctuation:** The proportion of NSW students achieving the top two performance bands has greatly improved for the Spelling and Grammar and Punctuation domains. In Spelling, there was a 5.2 percentage point increase for Year 5 students. In Grammar and Punctuation, Year 3 had the highest increase of 7.4 percentage points.
- **Persuasive Writing:** Years 3, 5, 7 and 9 Writing fell by 12.7, 8.3, 5.2 and 4.6 percentage points respectively.

The following graph shows the movement between 2008 and 2014 in the proportion of students achieving the top two performance bands across all domains.

**Movement in the proportion of students in the top two performance bands between 2008 and 2014\***



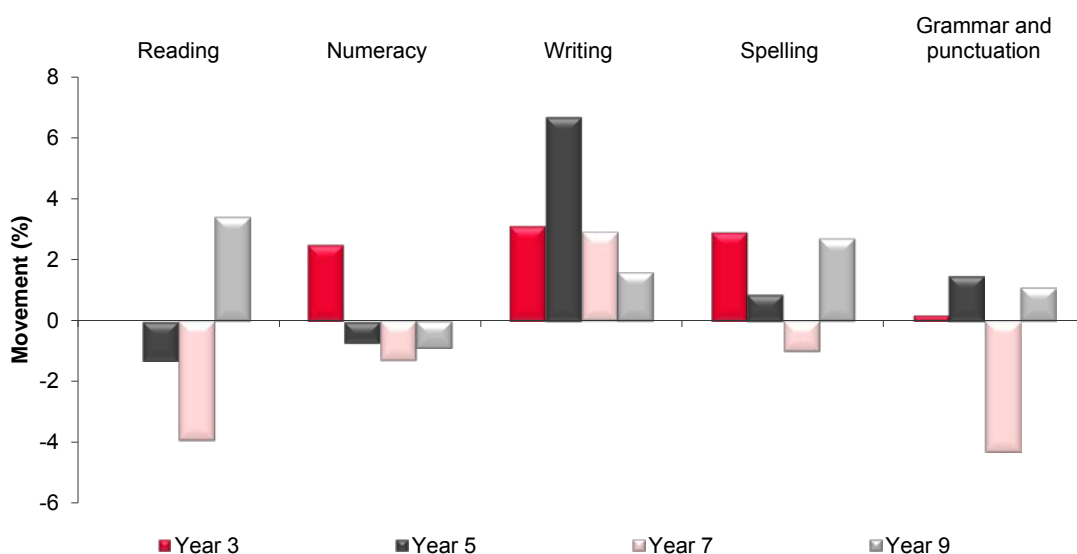
Note: In the graphs above, only Reading and Numeracy are included in the Department's Strategic Plan 2012-2017 and the NSW 2021 Plan.

\* 2011 NAPLAN results used as a comparative year for Persuasive Writing.

Source: Australian Curriculum, Assessment and Reporting Authority 2008, 2011 and 2014 NAPLAN summary report (unaudited).

**Target at risk: halve the gap between Aboriginal and non-Aboriginal students by 2018 for reading and numeracy.**

**Movement in the gap between Aboriginal and non-Aboriginal students between 2008 and 2014\***



Note: In the graphs above, only Reading and Numeracy are included in the Department's Strategic Plan 2012-2017 and the NSW 2021 Plan.

\* 2011 NAPLAN results used as a comparative year for Persuasive Writing.

Source: Australian Curriculum, Assessment and Reporting Authority 2008, 2011 and 2014 NAPLAN summary report (unaudited).

Between 2008 and 2014, the performance gap between Aboriginal students and non-Aboriginal students substantially improved for Year 7 Reading with decrease of 3.9 percentage points in the gap.

Significant gaps were identified in the following areas:

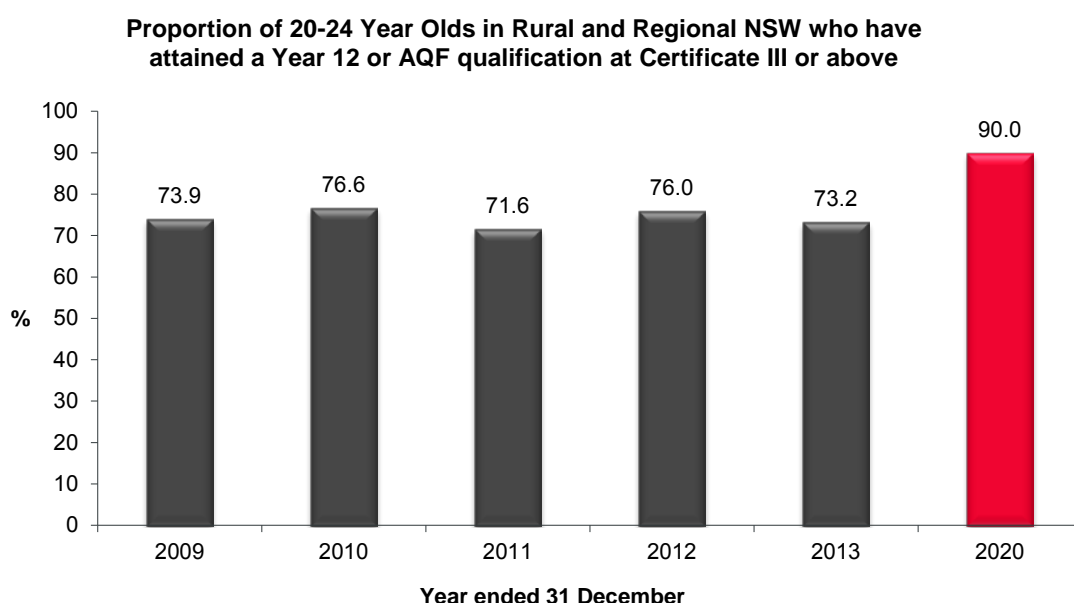
- **Reading:** Year 9 Reading gap increased by 3.4 percentage points
- **Numeracy:** Year 3 Numeracy increased by 2.5 percentage points.

While the Department only uses the results in Reading and Numeracy to assess its performance, analysis of the other domains identified the following significant gaps between Aboriginal and non-Aboriginal students:

- **Persuasive Writing:** Years 3, 5 and 9 Writing gap increased by 3.1, 6.7 and 2.9 percentage points respectively
- **Spelling and Grammar and Punctuation:** In Spelling and Grammar and Punctuation only Year 7 decreased the gap between 2008 and 2014.

**Target at risk: increase to 90 per cent the proportion of 20-24 year olds in rural and regional NSW who attained a Year 12 or AQF III qualification or above by 2020.**

The proportion of 20-24 year olds who attained a Year 12 or AQF qualification at Certificate III or above showed a fluctuating trend from 2007 to 2013. At 31 December 2013, attainment rates for students in rural and regional NSW were still 16.8 percentage points below the 2020 target.



Source: Department of Education and Communities 2013 Annual Report (unaudited).

## In Tertiary Education

A key strategic outcome of the Department is that all students will receive the skills and knowledge required for successful participation in employment and their communities, ensuring easier transitions and participation in vocational and higher education.

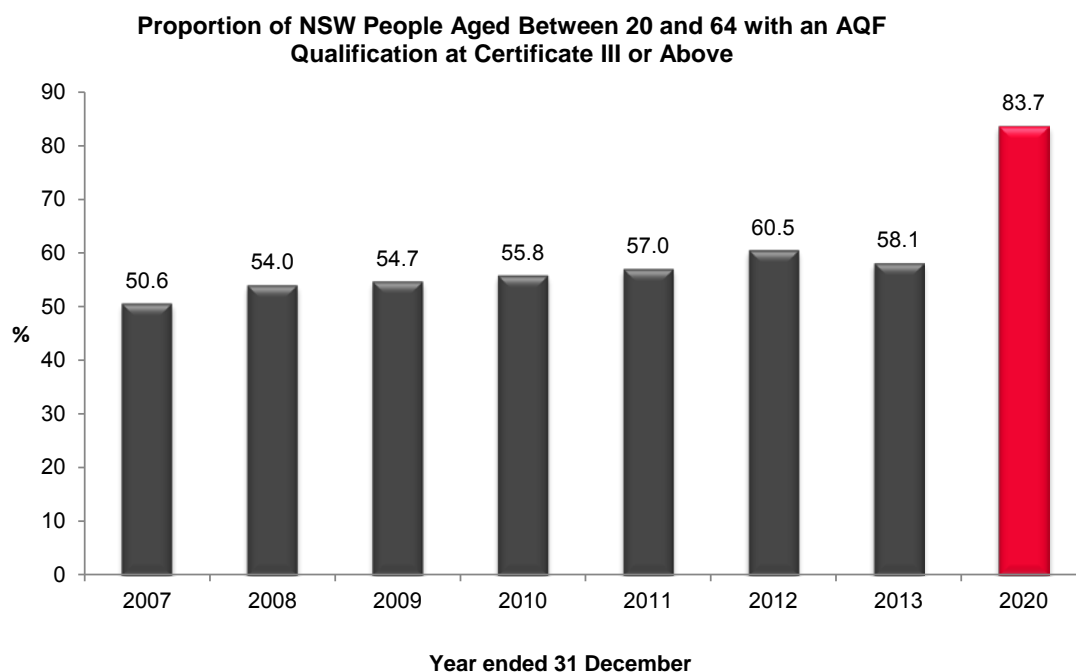
### What are the performance targets?

The Department has nine targets to assess its performance in providing skills and knowledge to students in the tertiary education sector. These are included in the Department's Strategic Plan 2012-2017. The targets are aligned with the *NSW 2021 Goal* of strengthening the NSW skill base.



## What targets are at risk?

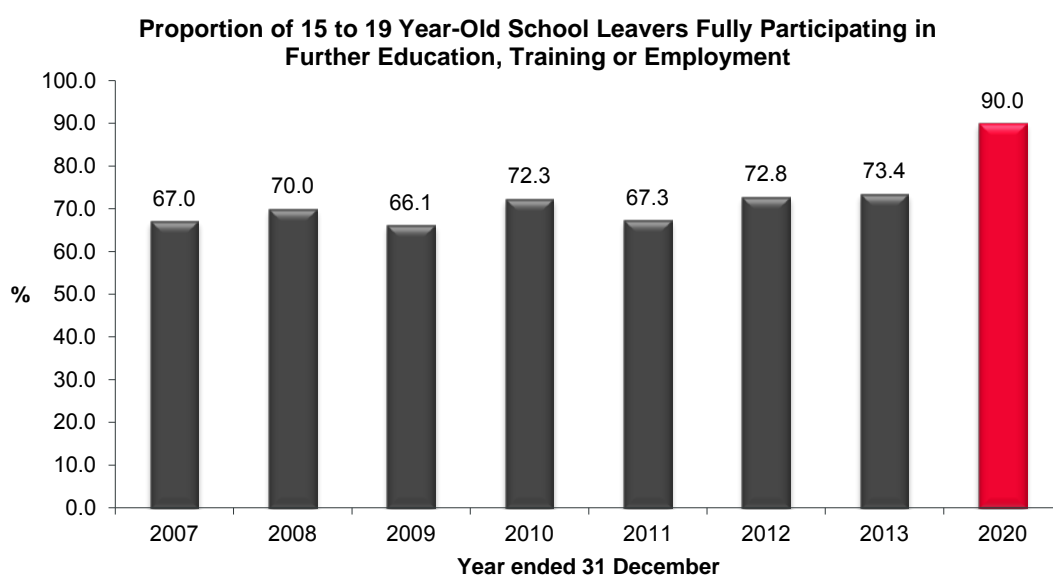
**Target at risk: fifty per cent increase in the proportion of people with qualifications at AQF Certificate III and above by 2020.**



Source: Department of Education and Communities Annual Report 2013 (unaudited).

In 2013, 58.1 per cent of people in New South Wales aged between 20 and 64 had attained qualifications at AQF Certificate III and above, a decrease of 2.4 percentage points from 2012. This result is still 25.6 percentage points less than the desired 2020 target.

**Target at risk: increase the proportion of school leavers participating in further education, training or employment to 90 per cent by 2020.**



Source: Department of Education and Communities Annual Report 2013 (unaudited).

In 2013, an estimated 73.4 per cent of school leavers were fully engaged in further education, training or employment. This represents a slight increase of 0.6 percentage points from 2012, but the Department is still 16.6 percentage points less than the 2020 target. If this trend does not improve, the 2020 target will not be met.

## In Our Communities

The Education and Communities Cluster agencies are accountable for achieving NSW 2021 goals and their own performance targets. Some of the Communities related performance highlights across the Cluster are discussed below.

### **Close the life expectancy gap within a generation - Department of Education and Communities**

**NSW had the lowest life expectancy gap for indigenous men and women in 2010-2012.**

The Department supports the National Indigenous Reform Agreement target to close the life expectancy gap between Aboriginal and non-Aboriginal people by 2031.

In 2010-2012, NSW had the lowest life expectancy gap for indigenous men of 9.3 years (10.5 years in 2005-2007) and women of 8.5 years (8.6 years in 2005-2007). The largest gap between Indigenous and non-Indigenous life expectancy for men was in Western Australia (15.1 years). The largest gap for women was in the Northern Territory (14.4 years).

Indigenous life expectancy increased over the past five years. However, it is still below the pace of progress required to meet the 2031 targets.

### **Increase access for people to learn Aboriginal languages – Department of Education and Communities**

In 2013, 46 (30 in 2012) schools participated in the Aboriginal Languages in Schools Program which supported the teaching of 10 (11 in 2012) Aboriginal languages by 39 Aboriginal language tutors, with 1,304 Aboriginal and 3,315 non-Aboriginal students participating in the program.

TAFE NSW is responsible for delivering all qualifications in Aboriginal languages. Courses are developed and delivered in collaboration with local Aboriginal community groups and Aboriginal language speakers. Students enrolled in these courses at TAFE Institutes has increased from 175 in 2011 to 357 in 2013, an increase of 104 per cent.

### **Provide opportunities for job growth in centres close to where people live and to provide access by public transport – Sydney Olympic Park Authority**

Sydney Olympic Park has seen development projects of almost \$1.4 billion of since 2000, demonstrating the growth of the precinct as an economic and residential centre. There are now 150 organisations and 14,000 employees located at the Park, as well as residents in the Australia Towers apartment complex.

Current development projects approved or under negotiation cover most market sectors and will result in an additional 120,000m<sup>2</sup> of floor space for commercial or residential use.

### **Engaging with the community and delivering great service – Venues NSW**

Over 2013-14, Venues NSW has focused on engaging with local communities and broadening the type of events they hold in their stadiums and entertainment venues. Venues NSW continues to host a wide range of national and international competitions including rugby league, rugby union, football, basketball, netball, judo, cross fit events and charity events. Most of Venues NSW business comes from major sporting events and concerts.

# Section Two

Appendices

---



# Appendix One - Summary Financial Information

	Total assets		Total liabilities		Total revenue		Total expenses		Surplus/(deficit)****	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Cluster lead entity</b>										
Department of Education and Communities (including TAFE Commission)	26,981	26,960	2,125	1,942	13,820	13,647	14,188	13,638	(378)	(18)
<b>Education related entities</b>										
Board of Studies, Teaching and Educational Standards*	39	--	16	--	40	--	39	--	1	--
Board of Studies, Teaching and Educational Standards Staff Agency*	6	--	6	--	21	--	21	--	--	--
NSW Skills Board**	2	--	0	--	1	--	1	--	1	--
Technical Education Trust Funds***	--	--	--	--	--	--	--	--	--	--
Technical and Further Education Commission	5,024	4,810	484	406	1,906	1,842	1,901	1,839	1	(12)
<b>Communities related entities</b>										
Combat Sports Authority of NSW	--	--	--	--	1	1	1	1	--	--
Community Relations Commission for a Multicultural NSW	11	9	3	2	21	20	20	19	1	1
Community Relations Commission Staff Agency	2	2	2	2	15	14	15	14	--	--
New South Wales Institute of Sport	5	6	3	2	15	15	16	16	(0 )	(1 )
Institute of Sport Staff Agency	2	2	2	2	7	7	7	7	--	--
Newcastle International Sports Centre Club	--	--	--	--	--	--	--	--	--	--
State Sporting Venues Authority	161	140	--	--	10	10	9	10	1	--
Sydney Cricket and Sports Ground Trust	738	637	99	60	133	143	72	66	61	77
Sydney Cricket and Sports Ground Trust Staff Agency	4	3	4	3	14	13	15	13	(0 )	0
Sydney Olympic Park Authority	2,030	1,913	23	23	94	99	141	129	(12)	(4 )
The Trustees of the ANZAC Memorial Building	32	32	--	1	2	3	2	1	--	2
Venues NSW	308	319	8	12	21	39	28	30	(8 )	4

Source: Financial statements (audited).

\* These entities were established on 1 January 2014.

\*\* Skills Board was established on 27 November 2013.

\*\*\* Technical Education Trust Funds has a year end of 31 December.

\*\*\*\* Net result includes gain/(losses) on disposal and other gains/(losses). Hence total revenues minus total expenses may not equal to the net result.

## Appendix Two - Performance Against Budget

	DEC (Including TAFE Commission)		SOPA		CRC	
	2014 actual	2014 budget	2014 actual	2014 budget	2014 actual	2014 budget
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Abridged statement of comprehensive income - year ended 30 June 2014</b>						
Employee expenses / Personnel services expenses	● 9,522	9,442	● 26	27	● 15	14
All other expenses and losses	● 4,677	4,783	● 115	111	● 5	6
<b>Total expenses</b>	● <b>14,199</b>	<b>14,225</b>	● <b>141</b>	<b>138</b>	● <b>20</b>	<b>19</b>
Government contributions*	● 12,730	13,081	● 37	38	● 14	14
Other revenue	● 1,091	1,045	● 92	85	● 6	6
<b>Total revenue</b>	● <b>13,821</b>	<b>14,127</b>	● <b>129</b>	<b>123</b>	● <b>21</b>	<b>19</b>
<b>Surplus/(deficit)</b>	● <b>(378)</b>	<b>(98)</b>	● <b>(12)</b>	<b>(14)</b>	● <b>1</b>	<b>--</b>
Total other comprehensive income/(expense)**	● 244	--	● 130	--	● --	--
<b>Total comprehensive income/(expense)</b>	● <b>(134)</b>	<b>(98)</b>	● <b>118</b>	<b>(14)</b>	● <b>1</b>	<b>--</b>
<b>Abridged statement of financial position - at 30 June 2014</b>						
Current assets	● 1,281	1,160	● 90	68	● 10	8
Non-current assets	● 25,700	24,894	● 1,941	1,826	● --	--
<b>Total assets</b>	● <b>26,981</b>	<b>26,054</b>	● <b>2,030</b>	<b>1,894</b>	● <b>10</b>	<b>8</b>
Current liabilities	● 1,918	1,243	● 21	10	● 2	2
Non-current liabilities	● 207	202	● 2	2	● --	--
<b>Total liabilities</b>	● <b>2,125</b>	<b>1,445</b>	● <b>23</b>	<b>11</b>	● <b>2</b>	<b>2</b>
<b>Net assets</b>	● <b>24,856</b>	<b>24,609</b>	● <b>2,008</b>	<b>1,883</b>	● <b>8</b>	<b>6</b>
<b>Abridged statement of cash flows - year ended 30 June 2014</b>						
Purchases of property, plant and equipment	● 497	471	● 13	17	● --	--

Source: Financial statements (audited)

\* Government contributions include appropriation/cluster grant and acceptance by Crown Entity of employee benefits and other liabilities.

\*\* Includes transactions taken directly to equity, such as asset revaluation movements and actuarial movements on defined benefit superannuation plans

### Actual v Budget Indicator

- Variance below 2 per cent of budget
- Variance between 2 and 5 per cent of budget
- Variance greater than 5 per cent of budget

## Appendix Three - Financial Sustainability

Indicator	Formula	Description
<b>Underlying result %</b>	<b>Adjusted net surplus / total underlying revenue</b>	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Underlying revenue does not take into account one-off or non-recurring transactions. Net result and total underlying revenue is obtained from the comprehensive operating statement and is adjusted to take into account large one-off (non-recurring) transactions.
<b>Liquidity (ratio)</b>	<b>Current assets / current liabilities</b>	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities. Current liabilities exclude long-term employee provisions and revenue in advance.
<b>Debt-to-equity (%)</b>	<b>Debt / equity</b>	This is a longer-term measure that compares all current and non-current interest bearing liabilities to equity. It complements the liquidity ratio, which is a short-term measure. A low ratio indicates less reliance on debt to finance the capital structure of an organisation.
<b>Self-financing (%)</b>	<b>Net operating cash flows / underlying revenue</b>	Measures the ability to replace assets using cash generated by the entity's operations. The higher the percentage the more effectively this can be done. Net operating cash flows are obtained from the cash flow statement.
<b>Capital replacement (ratio)</b>	<b>Cash outflows for property, plant and equipment and intangibles / depreciation and amortisation</b>	Comparison of the rate of spending on infrastructure, property, plant and equipment and intangibles with their depreciation and amortisation. Ratios greater than one indicate that spending is greater than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure, property, plant and equipment and intangibles are taken from the cash flow statement. Depreciation and amortisation is taken from the comprehensive operating statement.

Risk	Underlying result	Liquidity	Debt to equity	Self-financing	Capital replacement
High	<b>Negative 10% or less</b> Insufficient revenue is being generated to fund operations and assets renewal.	<b>Less than 0.7</b> Immediate sustainability issues with insufficient current assets to cover liabilities.	<b>More than 60%</b> Potential long-term concern over ability to repay debt levels from own source revenue.	<b>Less than 10%</b> Insufficient cash from operations to fund new assets and asset renewal.	<b>Less than 1.0</b> Spending on capital works has not kept pace with consumption of assets.
Medium	<b>Negative 10%–0%</b> A risk of long-term run down of cash reserves and inability to fund asset renewals.	<b>0.7–1.0</b> Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	<b>40–60%</b> Some concern over the ability to repay the debt from own source revenue.	<b>10–20%</b> May not be generating sufficient cash from operations to fund new assets.	<b>1.0–1.5</b> May indicate spending on asset renewal is insufficient.
Low	<b>More than 0%</b> Generating surpluses consistently.	<b>More than 1.0</b> No immediate issues with repaying short-term liabilities as they fall due.	<b>Less than 40%</b> No concern over the ability to repay debt from own source revenue.	<b>More than 20%</b> Generating enough cash from operations to fund new assets.	<b>More than 1.5</b> Low risk of insufficient spending on asset renewal.

Risk rating	Overall assessment
High	High risk of Short-term and immediate sustainability concerns indicated by: red underlying result indicator or red liquidity indicator.
Medium	Medium risk of long-term sustainability concerns indicated by either: red self-financing indicator red debt to equity indicator red capital replacement indicator
Low	Low risk of financial sustainability concerns. There are no high risk indicators.

## Appendix Four - Cluster Information

Agency	Website	Period/year ended
<b>Cluster lead entity</b>		
NSW Department of Education and Communities (including TAFE Commission)	<a href="http://www.dec.nsw.gov.au/">http://www.dec.nsw.gov.au/</a>	30 June 2014
<b>Education related entities</b>		
Board of Studies, Teaching and Educational Standards	<a href="http://www.bostes.nsw.edu.au/">http://www.bostes.nsw.edu.au/</a>	30 June 2014
Board of Studies, Teaching and Educational Standards Staff Agency	*	30 June 2014
NSW Skills Board	<a href="http://www.skillsboard.nsw.gov.au/">http://www.skillsboard.nsw.gov.au/</a>	30 June 2014
Technical Education Trust Funds	*	31 December 2013
Technical and Further Education Commission	<a href="https://www.tafensw.edu.au/">https://www.tafensw.edu.au/</a>	30 June 2014
<b>Communities related entities</b>		
Combat Sports Authority of NSW	<a href="http://www.dsr.nsw.gov.au/aboutus/industry_combat.asp">http://www.dsr.nsw.gov.au/aboutus/industry_combat.asp</a>	30 June 2014
Community Relations Commission for a Multicultural NSW	<a href="http://www.crc.nsw.gov.au/">http://www.crc.nsw.gov.au/</a>	30 June 2014
Community Relations Commission Staff Agency	*	30 June 2014
New South Wales Institute of Sport	<a href="http://www.nswis.com.au/">http://www.nswis.com.au/</a>	30 June 2014
Institute of Sport Staff Agency	*	30 June 2014
Newcastle International Sports Centre Club	*	30 June 2014
State Sporting Venues Authority	*	30 June 2014
Sydney Cricket and Sports Ground Trust	<a href="http://www.sydneycricketground.com.au/">http://www.sydneycricketground.com.au/</a>	28 February 2014
Sydney Cricket and Sports Ground Trust Staff Agency	*	28 February 2014
Sydney Olympic Park Authority	<a href="http://www.sopa.nsw.gov.au/">http://www.sopa.nsw.gov.au/</a>	30 June 2014
The Trustees of the ANZAC Memorial Building	<a href="http://www.anzacmemorial.nsw.gov.au/">http://www.anzacmemorial.nsw.gov.au/</a>	30 June 2014
Venues NSW	<a href="http://www.venuesnsw.com/">http://www.venuesnsw.com/</a>	30 June 2014
<b>Other entity</b>		
NSW Commission For Children and Young People	<a href="http://www.kids.nsw.gov.au/">http://www.kids.nsw.gov.au/</a>	30 June 2014

\* This entity has no website.



Part Two

## Section One

New South Wales Aboriginal Land Council



# New South Wales Aboriginal Land Council

---

## Snapshot

The New South Wales Aboriginal Land Council (the Council) is the largest member-based Aboriginal organisation in the State. The land council network operates as a two-tiered structure, with the Council as the peak body and a network of 120 Local Aboriginal Land Councils (LALCs). Both the Council and the LALCs are governed by elected Boards. The Council funds the LALCs through an annual grant.

The Council aims to protect the interests and further the aspirations of its members and the broader Aboriginal community. It works for the return of culturally significant and economically viable land, pursuing cultural, social and economic independence for its people. It is politically proactive and voices the position of Aboriginal people with governments and other stakeholders on issues that affect them.



# Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. Accurate and timely financial and performance information enable the Council to make effective decisions.

## Quality and Timeliness of Financial Reporting

An unqualified audit opinion was issued for the Council's financial statements for the year ended 30 June 2014.

Agency	Audit Result		Reported Misstatements for the year ended 30 June				
	Modified Opinion	Number of Significant Matters	2014	2013	2012	2011	2010
NSW Aboriginal Land Council	No	--	1	2	11	8	10

Source: Audit Office of New South Wales.

**Over the past five years, reported misstatements have fallen from 10 in 2009-10 to one in 2013-14.**

The reduction in misstatements was a direct result of improved oversight of the financial statements by management and the resolution of significant matters before year end. This improved the quality of the financial statements.

The audit for the Council was finalised within the ten week reporting timetable set out in the *Public Finance and Audit Act 1983*.

## Key Financial Information

For the year ended 30 June 2014, the Council generated \$78.7 million in revenue (\$94.0 million during 2012-13) and achieved a net surplus of \$29.2 million (\$48.5 million). Revenue decreased by \$15.3 million in 2014 compared to 2013, mainly due to lower unrealised gains on investments. The Council held assets worth \$719 million (\$678 million) and liabilities of \$55.0 million (\$49.6 million). The \$41.1 million increase in assets was mainly due to the fair value of investments and property, plant and equipment increasing by \$37.1 million and \$7.0 million respectively.

## Financial Sustainability

As a self-funded entity, the Council must manage its finances so it can meet current and future spending commitments, adapt quickly to emerging threats and remain financially sustainable. The Council implemented the Drawdown Rule in 2010-11, a financial model to stipulate spending limits. It benchmarks its performance against the Drawdown Rule to measure its long term financial sustainability.

### Ability to fund operations into the future through investment returns

Last year's report to Parliament recommended the Council continue to actively manage its investment strategies and closely monitor its spending to ensure its capital is maintained in real terms into the future.

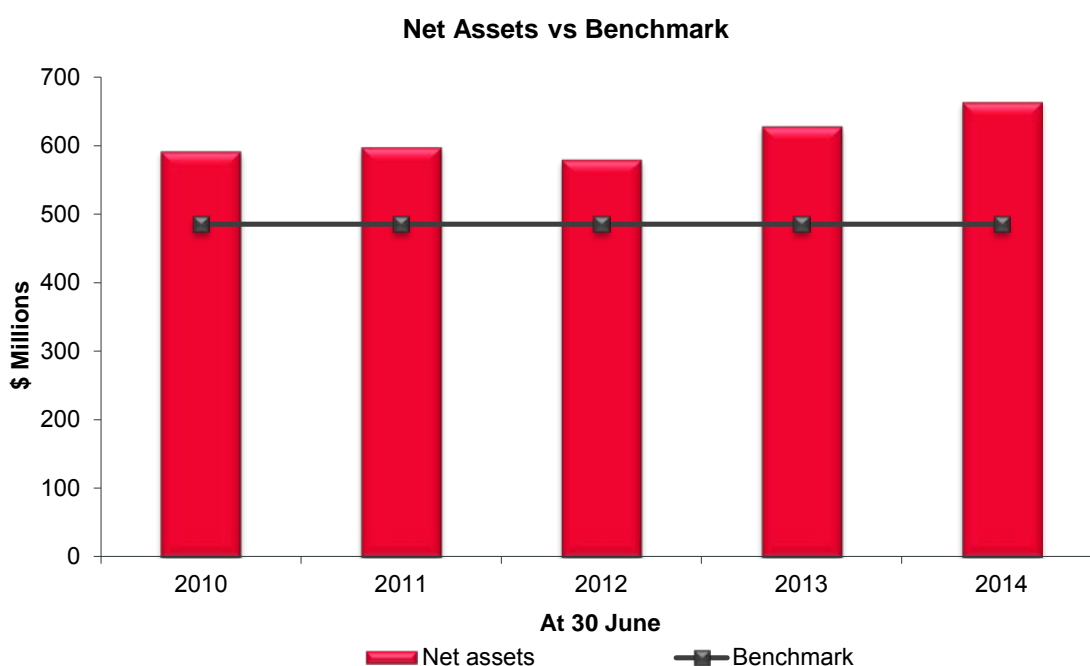
The *Aboriginal Land Rights Act 1983* (the Act) requires the Council to maintain a net asset balance of \$485 million (the Account). The Council is mainly dependent on investment income for its revenue which is affected by volatility in the financial markets.

The Council needs to earn sufficient returns from its investments to meet operating costs and maintain its capital base at a sustainable level in the long-term. To achieve this, the Council has a Strategic Investment Policy to protect earnings and the Drawdown Rule to control costs.

The Drawdown Rule factors in previous spending, average asset value and predicted long-term spending rate to project future drawdowns from the Account.

**In 2013-14, the Council used \$36.1 million of its investments to fund operations (\$37.9 million in 2012-13). Whilst spending in 2013-14 exceeded the calculated drawdown amount by 13.1 per cent, the investment returns were 75.0 per cent higher than the 7.6 percent expected under the model.**

The Council's net assets compared to both the balance of Account and the Account balance indexed for general inflation were:



Source: Financial statement (audited) and the Council (unaudited).

The Council has consistently exceeded the required benchmark.

If expenditure increases annually at an inflation rate of 2.1 per cent and investment earnings remain steady at 7.6 per cent per annum, the Council's net assets will be below the benchmark in 2027-28.

The Council employs following strategies to maintain its capital base:

- on-going monitoring of its earnings and expenditure
- influencing changes to legislation to reduce or remove the non-operational cost burden.

## Investment Return Benchmarks

While the Council is exempt from the requirements of the *Public Authorities (Financial Arrangements) Act 1987*, it compares the investment returns of its portfolio against comparable portfolios run by the New South Wales Treasury Corporation.

The following table shows the Council's investment balance and investment returns over the past five years:

Year Ended 30 June	2014	2013	2012	2011	2010
Dividend income (\$'000)	29,287	15,731	28,208	13,285	36,101
Realised gains/(losses) (\$'000)	5,615	296	(13,038)	19,851	8,760
Fair value gains (\$'000)	39,653	68,698	3,855	10,328	16,271
<b>Total investment income (\$'000)</b>	<b>74,555</b>	<b>84,725</b>	<b>32,063</b>	<b>43,464</b>	<b>61,132</b>
Drawdown (\$'000)	36,100	37,900	35,500	34,800	37,800
Investment balance (\$'000)	615,538	578,450	531,569	550,227	540,884
Investment returns (%)	13.3	16.8	4.0	8.6	14.7
Internal benchmark return (%)	12.1	13.5	3.8	7.9	10.2
NSW Treasury Corporation returns					
Long term (%)	13.5	20.6	-0.7	8.5	11.3
Medium term (%)	7.7	10.7	4.3	7.1	8.7

Source: Council Financial Statements (audited) and Annual Report (unaudited) and NSW Treasury Corporation.

The Council holds investments across a diverse range of asset classes and fund managers. Investment decisions are based on a combination of external advice, policy direction of the Council and input from the Investment Committee. The internal benchmark is set by the external fund manager using market data and reflecting the mix in the Council's investments.

**The Council's investment portfolio achieved returns above its benchmark for the last five years.**

# Financial Controls

---

Appropriate financial controls help ensure the efficient and effective use of resources and the implementation and administration of entity policies. They are essential for quality and timely decision making to achieve desired outcomes.

## Internal Controls

Audits involve performing procedures to obtain sufficient evidence to support the amounts and disclosures in financial statements. The procedures depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements. When assessing the risks, the auditor considers internal control relevant to the preparation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Break downs and weaknesses in internal controls significantly increase the risk of fraud and error.

**My audits of the Council's financial statements for the year ended 30 June 2014 did not identify any high risk internal control weaknesses.**

Over the past three years the audits have identified common moderate level risks mainly in the area of information technology.

## Information Technology

Information system audits focus on the information technology (IT) processes and controls supporting the integrity of financial data used to prepare the financial statements.

The 2013-14 audit identified six IT issues (six in 2012-13), four control weaknesses in information security and two in change management. Four of the six issues reported in 2013 were not addressed in 2014. The Council has advised that these will be addressed as part of the Information and Communications Technology (ICT) Strategy which remained outstanding at 30 June 2014.

The information security control weaknesses are in the areas of user administration, password parameters and security policies.

## Disaster Recovery Planning

The NSW Aboriginal Land Council completed a self-assessment of their disaster recovery planning and testing capabilities. The Council reported they had not established a formal disaster recovery plan for their critical financial systems for the past last three years. However, backups have been performed of financial data. Without a disaster recovery environment and formal disaster recovery plan, the Council is exposed to the risk of critical data loss which may impact its operations.

Management advised it is working to address this area as part of its ICT Strategy.

# Governance

---

Governance refers to the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled. It includes the systems the entities, and those charged with governance, use and are held to account by others.

## Governance Frameworks Supporting Service Delivery

### Legislative Framework

The New South Wales Aboriginal Land Council was constituted under the *Aboriginal Land Rights Act 1983* (the Act). It is governed by a Council comprising nine members, each elected by voting members of the LALCs in nine regions of New South Wales.

The powers and functions of the Council under the Act include:

- acquiring and claiming land on its own behalf or on behalf of or to be vested in LALCs
- establish commercial enterprises and community benefit schemes to create a sustainable economic base for Aboriginal communities
- granting funds for payment of the administrative costs and expenses of LALCs,
- determining and approving the terms and conditions of agreements proposed by LALCs to allow mining or mineral exploration on Aboriginal land
- managing the affairs of a LALC at request
- ensuring LALCs comply with the Act in respect of the establishment and keeping of accounts and the preparation and submission of budgets and financial reports
- advising the Minister on matters relating to Aboriginal land rights.

The Council is required under s.150 of the Act to maintain net assets of \$485 million.

The Minister for Aboriginal Affairs (the Minister) administers the Act. The Minister is required to perform a statutory review of the Act every five years to determine if its policy objectives remain valid. This review is currently in progress. This was discussed in detail in Volume Ten of the 2013 Auditor-General's Report to Parliament.

As part of the outcome of this process, the *Aboriginal Land Rights Amendment Bill 2014* was introduced to Parliament in November 2014. Key proposed changes to the legislation include:

- allowing Aboriginal Land Agreements to be made between the Crown Lands Minister and Aboriginal Land Councils
- clarifying functions of LALCs in relation to business enterprises
- providing for disciplinary action to be taken in relation to officers of Aboriginal Land Councils (including Board members and Councillors) who engage in misconduct.

### Oversight of Local Aboriginal Land Councils

The Council has a statutory role to assist and oversee the LALCs. To help with this role, it implemented a LALC Management Support System (Support System) in 2009. The assessment and funding of LALCs is further discussed below in Service Delivery.

## Risk Management

Risk management is a process of identifying, assessing and prioritising risks to minimise, monitor and control the impact of unforeseen events and to maximise the realisation of opportunities.

The Enterprise Risk Management Plan, it is currently in the process of being harmonised with the Strategic Plan 2013-17.

The Council plans to implement an integrated performance, risk and compliance framework. Currently, risk management policies and processes are out-of-date and not being monitored across the organisation.

### **Recommendation**

**The Council should:**

- **update and approve its performance, risk and compliance framework**
- **develop a project plan for implementing the framework with a priority on establishing risk and compliance registers as soon as possible.**



# Service Delivery

---

The achievement of the Council's outcomes can be improved through the effective commissioning of the right mix of services, whether from the public, private or not for profit sectors. Commissioning involves entities assessing their needs, determining priorities, designing and sourcing appropriate services, and monitoring and evaluating performance.

## Economic Development Policy

In October 2014, the Council adopted the Economic Development Policy (the Policy) with the aim to improve, protect and foster the best interests of Aboriginal persons within NSW. The Council is committing to spend up to \$16.0 million over the next five years to support three strategic priorities:

- facilitate Local Aboriginal Land Council business enterprise
- facilitate Aboriginal employment in NSW
- facilitate business enterprises for the Council.

Funded initiatives will aim to build capacity, support business development, foster enterprise development as well as increase the Council's net assets.

The Council has appointed the Economic Development Advisory Committee to:

- provide strategic advice on economic development
- monitor progress on implementing the Policy
- identify opportunities to partner or engage with the corporate sector
- advise on emerging economic opportunities.

Also, an Independent Assessment Panel will provide the Council with the commercial expertise and experience to assess applications for enterprise development funding.

## Outstanding Land Claims

The Council and LALCs can claim land under the Act. The Minister administering the Crown Lands Act is responsible for determining whether to grant or refuse a land claim. This is determined by examining the status of the land at the time the claim was made and making a decision about whether the land fits the definition of Claimable Crown land.

During 2013-14, 214 land claims (472 in 2012-13) were lodged. Of these, 164 (187) were made by the Council and 50 (285) were made by LALCs.

At 30 June 2014, there were 25,809 Aboriginal Land Claims (25,815 at 30 June 2013) awaiting determination by the Minister administering the *Crown Lands Act 1989*.

Of these:

- 25,053 are land claims lodged between 1 July 2005 and 30 June 2014 (25,029 between 1 July 2005 and 30 June 2013)
- 544 were lodged between 1 July 2000 and 30 June 2005 (573 between 1 July 2000 and 30 June 2005)
- 212 were lodged before 1 July 2000 (213 before 1 July 2000).

More effective processing of land claims was one of the key subjects of the review of the Act commissioned by the Minister for Aboriginal Affairs.

## Local Aboriginal Land Council's Performance

LALCs are assessed and categorised into one of three risk categories for funding purposes. The Support System measures a LALC's performance in five key operational areas with each given a weighting based on the nature of the following compliance criteria:

- financial management
- administration management
- housing management
- staffing
- Board and members.

Many criteria need to be met under each operational area. A LALC is considered 'low risk' if it scores more than 90 per cent against the compliance criteria.

The support system risk levels and the number of LALCs in each risk category over the past four years were:

At 30 June	2014	2013	2012
<b>Low risk</b> (score => 90%)	53	49	41
<b>Medium risk</b> (score => 70% to <90%)	37	49	36
<b>High risk</b> (score < 70%)	21	13	34
Under administration	2	1	1
No current assessment	7	8	8
<b>Total LALCS</b>	<b>120</b>	<b>120</b>	<b>119</b>

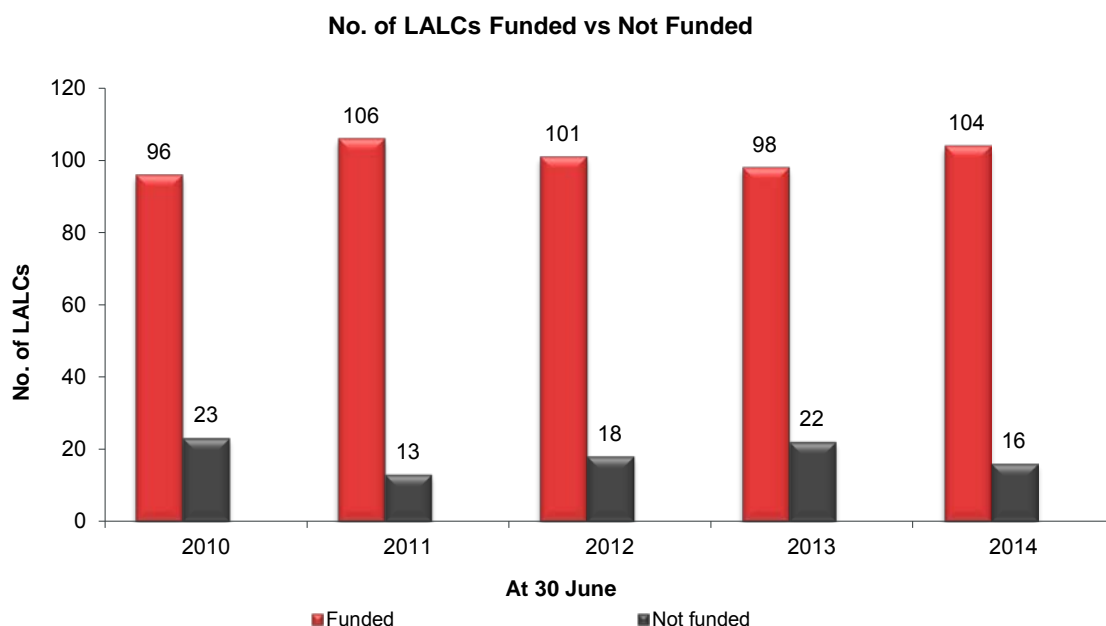
Note: From 2011-12, the Council implemented a new methodology to assess the risk levels of each LALC. Therefore, we have excluded the years prior to that for comparability purposes.

Source: Council Annual Reports 2012-2014 (unaudited).

**The number of LALCs classed as low risk has increased since 2012. This can be mainly attributed to improved oversight and communication with the LALCs by the Council.**

The 21 high risk LALCs at 30 June 2014 must provide monthly financial reports to the Council to allow increased monitoring of performance and timely resolution of performance issues.

The LALC funding status for the past five years was:



Source: New South Wales Aboriginal Land Council Annual Report 2014 (unaudited).

The Council stops funding LALCs primarily when they breach the Act, for example, by failing to comply with the reporting requirements.

The proposed changes to the Act will have an impact on the monitoring controls and ability of the Council to stop funding. The Council has started modifying its Support System to reduce the regulatory burden on LALCs, simplify the funding agreements and promote self-assessment in line with the expected amendments.

The Council also pays some expenses on behalf of LALCs. The Council approved a total of \$15.7 million in funding to LALCs in 2013-14 (\$15.2 million). Of this \$14.3 million (\$13.7 million) was for cash allocations and the remainder for essential expenses.

Council funding of LALC expenses and fees fluctuates from year to year making it difficult to predict for budget purposes.

The compliance of the LALCs has improved since 2012 as indicated by the increased number being classed as low risk. This can be mainly attributed to improved oversight and communication with the LALCs by the Council.

# Section Two

Appendix



# Summary Financial Information

	Total assets		Total liabilities		Total revenue^		Total expenses*		Net surplus	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
NSW Aboriginal Land Council	719	678	55	50	79	94	50	46	29	49

Source: Financial statements (audited).

^ Includes revenue, gains on disposal and gains in fair value of investments.

\* Includes loss on disposals and losses in fair value of investments.

## Our vision

Making a difference through audit excellence.

## Our mission

To perform high quality independent audits of government in New South Wales.

## Our values

**Purpose** – we have an impact, are accountable, and work as a team.

**People** – we trust and respect others and have a balanced approach to work.

**Professionalism** – we are recognised for our independence and integrity and the value we deliver.

**Professional people with purpose**

Making a difference through audit excellence.

Level 15, 1 Margaret Street  
Sydney NSW 2000 Australia

**t** +61 2 9275 7100

**f** +61 2 9275 7200

**e** [mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

**office hours** 8.30 am–5.00 pm

**[audit.nsw.gov.au](http://audit.nsw.gov.au)**

