



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

91ST REPORT TO THE PARLIAMENT

Review of the Findings and Recommendations of the Auditor-General's Reports 2007-2008

September 2009

Ordered to be
printed

By Authority
Government Printer for the State of Victoria

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Address: Parliament of Victoria
Spring Street
East Melbourne Victoria 3002

Telephone: (03) 8682 2867

Facsimile: (03) 8682 2898

Email: paec@parliament.vic.gov.au

Internet: www.parliament.vic.gov.au/paec

Parliament of Victoria
Public Accounts and Estimates Committee

*Review of the Findings and Recommendations of
the Auditor-General's Reports 2007-2008*

ISBN 978 0 9806614 2 2

CONTENTS

| | |
|---|-----------|
| PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE MEMBERSHIP – 56TH PARLIAMENT | 1 |
| DUTIES OF THE COMMITTEE | 3 |
| CHAIR’S FOREWORD | 5 |
| RECOMMENDATIONS FOR IMPROVING OUR SCHOOLS: MONITORING AND SUPPORT | 7 |
| RECOMMENDATIONS FOR FUNDING AND DELIVERY OF TWO FREEWAY UPGRADE PROJECTS..... | 9 |
| RECOMMENDATIONS FOR PRIORITY TWO REPORTS..... | 11 |
| PART A: IMPROVING OUR SCHOOLS: MONITORING AND SUPPORT | 13 |
| CHAPTER 1: BACKGROUND TO THE REVIEW | 15 |
| 1.1 Objective and scope of the report of the Auditor-General on Improving our Schools: Monitoring and Support..... | 15 |
| 1.2 Findings of the Auditor-General..... | 15 |
| 1.3 Response by the Department of Education and Early Childhood Development | 16 |
| 1.4 Response by the Auditor-General to the Committee | 16 |
| 1.5 Scope of the review undertaken by the Committee..... | 16 |
| CHAPTER 2: BACKGROUND TO THE VICTORIAN GOVERNMENT SCHOOL SYSTEM | 17 |
| 2.1 Introduction | 17 |
| 2.2 Strategic directions in the Victorian education system | 18 |
| 2.2.1 Blueprint for Government Schools | 18 |
| 2.2.2 Blueprint for Education and Early Childhood Development..... | 21 |
| 2.3 Educational performance | 22 |
| 2.3.1 Student learning outcomes..... | 22 |
| 2.3.2 Student engagement and wellbeing..... | 24 |
| 2.3.3 Student pathways and transitions | 24 |
| 2.3.4 Factors affecting student performance..... | 24 |
| 2.4 Measuring school performance..... | 25 |
| CHAPTER 3: RECENT SCHOOL PERFORMANCE IMPROVEMENT INITIATIVES | 27 |
| 3.1 Introduction | 27 |
| 3.2 School Leadership..... | 27 |
| 3.3 Effective teachers | 28 |
| 3.4 Focus on learning | 30 |
| 3.5 Accountability | 30 |
| 3.6 Resourcing and regeneration of education..... | 33 |

| | | |
|-------------------|---|-----------|
| 3.7 | Schools where socio-economic factors are impacting student outcomes | 35 |
| 3.8 | Review and conclusion | 36 |
| CHAPTER 4: | SUPPORT FRAMEWORK FOR UNDERPERFORMING SCHOOLS | 37 |
| 4.1 | Introduction | 37 |
| 4.2 | Identifying schools in need of targeted support | 37 |
| | 4.2.1 Auditor-General's findings and recommendations | 37 |
| | 4.2.2 Response by the Department of Education and Early Childhood Development..... | 38 |
| | 4.2.3 Action taken by the Department on the audit recommendations | 39 |
| | 4.2.4 Additional information requested by the Committee..... | 40 |
| | 4.2.5 Follow-up by the Committee on the number of schools identified in the Auditor-General's report as performing below expected levels..... | 42 |
| | 4.2.6 Number of schools receiving targeted support in 2008..... | 43 |
| 4.3 | Targeting support for schools with student outcomes below expected levels..... | 44 |
| | 4.3.1 Sustainability of targeted support | 45 |
| | 4.3.2 Understanding what's involved in improving school performance | 49 |
| 4.4 | Review and Conclusion | 52 |
| CHAPTER 5: | CAPACITY OF REGIONAL OFFICES TO SUPPORT SCHOOLS | 55 |
| 5.1 | Introduction | 55 |
| 5.2 | Funding of regional offices | 55 |
| | 5.2.1 Auditor-General's findings | 55 |
| | 5.2.2 Follow-up by the Committee of schools identified in the Auditor-General's report as missing out on targeted support..... | 56 |
| 5.3 | Human resources in regional offices | 56 |
| | 5.3.1 Auditor-General's findings | 56 |
| | 5.3.2 Auditor-General's recommendation..... | 57 |
| | 5.3.3 Response by the Department of Education and Early Childhood Development..... | 57 |
| | 5.3.4 Subsequent developments | 57 |
| | 5.3.5 Review and conclusion | 60 |
| 5.4 | Student Support Services Officers..... | 61 |
| | 5.4.1 Auditor-General's findings and recommendation | 61 |
| | 5.4.2 Response by the Department of Education and Early Childhood Development..... | 61 |
| | 5.4.3 Subsequent developments | 62 |
| 5.5 | Review and conclusion | 64 |
| CHAPTER 6: | MEASURING SCHOOL IMPROVEMENT | 67 |
| 6.1 | Introduction | 67 |
| 6.2 | Auditor-General's findings and recommendations | 67 |
| 6.3 | Response by the Department of Education and Early Childhood Development..... | 68 |
| 6.4 | Subsequent developments | 68 |
| 6.5 | Review and conclusion | 70 |

| | | |
|-------------------|---|------------|
| PART B: | FUNDING AND DELIVERY OF TWO FREEWAY UPGRADE PROJECTS | 71 |
| CHAPTER 1: | BACKGROUND TO THE COMMITTEE'S REVIEW | 73 |
| 1.1 | Introduction | 73 |
| 1.2 | Auditor-General's report on Funding and Delivery of Two Freeway Upgrade Projects | 74 |
| CHAPTER 2: | BUY-BACK OF CITYLINK CONCESSION NOTES..... | 77 |
| 2.1 | Introduction | 77 |
| 2.2 | Consideration of alternative funding sources | 78 |
| 2.2.1 | Rationale for lack of audit recommendations | 79 |
| 2.2.2 | Committee's comments | 80 |
| 2.2.3 | Assurance that the Government's updated best practice guidance adequately addresses the findings of the Auditor-General | 81 |
| 2.2.4 | Committee's comments | 82 |
| 2.3 | Auditor-General's assessment on whether the redemption of concession notes with Transurban represented financial value to the State | 83 |
| 2.3.1 | TCI project | 83 |
| 2.3.2 | M1 Upgrade project | 84 |
| 2.3.3 | Experience of key individuals undertaking negotiations | 84 |
| 2.4 | Identification and management of risks | 85 |
| 2.5 | Committee's overall comments on buy-back of concession notes | 85 |
| CHAPTER 3: | THE TULLAMARINE-CALDER INTERCHANGE PROJECT | 87 |
| 3.1 | Introduction | 87 |
| 3.2 | Consideration of action taken in response to the Auditor-General's recommendations | 88 |
| 3.2.1 | Rigour of analysis of project delivery options within the business case | 89 |
| 3.2.2 | Alignment of the procurement strategy with the business need | 92 |
| 3.2.3 | Extent of compliance of procurement approach with relevant requirements and guidelines | 95 |
| 3.2.4 | Effectiveness of project management and governance | 100 |
| 3.2.5 | Extent to which the State's objectives and the project's expected benefits have been delivered, or can be expected to be delivered | 102 |
| 3.3 | Experiences and lessons learnt from the TCI project, Victoria's first major alliance project | 108 |
| CHAPTER 4: | THE M1 UPGRADE PROJECT | 113 |
| 4.1 | Introduction | 113 |
| 4.2 | Consideration of action taken in response to the audit recommendations | 114 |
| 4.2.1 | Rigour of analysis of options to meet identified business need | 114 |
| 4.2.2 | Consistency of adopted procurement strategy with the identified business need | 116 |
| 4.2.3 | Compliance of the procurement approach with relevant requirements and guidelines | 118 |

| | | |
|--------------------|---|------------|
| 4.3 | Experiences and lessons learnt from the M1 Upgrade project combining alliance and design and construct contracts | 119 |
| CHAPTER 5: | THE STRATEGIC ROLE OF THE DEPARTMENT OF TRANSPORT IN MAJOR INFRASTRUCTURE PROJECTS MANAGED BY VICROADS | 123 |
| 5.1 | Creation of the Department of Transport in April 2008 | 123 |
| 5.2 | Review of the governance and operational capability of VicRoads by the State Services Authority..... | 124 |
| CHAPTER 1: | AGRICULTURAL RESEARCH INVESTMENT, MONITORING AND REVIEW | 129 |
| 1.1 | Introduction | 129 |
| 1.2 | Agricultural research investment | 130 |
| | 1.2.1 Agricultural investment framework | 130 |
| | 1.2.2 Increased flexibility in funding..... | 133 |
| | 1.2.3 Effectiveness of the new investment approach | 135 |
| | 1.2.4 Conclusion | 135 |
| 1.3 | Performance monitoring, reporting and evaluation | 136 |
| | 1.3.1 Strengthening performance monitoring and evaluation | 136 |
| | 1.3.2 Reviewing the performance reporting system | 137 |
| | 1.3.3 Development of a standard reporting framework | 138 |
| | 1.3.4 Advancing the case for a single system | 139 |
| | 1.3.5 Conclusion | 140 |
| 1.4 | Intellectual Property and Commercialisation | 140 |
| | 1.4.1 Benefits of research and commercialisation..... | 141 |
| | 1.4.2 Continuous improvement in commercialisation..... | 141 |
| | 1.4.3 Conclusion | 142 |
| CHAPTER 2: | PROGRAM FOR STUDENTS WITH DISABILITIES: PROGRAM ACCOUNTABILITY | 143 |
| 2.1 | Introduction | 143 |
| | 2.1.1 Audit findings | 143 |
| 2.2 | Accountability framework for the PSD..... | 144 |
| | 2.2.1 A clear objective and performance indicators for the program..... | 144 |
| | 2.2.2 Measuring and collecting data to assess performance indicators..... | 147 |
| | 2.2.3 Measuring whole-of-program achievements | 148 |
| 2.3 | Conclusion..... | 149 |
| APPENDIX 1: | LIST OF WITNESSES AT PUBLIC HEARINGS | 151 |
| APPENDIX 2: | ACRONYMS AND ABBREVIATIONS..... | 153 |

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE MEMBERSHIP – 56TH PARLIAMENT

Bob Stensholt MP (Chair)

Kim Wells MP (Deputy Chair)

Richard Dalla-Riva MLC

Jennifer Huppert MLC

Janice Munt MP

Wade Noonan MP

Sue Pennicuik, MLC

Gordon Rich-Phillips MLC

Robin Scott MP

Bill Sykes MP

For this inquiry, the Committee was supported by a secretariat comprising:

Executive Officer: Valerie Cheong

Senior Research Officers: Leah Brohm

Vicky Delgos

Specialist Advisor: Joe Manders

Business Support Officer: Melanie Hondros

Desktop Publisher: Mitch Marks

DUTIES OF THE COMMITTEE

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the Parliamentary Committees Act 2003.

The Committee comprises ten members of Parliament drawn from both Houses of Parliament.

The Committee carries out investigations and reports to Parliament on matters associated with the financial management of the state. Its functions under the Act are to inquire into, consider and report to the Parliament on:

- any proposal, matter or thing concerned with public administration or public sector finances;
- the annual estimates or receipts and payments and other budget papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council; and
- any proposal, matter or thing that is relevant to its functions and has been referred to the Committee by resolution of the Council or the Assembly or by order of the Governor in Council published in the Government Gazette.

The Committee also has a number of statutory responsibilities in relation to the Office of the Auditor-General. The Committee is required to:

- recommend the appointment of the Auditor-General and the independent performance and financial auditors to review the Victorian Auditor-General's Office;
- consider the budget estimates for the Victorian Auditor-General's Office;
- review the Auditor-General's draft annual plan and, if necessary, provide comments on the plan to the Auditor-General prior to its finalisation and tabling in Parliament;
- have a consultative role in determining the objectives and scope of performance audits by the Auditor-General and identifying any other particular issues that need to be addressed;
- have a consultative role in determining performance audit priorities; and
- exempt, if ever deemed necessary, the Auditor-General from legislative requirements applicable to government agencies on staff employment conditions and financial reporting practices.

CHAIR'S FOREWORD

Under its functions and powers set out in sections 14 and 33 of the *Parliamentary Committees Act 2003*, the Public Accounts and Estimates Committee has been following up audit reports tabled in Parliament by the Auditor-General every six months in tranches. The Committee has prioritised these reports as either 'priority one' or 'priority two' based on various criteria including the seriousness of the audit findings, public interest, risks, social impacts, materiality and opportunities to enhance accountability.

I am pleased to present the third tranche, termed 'Round Three'. This round includes two priority one audit reviews on the following topics:

- *Improving our Schools: Monitoring and Support*; and
- *Funding and Delivery of Two Freeway Upgrade Projects*.

The Committee has also undertaken two priority two reviews, *Agricultural Research Investment, Monitoring and Review* and *Program for Students with Disabilities: Program Accountability*.

This particular round has seen the Committee examine a range of issues important to all Victorians as well as the Committee – schools, freeways and agricultural investment. All are vital to a well-functioning State.

This round has seen the Committee place a strong emphasis on schools, particularly in ensuring that there are strong support systems in place to support underperforming schools and students with disabilities. I consider these to be particularly important in ensuring that Victoria continues to have a highly performing public education system.

I commend this report to Parliament and strongly encourage the Government to consider implementing the recommendations of the Committee.

I wish to thank my colleagues for their participation in these reviews, including attendance at public hearings and consideration of the issues raised by these audits. I also wish to thank the Committee's Secretariat staff for their high quality research, writing of the final report and administrative support during these reviews.

The total cost of Round Three audit reviews is \$43,579.



Bob Stensholt MP

Chair

RECOMMENDATIONS FOR IMPROVING OUR SCHOOLS: MONITORING AND SUPPORT

- Recommendation 1:** The Department of Education and Early Childhood Development ensure that adequate processes and robust measures are in place to monitor the effective implementation of the new performance improvement initiatives and assess their impact on the educational outcomes of Victorian government school students. 36
- Recommendation 2:** The Department of Education and Early Childhood Development should ensure that any targeted support provided to schools with student outcomes below expected levels is sustained over such a period as to make realised improvements in the school's performance outcomes.
As part of the accountability process, the impact of targeted interventions in these schools should be clearly measured and documented. 53
- Recommendation 3:** The Department of Education and Early Childhood Development should ensure that the personnel responsible for managing and monitoring school performance both within schools and in regional offices are highly proficient in interpretation and analysis of school performance data, together with capabilities for identifying appropriate strategies for addressing issues highlighted by the data..... 53
- Recommendation 4:** The Department of Education and Early Childhood Development should undertake an independent review of the effectiveness of the Regional Network Leaders model in 2012, including in regards to their impact on underperforming schools. 53
- Recommendation 5:** The Department of Education and Early Childhood Development should ensure that regional offices identify the existence of any unmet demand for targeted support within their region. These schools should be monitored to allow early detection of any worsening in their performance and prompt intervention as required. 60
- Recommendation 6:** The Department of Education and Early Childhood Development undertake an evaluation of the revised regional funding model and newly implemented regional network structure following two years of operation to assess its success in improving the capacity of regional offices to better manage underperforming schools. 60

Recommendation 7: **The Department of Education and Early Childhood Development should assess whether the issues surrounding the allocation of, and access to, Student Support Services Officer resources have been adequately addressed by the new arrangements for management of the resource so that improved access to services by government school students has been effected.65**

Recommendation 8: **The Department of Education and Early Childhood Development should direct Regional Network Leaders to assess the use and understanding of school performance data by school personnel and ensure that relevant training is targeted accordingly.70**

RECOMMENDATIONS FOR FUNDING AND DELIVERY OF TWO FREEWAY UPGRADE PROJECTS

| | |
|---------------------------|---|
| Recommendation 9: | VicRoads ensure that its expanded provisions relating to stakeholder consultation and independent validation of traffic and financial models are fully complied with in the development of business cases for future major road projects. 92 |
| Recommendation 10: | VicRoads should ensure that probity plans established for major projects are dated and formally approved, consistent with the rigour required by the Victorian Government Purchasing Board best practice guidance for the development of such plans..... 99 |
| Recommendation 11: | Based on its experiences with the Tullamarine-Calder Interchange project, VicRoads ensure there is a robust approach to the management of key probity issues during the procurement phase for future major road projects, supported by clear evidence of full adherence to its documented procedures. 100 |
| Recommendation 12: | The Department of Treasury and Finance widen its best practice Gateway initiative to incorporate, at the Gateway 6 Review stage, a requirement for agencies to publish in annual reports the key findings from the review report on benefits achieved from major projects compared with targets..... 107 |
| Recommendation 13: | The Auditor-General conduct, as an extension of the earlier audit, an audit of the findings of the Gateway 6 Review report for the Tullamarine-Calder Interchange project as soon as practicable after the report's completion. 108 |
| Recommendation 14: | Consistent with its leadership role in a major national improvement initiative, the Department of Treasury and Finance ensure there is effective dissemination through training and other means of the initiative's outcomes across relevant Victorian public sector agencies. 111 |
| Recommendation 15: | VicRoads ensure Parliament is adequately informed, in the period up to and beyond the completion of the M1 Upgrade project, on the effectiveness of its performance in the achievement of the project's expected benefits and outcomes. 121 |
| Recommendation 16: | The Department of Transport ensure there is transparent periodic reporting on the effectiveness of its performance in implementing key responsibilities in strategic transport policy and planning. 126 |

| | |
|---------------------------|---|
| Recommendation 17: | The Department of Treasury and Finance ensure that key issues arising from actions taken by VicRoads to share its project management skills across the public sector are captured and incorporated into its best practice guidelines.....126 |
|---------------------------|---|

RECOMMENDATIONS FOR PRIORITY TWO REPORTS

| | |
|---------------------------|---|
| Recommendation 18: | The Department of Primary Industries undertake a formal risk assessment for the agricultural research investment framework to ensure that it identifies possible risks and barriers to achieving its new directions and can appropriately mitigate those risks and barriers. 132 |
| Recommendation 19: | The Department of Primary Industries undertakes an appropriate external review of its Agricultural Investment Framework at the end of 2010. 135 |
| Recommendation 20: | The Department of Primary Industries ensure that staff involved in administering the agricultural research program are part of the Portfolio and Project Management project being undertaken by the Corporate Services Group..... 139 |
| Recommendation 21: | The Department of Primary Industries ensure that its investigation of IT systems for the agricultural research program considers the systems currently being used in other jurisdictions..... 139 |
| Recommendation 22: | The Department of Primary Industries include in its annual report information on the economic, social and environmental benefits of commercialised and non-commercialised agricultural research investment in Victoria. 141 |
| Recommendation 23: | The Department of Education and Early Childhood Development consider including a performance indicator that measures how many students successfully transition out of and no longer require the support of the Program for Students with Disabilities and the number of students exiting the program for other reasons. 146 |
| Recommendation 24: | The Department of Education and Early Childhood Development review Individual Learning Plans for the Program for Students with a Disability to ensure they better meet the needs of the students and the Department. 148 |

**PART A: IMPROVING OUR SCHOOLS:
MONITORING AND SUPPORT**

CHAPTER 1: BACKGROUND TO THE REVIEW

1.1 Objective and scope of the report of the Auditor-General on Improving our Schools: Monitoring and Support

The objective of the audit was to determine the effectiveness of the Department of Education and Early Childhood Development's (the Department) contribution to improving the outcomes of students in government schools.

The audit involved a retrospective review of school performance data stretching back to 1998. Based on the assessment approach currently being used by the Department to identify underperforming schools, the Auditor-General identified 128 schools which would have been assessed as performing below expected levels in 1998. The audit then evaluated how effective the Department's central and regional offices had been in identifying, monitoring and supporting these underperforming schools and improving student outcomes.¹

The scope of the audit included:²

- a questionnaire to the 128 schools identified in the audit;
- visits to eight of the schools who responded to the questionnaire; and
- interviews with staff and review of documentation in the Department's central offices, the Gippsland Regional Office, Northern Metropolitan Regional Office and Western Metropolitan Regional Office.

1.2 Findings of the Auditor-General

The Auditor-General concluded that since the release of the *Blueprint for Government Schools* reform agenda in 2003, the central and regional offices of the Department were better targeting schools with student outcomes below expected levels and had improved their approach to working with those schools. Further, he stated that the *School Accountability and Improvement Framework*, introduced in 2005, has provided better support for all schools in undertaking their four-yearly cycle of self-evaluation, review, planning and implementation.

However, while the Auditor-General found that considerable progress had been made in addressing school performance, he reported that more attention was needed in regard to some aspects of the support process where regional offices were constrained from '*providing the right support at the right time*'.³

The report included a number of findings and six recommendations across the following areas:⁴

- the capacity of regional offices to support schools;
- meeting unmet demand for targeted support;
- identifying schools that need targeted support;
- implementing improvement approaches; and
- measuring school improvement.

¹ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, pp.1–2

² *ibid.*, pp.2, 57

³ *ibid.*, p.2

⁴ *ibid.*, pp.2–4

1.3 Response by the Department of Education and Early Childhood Development

The Department welcomed the Auditor-General's report and stated that it was working to develop and implement a wide range of strategies and initiatives to improve the performance of every school, with greater support for those schools performing below expected levels in terms of student outcomes.

The Department stated that its approach had been endorsed at an international level affirming the direction being taken by Victoria in school improvement. The Department acknowledged in its response that while significant progress had been made there was still room for improvement. All of the Auditor-General's recommendations were accepted by the Department.⁵

Specific departmental responses to the Auditor-General's findings and recommendations are detailed in the following sections of this report.

1.4 Response by the Auditor-General to the Committee

The Committee wrote to the Auditor-General in March 2009 requesting his views and comments in relation to actions proposed and/or taken by the Department on the recommendations contained in his report.

The Auditor-General advised the Committee that his Office had reviewed the responses of the Department as published in the *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*. Overall, the Auditor-General noted that the Department's responses indicated that some actions were being taken however he stated that it was not always clear how the actions would specifically address the concerns detailed in the audit recommendation.⁶

At the Committee's Public Hearing in April 2009, a representative of the Auditor-General's Office expressed the view that while the Department had largely accepted the recommendations made in the report and some progress had been made in monitoring school performance and targeting improvement strategies, there was insufficient information in the responses made by the Department concerning the duration of some of its proposed interventions.⁷

Specific comments made to the Committee by the Auditor-General in relation to the Department's responses are included in the following sections of this report.

1.5 Scope of the review undertaken by the Committee

On 29 April 2009, a public hearing was held with Mr Des Pearson, Auditor-General, Mr Andrew Greaves, Assistant Auditor-General, Ms Alison Smith, Director Performance Audit and Ms Catherine Sandercock, Manager Performance Audit from the Victorian Auditor-General's Office.

A separate hearing was held later on the same day with Professor Peter Dawkins, Secretary, Mr Darrell Fraser, Deputy Secretary, Ms Judy Petch, General Manager, School Workforce Reform and School Improvement and Dr Sara Glover, General Manager, Data, Outcomes and Evaluation from the Department of Education and Early Childhood Development.

⁵ *ibid.*, pp.6–8

⁶ Mr D Pearson, Auditor-General, Victorian Auditor-General's Office, letter to the Committee, received 9 April 2009

⁷ Ms A Smith, Director, Performance Audit, Victorian Auditor-General's Office, transcript of evidence, 29 April 2009, p.5

CHAPTER 2: BACKGROUND TO THE VICTORIAN GOVERNMENT SCHOOL SYSTEM

2.1 Introduction

In August 2007, machinery-of-government changes resulted in the transfer of certain outputs in respect to early childhood services and adolescent health services to the newly created Department of Education and Early Childhood Development.

The Department has four main responsibilities:⁸

- to provide policy advice to the relevant ministers about education, early childhood development and children's services in general;
- to implement Victorian Government policy on early childhood services;
- to implement Victorian Government policy on school education for all school-age students; and
- to manage and drive continuous improvement in the delivery of primary and secondary education in Victorian government schools.

The Department comprises five central offices located in Melbourne and nine regional offices located in metropolitan and rural Victoria.

The Office for Government School Education is a central office within the Department, charged with responsibility for the management, co-ordination and implementation of high quality government school education across the State. The Office comprises a number of divisions which are responsible for formulating key policy and program decisions and developing strategies to assist the learning process within schools.⁹

As at 30 June 2008, the Department employed around 54,000 full-time equivalent staff of which approximately 40,450 were teaching staff.¹⁰

The Victorian school system is characterised by a high degree of devolved decision-making to principals and school councils which gives them considerable operational autonomy. As at February 2009, approximately 540,000 young people (around two-thirds of Victorian students) were attending 1,494 government primary and secondary schools in the State.¹¹

Regional offices have an important role to play in the school accountability and improvement framework of the Department by monitoring and reporting on the achievement of each school's progress towards the achievement of its identified goals and targets. In addition to regional offices, there are a number of School Networks established within specific geographic areas.

⁸ Department of Education and Early Childhood Development, *2007-08 Annual Report*, p.10

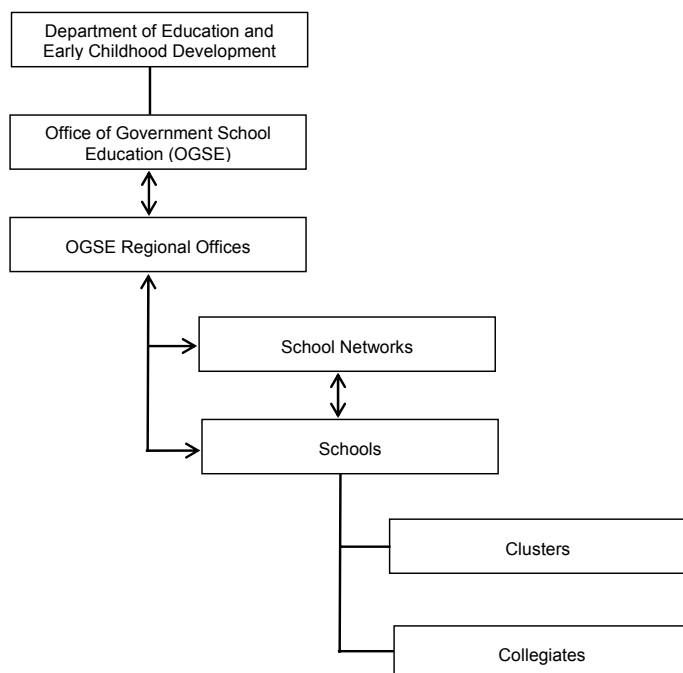
⁹ Department of Education and Early Childhood Development, www.education.vic.gov.au/about/structure/ogse, accessed 15 June 2009

¹⁰ Department of Education and Early Childhood Development, *2007-08 Annual Report*, p.16

¹¹ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 11 September 2009, p.1

Figure 1 provides a diagrammatic representation of the organisation structure as it relates to the Victorian government school system.¹²

Figure 1: Victorian Government School System



Source: Organisation for Economic Co-operation and Development, 2008

2.2 Strategic directions in the Victorian education system

In recent years there has been an increased emphasis by government on education in the State in recognition of its importance to the wellbeing of individuals and to the social, cultural and economic prosperity of the society as a whole.

A brief overview of the more recent developments in the Victorian education system is provided below.

2.2.1 Blueprint for Government Schools

In March 2003, the Government released the *Blueprint for Government Schools* (2003 Blueprint) which aimed to address the variations in student performance within the government school system, particularly the concentration of poor learning outcomes for students in some schools and regions.

Initiatives aimed at building the teaching and leadership skills of the education workforce was a major focus of the 2003 Blueprint. Other areas of emphasis were recognising and responding to diverse student needs and continuous improvement in schools. Following the release of the 2003 Blueprint, funds were provided for initiatives specifically targeted at schools recording student outcomes below expected levels. The 2003 Blueprint gave regional offices increased responsibility for supporting underperforming schools and assisting school improvement.

¹² Organisation for Economic Co-operation and Development, *Improving School Leadership, Volume 2: Case Studies on System Leadership*, 2008, p.191

Under the 2003 Blueprint, the following initiatives were introduced:¹³

- the Effective Schools Model;
- the School Accountability and Improvement Framework;
- the Victorian Essential Learning Standards; and
- the Performance and Development Culture.

The Effective Schools Model

As referred to in the Auditor-General's report, the framework for school improvement in Victorian government schools is based on the *Effective Schools Model*. The Department defines an effective school as '*one in which students progress further than might be expected from consideration of its intake*'.¹⁴

The model (see Figure 2) identifies eight factors which are correlated with improved student outcomes as follows:¹⁵

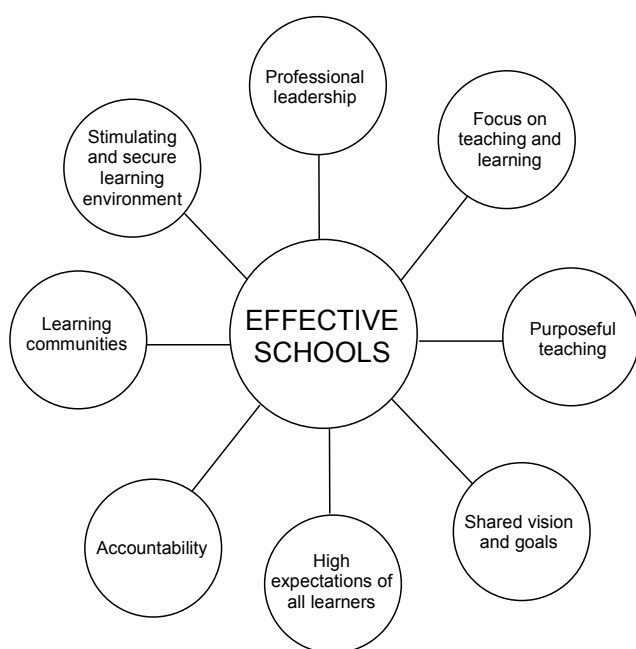
- professional leadership;
- focus on teaching and learning;
- purposeful teaching;
- shared vision and goals;
- high expectations of all learners;
- accountability;
- learning communities; and
- stimulating and secure learning environment.

¹³ Department of Education and Early Childhood Development, *Blueprint for Education and Early Childhood Development*, September 2008, p.9

¹⁴ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.15

¹⁵ *ibid.*

Figure 2: Department of Education and Early Childhood Development Effective Schools Model



Source: Department of Education and Early Childhood Development, 2003

School Accountability and Improvement Framework

A school accountability framework was first introduced into Victorian government schools in 1994. Since then the framework has been revised and reissued a number of times. The 2003 Blueprint made changes to the existing accountability framework to introduce a new approach to school improvement via a differential model of school review which would reflect the school's current level of performance.¹⁶

Under the 2003 Blueprint, the *School Accountability and Improvement Framework* was introduced into Victorian government schools in 2005 and is constructed around four main elements:¹⁷

- evaluation of progress via an internal school self-evaluation and an external school review;
- planning for improvement via a school strategic plan and an annual implementation plan;
- reporting on progress via an annual report to the school community; and
- managing risk and compliance with legislation and departmental policies via the school compliance checklist.

The recent release of the *Blueprint for Education and Early Childhood Development* in 2008 has seen a further strengthening of the *School Accountability and Improvement Framework* by increasing the role of school networks in the school monitoring and improvement process.

¹⁶ Department of Education and Early Childhood Development, *Blueprint for Government Schools*, 2003, p.23
¹⁷ Department of Education and Early Childhood Development, *Accountability and Improvement Framework for Victorian Government Schools 2009*, October 2006, p.3

The Victorian Essential Learning Standards

Under the 2003 Blueprint, the Victorian Curriculum and Assessment Authority were to identify and develop a broad framework of ‘essential learnings’ for all Victorian school students.

In 2006 the Victorian Essential Learning Standards (VELS) replaced the Curriculum and Standards Framework as the basis for curriculum and assessment in Victorian schools. The VELS set out what is important for all Victorian school students to learn during Years Prep to Year 10 and seek to provide common state-wide standards which schools use to plan student learning programs, assess student progress and report student progress to parents.¹⁸

The Performance and Development Culture

The 2003 Blueprint flagged the introduction of an accreditation scheme for performance and development culture in schools.

The Performance and Development Culture was introduced into schools in 2006. It is an accreditation scheme aimed at providing quality assurance over the professional development and performance management processes within a school that enables teachers to improve their performance. According to the Department’s publication introducing the scheme:¹⁹

The scheme is based on the understanding that, in order to take the next step in improving student learning outcomes, the focus must be on improving how the staff of a school work together, reflect on their teaching practice and individually and collectively become accountable for improving their students’ learning outcomes.

The Department originally aimed to have all schools accredited by 2008. The Secretary of the Department advised the Committee at the public hearing in April 2009, that to date, 94 per cent of schools have been accredited under the Performance and Development Culture.²⁰

The Performance and Development Culture is currently being reviewed by the Auditor-General, with a report anticipated to be tabled in the first half of 2010.

2.2.2 Blueprint for Education and Early Childhood Development

In September 2008, the *Blueprint for Education and Early Childhood Development* (2008 Blueprint) was released marking the Government’s next phase of reform of the Victorian education sector and setting out the Government’s five-year agenda for learning and development from birth to adulthood. The 2008 Blueprint encompasses both education and early childhood services and government and non-government schools.

¹⁸ Victorian Curriculum and Assessment Authority, www.vcaa.vic.edu.au/prep10/vels, accessed 15 June 2009

¹⁹ Department of Education and Early Childhood Development, *A Performance and Development Culture: Advancing Professional Practice in Schools*, April 2006, p.4

²⁰ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.4

In relation to school education, the 2008 Blueprint states:²¹

...we will pursue a stronger systemic approach to school improvement in government schools based upon driving improvement through the role of regional networks, and stronger interventions in schools where performance needs to improve.

We will promote partnerships between government and non-government schools, consistent accountability frameworks and greater transparency about performance and provision from all schools regardless of sector.

The 2008 Blueprint identifies a number of actions aimed at achieving the Blueprint's goals arranged under three major strategies: system improvement; partnerships with parents and communities; and workforce reform.

2.3 Educational performance

There are a number of outcomes which result from attending school. In addition to measuring student learning outcomes, the Department also looks at student engagement and wellbeing, and transitions and pathways once students leave school, as measures of educational performance. Student engagement and wellbeing are measured primarily through student surveys, teacher surveys and parent opinion surveys. Information in regard to transitions and pathways is obtained through tracking students between schools and after leaving school. This is also a part of an audit by the Auditor-General into the effectiveness of student wellbeing services and programs.

2.3.1 Student learning outcomes

The most fundamental measure of an education system is student learning outcomes. Until recently, the educational performance of Victorian students was assessed through the Achievement Improvement Monitor (AIM) testing at Years Three, Five, Seven and Nine. In 2009, AIM testing was replaced by the National Assessment Program – Literacy and Numeracy (NAPLAN) testing in Years Three, Five, Seven and Nine.

In addition to this national testing, there are international assessments such as the Programme for International Student Assessment (PISA), sponsored by the Organisation for Economic Co-operation and Development (OECD) and Trends in Mathematics and Science Study (TIMSS), undertaken by the International Association for Evaluation of Educational Achievement.

Data provided by the Department, and presented in the Auditor-General's report, indicates an improvement between 1998 and 2005 in the median result learning outcomes across all Victorian government primary schools in the following categories:²²

- assessment of reading in Year Two;
- teacher assessments of progress in Years Prep, Two, Four and Six;
- state-wide testing of progress in Year Three; and
- state-wide testing of progress in Year Five.

²¹ Department of Education and Early Childhood Development, *Blueprint for Education and Early Childhood Development*, September 2008, p.12

²² Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.12

In respect of secondary school learning outcomes between 1998 and 2005, the data showed an improvement in the teacher assessments of progress in Years Eight and Ten. As well the median results across all schools for Years Eight and Ten English and Mathematics increased substantially between the period examined. There was also a stable level of student performance in the Victorian Certificate of Education (VCE).²³

In June 2009, the Committee requested updated information from the Department in respect to the student learning outcomes since 2005 in order to provide an update of the information provided in the Auditor-General's report and show the changes in the median results of Victorian government students' learning outcomes between 1998 and 2008.

In August 2009, the Department advised that:²⁴

None of the measures are available for the total time period requested, except for Assessment of Reading. Moreover, the measures have been superseded at different times over the ten year period. Therefore it is not possible to reproduce the materials as required.

The PISA testing, sponsored by the OECD, aims to measure 15-year-old students, approaching the end of their compulsory schooling to test whether they have the knowledge and skills required for 'full participation in the knowledge society'. PISA testing was conducted in 2000, 2003 and 2006, and each survey year focuses on one subject area, reading (2000), mathematics (2003) or science (2006). Further tests are planned for 2009, 2012 and 2015.²⁵

While PISA testing gives Victoria a basis of comparison with the rest of Australia's states and the rest of the world, testing is limited and only occurs every three years. Testing also only focuses on one subject area each testing year. Therefore, it does not provide regular and comparable data. PISA testing is also limited in that it does not measure the progress of students through the education experience.

In response to questioning at the Committee hearing in April 2009 in respect to Victoria's comparative educational performance as reported by the OECD, the Department subsequently provided the following information:²⁶

- the OECD PISA testing conducted in 2000, 2003 and 2006. showed that Australia performed above the OECD average in each category;
- in Scientific Literacy, Victoria's mean score was statistically lower than the Australian average and was behind the Australian Capital Territory, Western Australia, New South Wales and South Australia;
- in Reading Literacy, Victoria's mean score was similar to the Australian average but was behind the Australian Capital Territory, Western Australia and New South Wales; and
- in Mathematical Literacy, Victoria's mean score was similar to the Australian average but was behind the Australian Capital Territory and Western Australia.

²³ ibid., pp.13–14

²⁴ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 11 September 2009, pp.7–8

²⁵ Organisation for Economic Co-operation and Development, *PISA – The OECD Programme for International Student Assessment*, p.4

²⁶ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 2 June 2009

2.3.2 Student engagement and wellbeing

The Department states that '*promoting students' engagement in learning and wellbeing at school is an essential goal for all schools.*'²⁷ Student engagement and wellbeing is measured by student attendance, student connectedness to school, student attitudes to school, teacher assessments of student motivation and parents' perceptions of the school environment.

The Department primarily uses surveys to obtain relevant data on student engagement and wellbeing.

2.3.3 Student pathways and transitions

Student pathways and transitions refer to the movement of students from one educational experience to another. In the years of compulsory schooling key transitions include kindergarten to school, primary to secondary school, movements between schools and also student movement from one year to the next. In the post compulsory years, retention and student destinations after leaving are relevant measures of performance.

Again, the Department uses survey methods to obtain data on student experiences and parents' perceptions of student pathways and transitions into, throughout and after schooling.

2.3.4 Factors affecting student performance

As stated in the Auditor-General's report, the Department has identified that student characteristics, in particular socio-economic indicators, have a strong influence on school performance.²⁸ The Auditor-General found that most of the underperforming schools highlighted in the audit had:²⁹

- a high proportion of students from low socio-economic backgrounds;
- a high proportion of educationally disadvantaged students;
- a large number of students from non-english speaking backgrounds;
- a high proportion of students with special learning needs or challenging behaviours;
- significant levels of student absence and transience; and/or
- declining enrolments.

²⁷ Department of Education and Early Childhood Development, *Accountability and Improvement Framework for Victorian Government Schools 2009*, October 2006, p.5

²⁸ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.22

²⁹ *ibid.*, p.17

In a report released by the OECD in 2008 on *Improving School Leadership*, the OECD notes that, as in most other countries, contextual factors such as location of the school, languages spoken at home and socio-economic status had a significant effect on student performance in Australia. Specifically:³⁰

- students in metropolitan areas performed at significantly higher levels than students in provincial cities, who in turn performed better than students in rural areas;
- students who mainly spoke English at home performed significantly better than those whose main language at home was other than English;
- while the relationship between socio-economic background and performance was less significant in Australia than for the OECD average, there still exists a distinct advantage for those students with higher socio-economic backgrounds, many of whom attend independent or Catholic secondary schools; and
- while some indigenous students performed well, this was a small proportion of the overall sample and many were performing at the lower end of proficiency levels.

Specific government initiatives aimed at addressing the factors impacting on students at a disadvantage due to their socio-economic background is discussed later in this report.

2.4 Measuring school performance

The Department's *School Accountability and Improvement Framework* establishes the process by which school performance is assessed, reviewed, improvements planned and progress reported.

Since 2005, schools have been required, under the Framework, to undertake one of three types of review over a four-year cycle depending on their level of performance. The Framework states that the '*four-year cycle allows sufficient time for implementation of the key improvement strategies prior to self-evaluation and review, and for preparation of the next school strategic plan*'.³¹

- The four-year cycle specified in the Framework involves schools spending a year in self-evaluation, review and strategic planning. The school self-evaluation is undertaken in Terms One and Two and school reviews are performed in Terms Two or Three allowing for development and completion of the school's new Strategic Plan within the same year.
- According to the Framework, the self-evaluation process provides an opportunity for the school community to appraise student outcomes in light of the school's goals, targets and key improvement strategies identified in the previous planning cycle. School reviews follow the self-evaluation process and the School Strategic Plan draws on the analysis undertaken in the school review and outlines what the school aims to achieve over the coming four years and how it plans to achieve these goals.³²

³⁰ Organisation for Economic Co-operation and Development, *Improving School Leadership, Volume 2: Case Studies on System Leadership*, 2008, p.181

³¹ Department of Education and Early Childhood Development, *Accountability and Improvement Framework for Victorian Government Schools 2009*, October 2006, p.8

³² *ibid.*, pp.8–9

In 2008, the *School Accountability and Improvement Framework* was revised to include a fourth level of review to provide a greater level of analysis and assistance. The categories of school review as they currently exist are as follows:³³

- **Negotiated Review** – used for schools with student outcomes and other key indicators above expected levels. The review is usually flexible and undertaken by a ‘critical friend’ who examines a particular area identified for improvement in the school’s self-evaluation.
- **Continuous Improvement Review** – is applied to schools with satisfactory student outcomes and other key indicators but with scope for some improvement. The review involves a pre-visit from the reviewer, a day-long meeting with the principal, school council president and key staff and includes a report to staff and the school council.
- **Diagnostic Review** – is used in schools exhibiting some student outcomes and other key indicators below expected levels or in schools with complex structures such as, a multi-campus school, a P-12 school, a school with a high level of students with disabilities or a recently amalgamated school. The format of the review is similar to the Continuous Improvement Review but allows for an additional day of fieldwork.
- **Extended Diagnostic Review** – is used in those schools requiring immediate assessment and intervention. The review can occur at any time of the year and involves an increased depth of inquiry and interaction with a pre-visit, four days of fieldwork in the school, presentations and a report.

³³

ibid.

CHAPTER 3: RECENT SCHOOL PERFORMANCE IMPROVEMENT INITIATIVES

3.1 Introduction

The elements affecting school performance are complex and improving school performance can be a very challenging process. As illustrated in the Department's *Effective Schools Model*, there are a variety of factors impacting student learning outcomes and achievement.

The Department, through its implementation of the Government's 2003, and most recently 2008, Blueprint reforms has developed a number of initiatives aimed at improving the quality and performance of the government school system.

At the Committee hearing in April 2009, the Secretary of the Department stated that the Department's broad strategy approach to system improvement comprised three main platforms: building leadership in schools; building teacher knowledge across the school system; and regenerating education.³⁴

Detail surrounding action taken by the Department in relation to these initiatives is outlined in the following paragraphs.

3.2 School Leadership

The Department views leadership as a critical component of an effective school. The Auditor-General's report noted that departmental research has highlighted that the importance of school leadership is second only to the influence of classroom instruction on student learning outcomes.³⁵ Hence, the 2003 Blueprint contained a strategy aimed at building leadership capacity in the government school system. This strategy included initiatives aimed at principal performance, development and selection processes, an accelerated development program for high potential leaders and mentoring for first time principals.³⁶

The 2008 Blueprint seeks to build on these initiatives. As stated earlier, one of the three strategies of the new Blueprint is directed at workforce reform which includes actions aimed at developing a culture of strong leadership and professional learning. In terms specifically of leadership development, the 2008 Blueprint specifies the establishment of the Victorian Institute of Educational Leadership and the Government's intent to legislate to allow executive contracts for school principals.³⁷

At the Committee hearing in April 2009, the Secretary emphasised the important role that school principals play in the school improvement process particularly in a highly devolved system such as Victoria's.³⁸

³⁴ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.2

³⁵ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.16

³⁶ Department of Education and Training, *Blueprint for Government Schools: Future Directions for Education in the Victorian School System*, 2003, www.sofweb.vic.edu.au/blueprint, accessed 15 June 2009

³⁷ Department of Education and Early Childhood Development, *Blueprint for Education and Early Childhood Development*, September 2008, pp.34–5

³⁸ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.12

The Secretary referred the Committee to the Department's 2009 iteration of *Learning to Lead Effective Schools* which outlines the leadership programs currently on offer to school principals, assistant principals and aspiring leaders. This strategy was first introduced in 2006. In addition, the Committee was advised that since the release of the Auditor-General's report, the Department has issued *The Developmental Learning Framework for School Leaders* which enables school leaders to map their professional development progress through five domains of leadership from novice to expert leader.³⁹

The Secretary also drew the attention of the Committee to a 2008 report of the OECD on improving school leadership which presented a critique of Victoria's investment in school leadership development as a case study, concluding that '*Victoria provides a working model for system-wide school leadership development from which other systems can learn.*'⁴⁰

Following a request from the Committee for information on how effective school leadership will be maintained in the longer term, the Department advised that a Director of the new Bastow Institute of Educational Leadership has been recently appointed and the Institute will open in 2010. It is intended that the Institute will provide professional development for a range of educators across the system including Regional Network Leaders and regional literacy and numeracy experts and will be able to respond to workforce capacity demands across the system.⁴¹

3.3 Effective teachers

The Auditor-General's report noted that '*around 50 to 60 per cent of the variation in student learning outcomes is attributable to teacher effects.*'⁴² At the Committee hearing in April 2009, the General Manager, School Workforce Reform and School Improvement, from the Department advised that the evidence base indicates that the biggest variability in student outcomes within schools is between teachers in different classrooms.⁴³

The Department has implemented a number of initiatives in recent years focussing on the professional development of teachers. For example, under the 2003 Blueprint, the Department established the Performance and Development Culture aimed at improving teacher performance and effectiveness. The Performance and Development Culture initiative provides for teacher professional leave for extended periods ranging from four to 10 weeks, an induction program for new teachers and continuing support of mentoring programs for new teachers.⁴⁴

As part of the workforce reform highlighted in the 2008 Blueprint, one of the actions concerns professional learning for teachers. Under this Blueprint action, professional learning for teachers is to be closely linked to the workplace and involve the collection and sharing of knowledge aimed at improving teaching practices. The Blueprint also refers to the development of an instructional model for teachers to support teaching in the classroom.

³⁹ *ibid.*, pp.2–3

⁴⁰ Organisation for Economic Co-operation and Development, *Improving School Leadership, Volume 2: Case Studies on System Leadership*, 2008, p.208

⁴¹ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 11 September 2009, p.9

⁴² Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.16

⁴³ Ms J Petch, Manager, School Workforce Reform and School Improvement, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.14

⁴⁴ Department of Education and Early Childhood Development, *Blueprint for Government Schools: Future Directions for Education in the Victorian Government School System*, 2003, pp.20–1, www.sofweb.vic.edu.au/blueprint, accessed 15 June 2009

At the Committee hearing in April 2009, the Department advised that its most recent initiative in the area of improving teacher effectiveness is the release of the *e5 Instructional Model* which attempts to define those teaching capabilities and proficiencies which have the greatest impact on student learning in the classroom. The Model seeks to promote a shared understanding of how teachers can improve their practice as well as provide a focus for their professional development and facilitate consistency in the quality of teaching both within and across government schools.⁴⁵

In June 2009, the Committee asked the Department to provide information in relation to:⁴⁶

- how the Department proposed to assess the success of the new *e5 Instructional Model* and other professional development initiatives aimed at increasing the quality of teaching in the classroom; and
- how the Department measures teacher performance and the processes in place for dealing with a teacher who continues to perform poorly.

In relation to the *e5 Instructional Model* and other teacher professional development initiatives, the Department advised that in the short to medium term, the success of these initiatives will be assessed through evaluations of individual programs and in the longer term would be evidenced through improved student outcomes.⁴⁷

With respect to monitoring teacher performance, the Department referred the Committee to the *Performance and Development Guide – Teacher Class* which includes guidelines relating to performance and development and unsatisfactory performance.⁴⁸

The section relating to unsatisfactory performance refers to the Department's *Guidelines for Managing Complaints, Misconduct and Unsatisfactory Performance*. Part Four of these Guidelines relate specifically to the management of unsatisfactory performance in the teaching service and are aimed at helping the employee to improve their performance to the required standard. The Guidelines note:⁴⁹

While established performance and development arrangements provide opportunities for performance assessment and development, a repeated failure to meet standards may necessitate the commencement of the unsatisfactory performance procedures.

These procedures are established under the *Education and Training Reform Act 2006* and involve a series of steps which the principal or manager must work through in order to address the unsatisfactory performance (i.e. formal warning; a period of support and monitoring; optional extended period of monitoring; report to the Secretary; decision by the Secretary under the Act; and notice to the employee of the determination).⁵⁰

⁴⁵ Department of Education and Early Childhood Development, *e5 Instructional Model*, April 2009, p.3

⁴⁶ Mr B Stensholt, Chair, Public Accounts and Estimates Committee, letter to the Department of Education and Early Childhood Development, dated 15 June 2009

⁴⁷ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 11 September 2009, p.9

⁴⁸ *ibid.*

⁴⁹ Department of Education and Early Childhood Development, Human Resources, *Guidelines for Managing Complaints, Misconduct and Unsatisfactory Performance*, 10 February 2009, p.30

⁵⁰ *ibid.*, pp.34–40

3.4 Focus on learning

The Department maintains that effective schools are focussed primarily on teaching and learning and that reading, writing and numeracy skills are a key foundation of learning. As previously noted, under the 2003 Blueprint, the new VELS were developed by the Victorian Curriculum and Assessment Authority. In addition, the Department developed the *Curriculum Planning Guidelines* which include policies and practices regarding content and methods for teaching and learning, taking account of student diversity, organisational arrangements, assessment processes and reporting practices.⁵¹ Also, referred to in the 2003 Blueprint was the development of the *Principles of Learning and Teaching P-12* which identify and describe six key principles that provide a basis for effective teaching together with a change model which reflects a modern understanding of teacher development and school improvement.

The 2008 Blueprint re-emphasises the importance of improving the literacy and numeracy levels of Victorian school students through teaching and learning coaches and early intervention where student performance is falling below expected levels.⁵²

3.5 Accountability

Accountability is one of the components of the *Effective Schools Model*. According to the Model:⁵³

Effective schools establish rigorous systems of accountability by which school and student performance can be evaluated. Strong accountability systems use performance data to identify, support and monitor under-achieving students and plan professional learning activities for staff.

The 2003 Blueprint initiated actions to assist government schools in determining appropriate and effective decisions in relation to assessment and reporting of student progress. The Blueprint called for an urgent improvement in the reporting of student achievement to parents, employers and the community. An important element of the accountability of the school education system is the provision of feedback to students and parents but it is also needed to satisfy State and national reporting requirements.

As noted earlier, the 2003 Blueprint undertook to strengthen the existing School Accountability Framework through the implementation of a 'differential model of school review' which takes account of a schools current level of performance and areas for future improvement.⁵⁴

Under the 2008 Blueprint, the role of school networks has been expanded with the appointment of new regional network leaders to provide more intensive support to those schools whose performance needs to improve. This is discussed later in this report.

⁵¹ Department of Education and Early Childhood Development, www.sofweb.vic.edu.au/blueprint, accessed 25 June 2009

⁵² Department of Education and Early Childhood Development, *Blueprint for Education and Early Childhood Development*, September 2008, p.25

⁵³ Department of Education and Early Childhood Development, www.sofweb.vic.edu.au/blueprint, accessed 19 June 2009

⁵⁴ Department of Education and Early Childhood Development, *Blueprint for Government Schools: Future Directions for Education in the Victorian Government School System*, 2003, p.23, www.sofweb.vic.edu.au/blueprint, accessed 15 June 2009

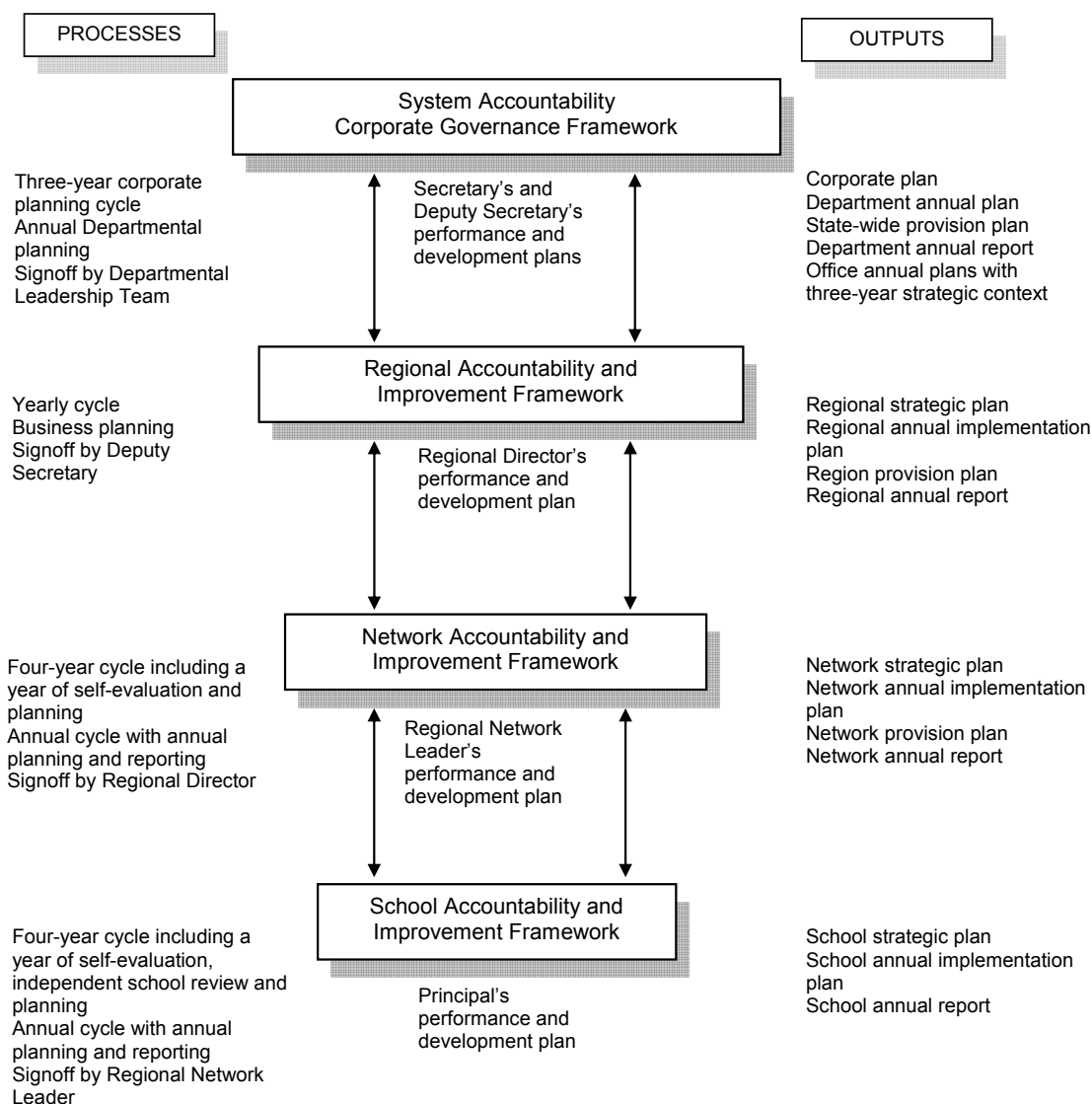
The Auditor-General's report included a comment questioning the adequacy of the accountability of school principals for school performance.⁵⁵ In June 2009, the Committee requested advice from the Department as to how the revision of the Principal Class Performance and Development Process in 2006 had strengthened the accountability of school principals.

The Department advised that the Principal Class Performance and Development Process is a framework for principals to use in planning, reviewing and receiving feedback on school performance and the effectiveness of their leadership. The process makes principals more accountable by aligning school and individual planning processes with the aim of improving student outcomes. The Department advised also that under the revised network structure, network principals are accountable to their Regional Network Leader for the performance of their school and the achievement of their students.⁵⁶

⁵⁵ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.38
⁵⁶ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 11 September 2009, p.11

The following diagram shows the current school accountability structure established by the Department.

Figure 3: Department of Education and Early Childhood Development accountability and improvement architecture



Source: Department of Education and Early Childhood Development, 2008

3.6 Resourcing and regeneration of education

An effective school education system requires adequate resourcing in terms of equipment and facilities to provide a stimulating, safe and high-quality environment for learning.

One of the actions outlined in the Government's 2008 Blueprint is directed at government school improvement and refers to improving access to a broad curriculum including specialist and extracurricular programs in the post-compulsory years. It states that improved access will be underpinned by the *Victorian Schools Plan* to rebuild or modernise every government school in Victoria.⁵⁷

The *Victorian Schools Plan* is the Government's 10-year plan to re-build, renovate or extend all government schools by 2016-17. In the 2009-10 financial year the Government's commitment to the Plan includes:⁵⁸

- \$92 million allocated to fund the regeneration of schools in selected communities which have developed plans for new curriculum and facilities to transform education options for students;
- \$128 million allocated for school modernisation projects, building new libraries, gymnasiums, classrooms and multi-purpose science and information and communications technology (ICT) centres;
- \$47.3 million allocated for replacement schools;
- \$25.1 million to build new schools in growth areas;
- \$19 million for modern relocatable classrooms to replace old portable buildings;
- \$7.6 million for schools requiring smaller modernisations and upgrades identified under the *Better Schools Today* program;
- \$16 million to secure the future of small rural schools;
- \$24 million allocated to the building of two new selective entry high schools in Melbourne by 2011; and
- \$31 million allocated for the purchase of land for future new schools to accommodate population growth.

At the Committee hearing in April 2009, the Secretary of the Department stated that infrastructure is one of the ingredients needed to boost the quality of school education. He stated:⁵⁹

Improving the infrastructure is one thing that can be a significant stimulus ... significant infrastructure improvement with things like library facilities, more flexible learning areas that accommodate more progressive teaching practices, that can play a very significant role.

⁵⁷ Department of Education and Early Childhood Development, *Blueprint for Education and Early Childhood Development*, September 2008, p.26

⁵⁸ Department of Education and Early Childhood Development, www.education.vic.gov.au/about/directions/victorianschoolsplan/default, accessed 26 June 2009

⁵⁹ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.18

In regards to regeneration projects, the Secretary advised that there were a number of areas in Victoria where infrastructure and teaching relative to performance had been identified as requiring education regeneration. Such a process involves improving the infrastructure, school leadership, teaching practices and links between the school and its community. The Department gave the example of the Broadmeadows area where 17 schools have been consolidated into 11 schools on nine sites in an effort to improve the educational outcomes for the students in that area.⁶⁰ This project has involved an investment of in excess of \$90 million in infrastructure alone.⁶¹

Further, at the Committee hearing, the Department advised that it anticipated that recent announcements by the Commonwealth Government of an increased investment in Australian schools under the *Building the Education Revolution* program will also assist in improving student outcomes in Victorian schools. The Commonwealth has announced an investment of \$14.7 billion over the next three years for primary and secondary school infrastructure and maintenance funding. The funding program is split into three components:⁶²

- National School Pride;
- Primary Schools for the 21st Century; and
- Science and Language Centres for 21st Century Secondary Schools.

The Commonwealth Department of Education, Employment and Workplace Relations is working with State education authorities in respect to the provision of funds to schools.

Victorian schools have already benefited greatly from the *Building the Education Revolution* program, with \$2 billion in funding allocated to Victorian primary and secondary schools. The first round of the Primary Schools for the 21st Century saw 243 Victorian primary schools receive over \$456 million in grant funding. In the second round of the program, 776 Victorian primary schools received over \$1.3 billion in grants. As well, the first round of the Science and Language Centres for 21st Century Secondary Schools saw 109 Victorian schools receive almost \$200 million in funding.

⁶⁰ *ibid.*, p.3

⁶¹ Mr D Fraser, Deputy Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.7

⁶² Department of Education and Early Childhood Development, www.education.vic.gov.au/about/directions/buildingrevolution/default, accessed 17 July 2009

3.7 Schools where socio-economic factors are impacting student outcomes

As noted in the Auditor-General's report and acknowledged in both the Government's 2003 and 2008 Education Blueprints, schools performing below expected levels in terms of student outcomes often comprised a high proportion of students from low socio-economic backgrounds. This is also recognised through the Council of Australian Governments (COAG) productivity agenda which includes investments in low socio-economic status school communities and also programs aimed at improving literacy and numeracy in these schools.

The Secretary of the Department advised that the strategy for investing the COAG funding was in the process of formulation but he expected that the Department would be investing in around 250 schools.⁶³ The Secretary stated that the Victorian Government has agreed to match funding received from the Commonwealth for low socio-economic status schools as part of a national partnership.⁶⁴

At the Committee hearing in April 2009, the Department was asked to provide details of its strategy for investing COAG funding in schools with a disproportionate number of students from low socio-economic backgrounds.

In June 2009, the Department advised that the National Partnership for Low Socio Economic Status schools aims to improve outcomes in student engagement, educational attainment and wellbeing in schools and areas of entrenched disadvantage, including Indigenous communities. The participation of schools in this National Partnership will be determined by the school's Student Family Occupation Index, school performance data and individual school educational needs. Schools will be accountable for the funding received and all initiatives and progress will be documented in the school's strategic and annual implementation plans monitored by their respective Regional Network Leader.⁶⁵

In addition to these initiatives, the Secretary of the Department advised at the Committee hearing that the incorporation of early childhood services into the Department would assist the promotion of learning and development of children from an earlier age, preparing them better for school and improving the chances of better literacy and numeracy outcomes. This is considered to be of particular benefit to those children in more disadvantaged areas.⁶⁶

The Deputy Secretary, Office for Government School Education, Mr Darrell Fraser stated at the Committee hearing in April 2009 that significant resources have been invested in schools where learning outcomes are impacted by issues associated with disadvantage in terms of the students' backgrounds as part of a major effort since 2004 to identify and assist schools needing additional support.⁶⁷

⁶³ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.19

⁶⁴ *ibid.*, p.5

⁶⁵ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 10 June 2009

⁶⁶ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, pp.5–6

⁶⁷ Mr D Fraser, Deputy Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.7

3.8 Review and conclusion

The Department has provided a large volume of detailed information at the public hearing and in response to written questions from the Committee with respect to the management and monitoring of government school performance and in respect to recent initiatives aimed at improving the performance of the system overall.

In most recent times the school community is experiencing an increased investment in education staffing and infrastructure improvements from both the Victorian Government (\$71.4 million under the School Reform Resourcing package and \$1.9 billion under the *Victorian Schools Plan* over the next three years) and the Commonwealth Government through its economic stimulus plan, *Building the Education Revolution* (\$14.7 billion, Australia-wide over the next three years).

In addition, funding is being provided through COAG via the Commonwealth National Partnership to support improvements related to Literacy and Numeracy, Low Socio-Economic status and Teacher Quality in schools.

The Department has advised that investments of this magnitude will result in improvements in the educational outcomes of Victoria's school students.

The Committee notes the favourable review and comments made by the OECD study team in respect to the leadership framework implemented in the Victorian government school system and looks forward to further assessment by the Department as to the improvements generated as a result of the new structures and initiatives being implemented.

A number of new initiatives such as the Developmental Learning Framework and the *e5 Instructional Model* have only recently been introduced by the Department and as such the impact or effectiveness of these initiatives has not as yet been assessed.

The Committee wishes to stress the importance of relevant and meaningful processes in place to monitor the effective implementation of these new initiatives and evaluate the benefits and improvements in terms of educational outcomes arising from their implementation.

Recommendation 1:

The Department of Education and Early Childhood Development ensure that adequate processes and robust measures are in place to monitor the effective implementation of the new performance improvement initiatives and assess their impact on the educational outcomes of Victorian government school students.

CHAPTER 4: SUPPORT FRAMEWORK FOR UNDERPERFORMING SCHOOLS

4.1 Introduction

The *Blueprint for Government Schools* launched in 2003 was designed to address performance issues in government schools and made explicit the Department's responsibility to intervene directly in those schools identified as underperforming both in terms of student outcomes and with regard to other indicators such as, parent and student opinion.⁶⁸

The 2003 Blueprint made school improvement a shared responsibility between schools and the central and regional offices of the Department.⁶⁹

4.2 Identifying schools in need of targeted support

In 2005, regional offices became responsible for identifying and prioritising schools for various forms of targeted support, including a diagnostic review. This role had previously been undertaken by the central office.

Annually, the central office provides the regional offices with performance data for all schools in their area. The regional office considers this data in conjunction with other contextual data to identify those schools with performance issues. In addition to this process, each year the central office collates school performance data for those schools due to undergo their year of self-evaluation, review and planning. School performance is assessed against clearly defined performance criteria developed in 2005 by the central office to identify the indicative review type for each school.⁷⁰

4.2.1 Auditor-General's findings and recommendations

The Auditor-General reviewed the processes in place within some regional offices for identification and prioritisation of schools requiring targeted support and found that '*clear and widely understood performance triggers have been developed to indicate the type of review a school should receive (negotiated, continuous improvement or diagnostic).*'⁷¹

The Department had identified both in 2006 and in 2007, that early intervention in schools was critical as a downturn in enrolments, morale and school reputation was difficult to reverse once it had become entrenched. The Auditor-General noted in his report that if a school performed below expected levels on two performance measures then it would be marked as requiring a diagnostic review which was considered by the Department to comprise 'early intervention'. However, the Auditor-General reported that there were no common performance indicators or early warning signs to trigger other forms of intervention although it was noted in the report that some regions had developed their own early warning signs to look for in the data.⁷²

⁶⁸ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.25

⁶⁹ *ibid.*, p.27

⁷⁰ *ibid.*

⁷¹ *ibid.*, p.28

⁷² *ibid.*

Fieldwork undertaken by the Auditor-General's Office in the Department's regional offices revealed that there was scope for improvement in the prioritisation of schools for targeted support, particularly with respect to documenting decisions together with the rationale behind those decisions.⁷³

The Auditor-General recommended that the Department develop a clearly defined, common set of data-driven performance triggers and early warning signs for schools and regions to prompt targeted intervention before poor performance becomes entrenched, requiring greater levels of assistance. In addition, the Auditor-General recommended that the rationale for decisions concerning whether or not a school should receive targeted support needed to be documented for future reference and to improve the transparency and consistency of the prioritisation process.⁷⁴

4.2.2 Response by the Department of Education and Early Childhood Development

The Department accepted the Auditor-General's recommendation agreeing that documentation of the decision-making in regional offices could be strengthened. With regard to the Auditor-General's recommendation on the development of performance triggers, the Department stated that the criterion for performance triggers and indicators is well established.⁷⁵

The response of the Department, as detailed in the *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, refers to implementation of the enhanced School Accountability and Improvement Framework as part of the implementation of the 2008 Blueprint with an increased role for school networks. The key components of the new Framework include:⁷⁶

- a revised process of data modelling whereby school performance will be assessed using student outcomes and intake-adjusted data;
- consideration of school performance data by the regional leadership team to determine whether to bring forward a review or defer a review as considered appropriate;
- the introduction of an 'extended diagnostic review' which will allow an extended amount of time for reviewers to determine the barriers to improvement and make recommendations for appropriate interventions; and
- a range of interventions available for implementation by regional offices to assist improvement.

The response also refers to the construction of a *Developmental Learning Framework for School Improvement* which will support schools and regions 'to identify developmental pathways, set directions and focus their improvement work.' The Department states that this Framework will provide a strong and consistent approach to the consideration of school performance data.⁷⁷

⁷³ ibid.

⁷⁴ ibid., p.29

⁷⁵ ibid., p.29

⁷⁶ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.7

⁷⁷ ibid.

4.2.3 Action taken by the Department on the audit recommendations

Asked by the Committee to comment on the Department's response, the Auditor-General advised that the Department had not indicated how it intends to achieve consistent decision-making across regions and across all schools in a region.⁷⁸

The Committee wrote to the Department in March 2009 requesting information in respect to the following:⁷⁹

- details of the early warning indicators and triggers used by regional offices to identify those schools requiring assistance or intervention; and
- details of how the Department has strengthened requirements in regional offices for documentation of decisions concerning whether or not a school should be targeted for support.

Early warning triggers

In April 2009, the Department advised the Committee that, through the development of the *System Improvement Model*, it has identified a range of measures which reflect school performance and thereby act as triggers for early intervention. Departmental analysis indicates that the key factors which predict student performance include staff perceptions (including student behaviour, goal similarity and school morale) as well as student perceptions of their own morale and teacher effectiveness. These triggers have been used to develop a method for categorising school performance for purposes of the school review process as set out in the *School Accountability and Improvement Framework*.⁸⁰

Documentation of decisions regarding targeted support

In terms of identification and documentation of the process used by the Department to review school performance, the Department advised:⁸¹

The System Improvement Model is a rigorous and comprehensive process for prioritising and intervening in schools, and ensures that the rationale for targeting schools is documented and consistent across the system. The introduction of the System Improvement Model means that for the first time, the Department has a consolidated picture of the performance level of all government schools, as well as the areas of underperformance and interventions being used in targeted schools.

According to advice received from the Department, prioritisation of schools requiring additional support is undertaken by the Office for Government School Education Executive Panel which has responsibility for prioritising schools nominated by regional offices and determining the extent of resources to be applied to each school.⁸²

⁷⁸ Mr D Pearson, Auditor-General, Victorian Auditor-General's Office, letter to the Committee, received 9 April 2009, p.1

⁷⁹ Mr B Stensholt, Chair, Public Accounts and Estimates Committee, letter to the Department of Education and Early Childhood Development, dated 25 March 2009, p.2

⁸⁰ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 22 April 2009, p.3

⁸¹ *ibid.*, p.3

⁸² *ibid.*, pp.3–4

4.2.4 Additional information requested by the Committee

The Committee also requested some additional information from the Department in respect to some of the matters referred to in the *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*. In particular:

- progress made in implementing the new *School Accountability and Improvement Framework*;
- details of the range of interventions available to the Department in improving school performance; and
- progress made on the *Developmental Learning Framework for School Improvement*.

The revised School Accountability and Improvement Framework

As noted earlier, the *School Accountability and Improvement Framework* includes the school review process which analyses school performance and results in a negotiated review, a continuous improvement review, a diagnostic review or an extended diagnostic review.⁸³ The Framework was revised in 2008 through the addition of the Extended Diagnostic Review (EDR).

The EDR is designed to support those schools requiring significant intervention and signals the Department's intention to intervene in the lowest performing schools. The Department advised that guidelines for the new EDR were issued in November 2008 and reviewers were selected and trained in March 2009. Seventy schools have been identified to undergo an EDR during 2009; forty of these reviews commenced in Term One with the remainder due to commence in Term Two. Following these reviews, recommendations will be used by each of the schools with the support of their Regional Network Leader to develop a School Strategic Plan setting out goals, targets and key improvement strategies.⁸⁴

In June 2009, the Committee requested further advice from the Department regarding the timeliness of intervention measures and in particular the suitability of the four-year cycle of performance monitoring in terms of the time taken between identifying performance issues and taking action.

In August 2009, the Department emphasised that the four-yearly cycle of self-evaluation, review and planning is complemented by an annual assessment and planning cycle involving the school and regional office. School Annual Implementation Plans addressing areas for improvement must be signed off by the relevant Regional Director. In addition, newly created Regional Network Leaders will be closely involved with schools' annual cycle of review and reporting and will have access to the schools' mandatory performance data as well as other data sets. The Department states that:⁸⁵

Together these mechanisms facilitate the timely identification of performance issues and appropriate improvement strategies.

It should be noted that if performance is noted to be trending downwards, regional offices can request that the school's year of self-evaluation, review and planning be brought forward.

⁸³ ibid.

⁸⁴ ibid., pp.4-5

⁸⁵ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 11 September 2009, p.14

As part of the Blueprint for Education and Early Childhood Development those schools identified as requiring urgent attention are scheduled for an Extended Diagnostic Review, regardless of their position in the four year cycle.

Intervention strategies

The Department advised that intervention strategies are documented and tracked under the *System Improvement Model* through a centralised recording process and also through the individual School Strategic Plans and Network Strategic Plans. The School Principal is accountable to their Regional Network Leader for achieving improvement in their school's performance as set out in their Performance Plan and their School Strategic Plan. In turn, Regional Network Leaders are accountable for improving the performance of the schools within their network as detailed in their individual Performance Plan and their Network Strategic Plan.⁸⁶

In terms of the range of interventions which the Department can use to assist in improving school performance, the Department advised that a more 'differentiated' approach to school autonomy has been developed whereby the interventions selected will be the ones most appropriate to the particular school's context and stage of development. These interventions may include:⁸⁷

- appointing highly effective principals to a school for an agreed period;
- pairing principals in underperforming schools with highly effective mentoring principals;
- using retired principals to assist schools to implement changes and improvement strategies;
- providing leadership opportunities for principals and other leaders within the school;
- direct involvement in the management of staffing and resources; and
- improving the capacity of teachers to impact on student learning outcomes through the use of specialist expertise in literacy and mathematics.

Developmental Learning Framework for School Improvement

In the *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, the Department referred to a *Developmental Learning Framework for School Improvement* which is currently being developed. The Committee requested the Department to provide advice on the timelines for implementation of the Framework.

The Department advised that it anticipates that the framework will be operational during 2010. It is intended that the *Developmental Learning Framework for School Improvement* will assist schools, networks and regions to self-evaluate and provide clear direction about what is required to increase a school's proficiency in each of the eight relativities of an effective school. To date, work on the Framework has involved a review of domestic and international literature on school effectiveness, consultation with 1,400 principals in interactive workshops on school improvement and assembly of a principal focus group to interrogate and inform construction of the Framework at key points of its development. The Department intends to trial the Framework with a number of schools and Regional Network Leaders and engage a consultant to undertake a testing and validation process prior to its release.⁸⁸

⁸⁶ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 22 April 2009, p.4

⁸⁷ *ibid.*, p.5

⁸⁸ *ibid.*, pp.5–6

4.2.5 Follow-up by the Committee on the number of schools identified in the Auditor-General's report as performing below expected levels

As noted earlier in this report, the Auditor-General identified 128 government schools that in 1998 had student outcomes below expected levels. In reviewing the status of these schools in 2005, the Auditor-General noted that 31 schools still had student outcomes below expected levels while four had closed or merged.⁸⁹

The Committee wrote to the Department in June 2009 requesting details on the current status of the original 128 schools identified in the Auditor-General's report. The Department advised that as at 1 July 2009, 19 of the 128 government schools had been closed and of the remaining 109 schools, 41 were performing below expected levels in 2008.⁹⁰

The Committee also requested figures on the total number of government schools performing below expected levels in each of the years 2005 to 2008 and details of how they were identified as performing below expected levels (i.e. Is the criteria for underperformance consistent between years?).

The Department advised that the percentage of primary and secondary schools identified as performing at or above expected levels is reported annually in *Budget Paper Number 3*. This identification is based on the following key data sets:⁹¹

- **Student learning** – measured through AIM testing which was replaced by NAPLAN testing in 2008; teacher judgements against the Curriculum Standards Framework, which was replaced by teacher judgements against the VELs in 2006; and VCE.
- **Student engagement and wellbeing** – measured through student absences (the per student headcount measure was replaced by the per student full-time equivalent measure in 2006) and attitudes to school connectedness (where there was a break in the time series between 2005 and 2006).
- **Student pathways and transitions** – measured by real school retention and exits (where there was a change in the time series between 2006 and 2007).

The Department states that where there were changes in the data sets, the method used to determine school performance was modified accordingly.

The Department provided the following statistics of the total number of primary and secondary government schools defined by the Department as performing below expected levels between 2005 and 2008.

Table 1: Schools performing below expected levels for the period 2005 to 2008

| Year | Primary schools | Secondary schools |
|------|-----------------|-------------------|
| 2005 | 101 | 31 |
| 2006 | 100 | 28 |
| 2007 | 125 | 30 |
| 2008 | 100 | 18 |

Source: Department of Education and Early Childhood Development

⁸⁹ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.18

⁹⁰ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 11 September 2009, p.6

⁹¹ *ibid.*

The following table has been prepared using the information provided in Table 1 above and the total number of government schools as reported in the Department's Annual Reports. The table shows the change in the number of government schools in the State and the change in the number of schools identified by the Department as performing below expected levels over the period 2005 to 2008. In addition the table presents the number of schools defined as underperforming as a proportion of the total number of government schools over the same period.

Table 2: Analysis of changes in the number of government schools performing below expected levels in the period 2005 to 2008

| Year | Total number of government schools | Increase (Decrease) in total number of government schools | Total number of schools performing below expected levels | Increase (Decrease) in number of schools performing below expected levels | Proportion of schools performing below expected levels (%) |
|------|------------------------------------|---|--|---|--|
| 2005 | 1,617 | n/a | 132 | n/a | 8.2 |
| 2006 | 1,606 | (11) | 128 | (4) | 8.0 |
| 2007 | 1,594 | (12) | 155 | 27 | 9.7 |
| 2008 | 1,587 | (7) | 118 | (37) | 7.4 |

Source: PAEC Analysis

The figures presented in Table 2 indicate that there was a large increase in the number of government schools identified as performing below expected levels in 2007 but this has fallen back significantly in 2008. While the figures in the table indicate that some of the fall in the number of underperforming schools may have been attributable to school closures, the drop has been more significant which suggests that the improvement strategies implemented by the Department appear to be having impact in more recent times.

4.2.6 Number of schools receiving targeted support in 2008

At the public hearing in April 2009, the Committee requested the Department provide information on the number of schools receiving targeted support within each region since 2007 together with the amount of funds provided.

The Department advised that in 2008, \$2.47 million was distributed to regional offices through the Targeted School Improvement (TSI) initiative to assist school improvement in each region. Those regions with a greater number of schools performing below expected levels according to the Department's accountability and reporting processes received a greater proportion of the funding. Discretion was provided to regional offices in determining the most appropriate initiatives for each school requiring assistance. The following table shows the number of schools supported in each region during 2008.⁹²

⁹² Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 10 June 2009

Table 3: Schools receiving targeted support by region in 2008

| Region | Number of schools |
|-----------------------|-------------------|
| Barwon South Western | 97 |
| Northern Metropolitan | 59 |
| Eastern Metropolitan | 25 |
| Western Metropolitan | 25 |
| Loddon Mallee | 23 |
| Grampians | 18 |
| Hume | 16 |
| Southern Metropolitan | 16 |
| Gippsland | 6 |
| Total | 285 |

Source: Department of Education and Early Childhood Development

The Department advised that in 2009, *System Improvement Model* resources, including 2009 TSI funds, will be directed towards schools with the greatest educational need and all regions will contain schools that receive priority attention. In addition, schools will be supported through funding provided to regional offices through the Commonwealth National Partnerships on Low Socio-Economic Status and Literacy and Numeracy. The Department advised that Victoria was currently in the process of finalising details of schools to be supported by the National Partnership with the Commonwealth Government.⁹³

4.3 Targeting support for schools with student outcomes below expected levels

The Auditor-General found that following the 2003 Blueprint reforms, support for schools with student outcomes below expected levels had improved in two important respects:⁹⁴

- the Department had adopted a more strategic approach to school improvement through developing the evidence base, planning for continuous improvement and improving the performance of regional offices; and
- the school improvement framework recognised that underperforming schools needed targeted support particularly in the areas of:
 - targeted resourcing for school improvement activities;
 - building school capacity to implement change and sustain improvement; and
 - working more closely with schools to diagnose problems and plan improvement strategies through the accountability and improvement framework.

The Auditor-General included a number of observations in his report about targeted support provided by the Department to schools with student outcomes below expected levels. These observations were based upon school survey responses and discussions with personnel within the central and regional offices.

The Auditor-General's conclusions focussed on the sustainability of targeted support provided by the Department and the extent of shared understanding across the Department about the elements involved in improving school performance.

⁹³ ibid.

⁹⁴ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.30

4.3.1 Sustainability of targeted support

Auditor-General's findings and recommendations

The Auditor-General noted that sustainability of support was a critical factor affecting the capacity of schools performing below expected levels to achieve their improvement goals. He commented that the Department had initiated action to improve the sustainability of its targeted support.⁹⁵

The Auditor-General stated that, while there was evidence the Department was working to improve the support provided to schools via targeted and system-wide initiatives and the development of closer relations between regional offices and schools through the school review, planning and implementation processes, underperforming schools still required greater on-ground support with the planning and implementation of improvement initiatives.⁹⁶

The Auditor-General noted that even after years of performing below expected levels, some schools had still not received the required assistance for improvement which has resulted in a significant number of students missing the opportunity to achieve their full potential.⁹⁷

The Auditor-General concluded that the sustainability of the targeted support provided by the Department was of key concern and that schools with student outcomes below expected levels require intensive support until such time as significant improvements in leadership and teaching capacity can be realised. The Auditor-General recommended that the Department investigate additional strategies aimed at sustaining support for schools performing below expected levels including extending the provision of targeted funding and hands-on regional office support to these schools for at least two to three years.⁹⁸

Response of the Department of Education and Early Childhood Development

The Department accepted the Auditor-General's recommendation stating that it had taken the necessary steps to assemble the resources required to extend the provision of targeted funding and regional office support to schools.⁹⁹

More detail on actions taken by the Department in relation to this recommendation was contained in the *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*. In its response, the Department stated that funding of \$71.4 million had been allocated under a School Reform Resourcing package which includes:¹⁰⁰

- more targeted support to schools to lift the performance of all students in all schools together with intensive support targeted to those schools in most need;
- mentoring from schools performing well, additional professional development or external management of staffing and resources;

⁹⁵ *ibid.*, p.33

⁹⁶ *ibid.*, p.40

⁹⁷ *ibid.*

⁹⁸ *ibid.*

⁹⁹ *ibid.*, p.7

¹⁰⁰ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.8

- the appointment of 70 Regional Network Leaders in the nine regional offices to lead school improvement by building collaborative and collective responsibility for student outcomes within their particular networks; and
- a *Network Accountability and Improvement Framework* which provides structures for planning and monitoring performance within the network. This Framework is based on a four-year cycle that includes a Network Strategic Plan, network annual implementation planning and network annual reporting.

In addition, the Department refers to further support for schools being provided through the employment of:¹⁰¹

- 45 Literacy Specialists under the Literacy Improvement Initiative together with an additional 15 Koorie Literacy Specialists to improve the literacy outcomes of indigenous students;
- teacher graduates for difficult to staff subject areas in secondary schools; and
- 200 Teaching and Learning Coaches to assist teachers in targeted schools to improve student outcomes in science and mathematics.

Subsequent developments

In its response to the Committee in April 2009, the Auditor-General advised the Committee that the Department's response mentions a number of support initiatives but does not indicate whether schools are guaranteed ongoing support for any particular initiative. As such, the Auditor-General expressed the view that the degree to which this recommendation has been addressed by the Department is unclear.¹⁰²

The Committee wrote to the Department in March 2009 requesting information in respect to the timing, expected outcomes and proposed evaluation processes associated with the various initiatives and strategies being implemented by the Department to sustain support for schools with student outcomes below expected levels.

The Department provided the following information in response to the Committee's questions:¹⁰³

- **Targeted support to schools** – this is being provided through the *System Improvement Model* currently being implemented.
- **Mentoring from high-performing schools** – high-performing government schools support other schools both within their network and across the government school system. This includes:
 - schools within the network with expertise in key improvement areas, provide support to individual schools or groups of schools;
 - high-performing schools mentoring underperforming schools through a formal agreement, under the *System Improvement Model*; and
 - Reference Schools supporting the state-wide implementation of the Performance and Development Culture initiative and providing a resource for strengthening the performance of all schools' performance culture beyond the accreditation standard.

¹⁰¹ ibid.

¹⁰² Mr D Pearson, Auditor-General, Victorian Auditor-General's Office, letter to the Committee, received 9 April 2009, p.2

¹⁰³ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 22 April 2009, pp.6–8

- **Additional professional development**
 - Regional Network Leaders have completed professional development programs on change management and network strategic planning and are undertaking a structured professional development program during 2009. A two-day program was held in April 2009 focussing on literacy assessment and the Department's new *e5 Instructional Model* which describes effective teacher practice and provides instruction on how teachers can become more proficient.¹⁰⁴ A five-day program focussing on case management of school improvement is planned for August 2009.
 - The Victorian Institute of Educational Leadership will commence operation in 2010 and will provide professional development to current and aspiring school leaders, Regional Network Leaders, coaches, support staff and early childhood staff.
- **External management of staffing and resources** – the 2008 Blueprint commits the Department to pursue stronger interventions in those schools performing below expected levels. The external management of staffing resources was flagged in the 2008 Blueprint as a potential intervention. Regional offices monitor school global budgets and have worked with schools in receipt of equity funding who need assistance in applying these funds.
- **Employment of 70 Regional Network Leaders** – The 2008-09 Budget provided funding for the appointment of 70 Regional Network Leaders in October 2008 to replace the Senior Education Officers who managed 48 existing networks. The new structure closely approximates Local Government Areas to create the opportunity for collaboration with other agencies. Each Regional Network Leader leads and manages a network of approximately 24 schools and is responsible for implementing the next stage of the Victorian school improvement agenda. The Regional Network Leaders are in the process of reviewing the performance of all schools in their networks.
- **The Network Accountability and Improvement Framework** – Guidelines were issued for consultation in September 2008. Under the guidelines, each Network is required to produce a Network Strategic Plan containing their needs as identified through the Network Self Evaluation. Strategies developed in the Network Strategic Plan are made operational through the Network Annual Implementation Plan. Network Strategic Plans for 2009-2012 are due to be finalised in late May 2009. A quality assurance program is planned to be undertaken by the central office to assess the resources required to support improvement together with base line data to measure the effectiveness of the improvement strategies implemented.
- **Employment of 45 Literacy Coaches and 15 Koorie Literacy Coaches** – \$22.1 million has been provided for 2009-2011 to employ literacy coaches to work in schools where there are significant numbers of students in years Prep to Year 10 who are achieving well below the expected level in English. Koorie Literacy Coaches work in schools with more than 20 Koorie students. As at November 2008, these coaches were working in 200 schools, coaching 532 teachers and reaching 11,769 students.
- **Employment of 200 Teaching and Learning Coaches** – \$48.7 million has been allocated for 2008 and 2009 to fund 200 Teaching and Learning Coaches with a focus on science and mathematics and 50 Ultranet Coaches. Teaching and Learning Coaches work with teachers in schools where there are significant numbers of students in Prep to Year 10 achieving below the expected level in mathematics. As at November 2008, these coaches were working in 382 schools, coaching 1,536 teachers and reaching 33,878 students.

¹⁰⁴ ibid., p.5

At the public hearing in April 2009, the Secretary of the Department stated that a sustained investment over a period of at least three years was required to make any significant impact on educational outcomes. He advised the Committee that the money provided through COAG and under the 2008 Blueprint includes funding for two, three and four years and the Department expects to see significant improvements in outcomes over this period.¹⁰⁵

In June 2009, the Committee requested further details from the Department on funding provided for school improvement initiatives since 2003-04. Table 4 presents information provided by the Department on the duration and funding details in respect to school improvement initiatives targeted at schools performing below expected levels.¹⁰⁶

Table 4: School improvement initiatives targeted at schools performing below expected levels 2003-2009

| Initiative | Duration | Funding (\$000) |
|---|------------------|-----------------|
| Building Capacity for Improvement | 2003-04 | 167 |
| | 2004-05 | 182 |
| | 2005-06 | 202 |
| | 2006-07 | 204 |
| Total | 2003-07 | 755 |
| Targeted School Improvement | 2003-06 | 6,250 |
| | 2006-07 | 1,350 |
| | 2007-08 | 1,975 |
| | 2008-09 | 2,070 |
| Total | 2003-2009 | 11,645 |
| Community Catalyst | 2005-06 | 100 |
| | 2006-07 | 100 |
| | 2007-08 | 100 |
| Total | 2005-2008 | 300 |
| Grant to Regions | 2006-07 | 360 |
| Total | 2006-2007 | 360 |
| Innovative Designs for Enhancing Achievement in Improving Schools (IDEAS) | 2004-05 | 233 |
| | 2005-06 | 470 |
| | 2006-07 | 150 |
| | 2007-08 | 216 |
| Total | 2004-2008 | 1,069 |
| Australian Government Quality Teacher Programme (AGQTP) | 2005-06 | 675 |
| | 2006-07 | 675 |
| | 2007-08 | 675 |
| | 2008-09 | 675 |
| Total | 2005-2009 | 2,700 |
| Differentiated Review Model (i.e. Diagnostic Reviews) | 2004-05 | 306 |
| | 2005-06 | 315 |
| | 2006-07 | 333 |
| | 2007-08 | 360 |
| | 2008-09 | 330 |
| Total | 2004-2009 | 1,644 |
| Literacy Improvement Teams | 2006-07 | 2,900 |
| | 2007-08 | 5,945 |
| | 2008-09 | 2,808 |
| Total | 2006-2009 | 11,653 |

Source: Department of Education and Early Childhood Development

¹⁰⁵ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.18

¹⁰⁶ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 11 September 2009, p.3

4.3.2 Understanding what's involved in improving school performance

Auditor-General's findings and recommendations

The Auditor-General made a number of observations in respect to the capacity of schools to implement change and sustain improvement and the processes involved in planning and implementing improvement strategies. The report included the following observations in these areas:¹⁰⁷

- Assessing the extent to which a school is capable of implementing change is a complex task. Some guidance about assessing a school's capacity to change had been developed by the Department via the *Effective Schools Model* and the *Effective Leaders Model*. The Auditor-General found that regional offices had developed varying approaches to identifying capacity issues in the schools within their regions.
- The *School Accountability and Improvement Framework* was well regarded by school survey respondents and enhancements made to the Framework over the period 1998 to 2007 were evident in the self-evaluation, review and planning documentation examined during the audit.
- The understanding and use of school performance data by principals and teachers was improving however, a number of schools continued to have difficulties using the data to assess their performance and direct their improvement strategies. The Auditor-General commented that the Department should encourage greater participation in the professional development opportunities in the area of data interpretation and analysis.
- Staff at regional offices visited by the Auditor-General's Office indicated that defining school improvement in terms of the actions required and expected outcomes remained a challenge. Regional staff commented that it was sometimes difficult to know when or how to intervene in a school.
- Regional offices needed a common understanding about what is involved in improving school performance and how it translates in practical terms for an individual school.
- There was a need to improve the coordination and integration of the 2003 Blueprint initiatives to assist schools and regional offices to select the most relevant improvement initiatives and strategies in the most effective sequence.
- Schools and regional offices were still coming to grips with their new roles and responsibilities and understanding how best to assist schools to improve. Some staff indicated a lack of understanding about the range of intervention mechanisms available to regional offices.
- School improvement efforts can be hampered by difficulties associated with moving uncooperative and/or poor performing teachers and principals and attracting the best principals and teachers to those schools performing below expected levels.

¹⁰⁷ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, pp.34–9

The Auditor-General concluded that following the 2003 Blueprint reforms, supporting underperforming schools is now an important focus of the Department. He expressed concerns that the success of improvement initiatives and strategies could be adversely affected by the lack of shared understanding within and between regional offices and within schools about what is involved in school improvement and how regional offices can most effectively support those schools which are performing poorly in terms of student outcomes.¹⁰⁸

The Auditor-General recommended that the Department identify and share knowledge across the government school system about the advantages, disadvantages and cost-effectiveness of the various interventions available to assist underperforming schools.¹⁰⁹

Response of the Department of Education and Early Childhood Development

The Department accepted the Auditor-General's recommendation stating that development of the Department's Ultranet initiative would significantly assist the sharing of information and knowledge on the performance of Victorian government schools.¹¹⁰

Further information included in the Department's response as contained in the *Response by the Minister for Finance to the Auditor-General's Reports issued during 2008-09*, advised that the 2008 Blueprint contains a major stream on System Improvement. Also, resources to support the enhanced *School Accountability and Improvement Framework* are being developed and will provide practical assistance to schools in relation to selection and implementation of the most appropriate improvement strategies and the costs associated with these strategies.

In addition to the development of the Department's Ultranet initiative, the Department states that a strategy will be developed to capture, manage and transfer best practice examples from Victorian, national and international education systems.¹¹¹

Subsequent developments

The Auditor-General responded to the Committee in April 2009 that the new Regional Network Leaders appointed by the Department, should assist information sharing across the system about the effectiveness of various interventions used to support schools performing below expected levels.

With respect to the Department's Ultranet initiative, the Auditor-General commented that the project is still in a very early stage and the Department's response makes it unclear whether any other vehicles are being considered or used to share better practice amongst schools and regions.¹¹²

The Committee wrote to the Department in March 2009 requesting further detail on the progress made by the Department in developing mechanisms to facilitate the sharing of information and knowledge across the government school system. In particular, the Committee requested details on how best practice on teaching and learning is disseminated throughout the Department and when the Department's Ultranet will become operational.

¹⁰⁸ *ibid.*, p.39

¹⁰⁹ *ibid.*, p.40

¹¹⁰ *ibid.*, p.7

¹¹¹ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.9

¹¹² Mr D Pearson, Auditor-General, Victorian Auditor-General's Office, letter to the Committee, received 9 April 2009, p.4

The Department advised that government schools and regional offices have access to a variety of mechanisms for sharing information as follows:¹¹³

- face-to-face and virtual forums which enable school staff to engage in discussion on key issues with their colleagues from within Victoria and also with educationalists overseas;
- facilitation of a pool of reference schools to share their expertise in establishing a performance and development culture;
- regional offices convene a number of forums and reference groups covering topics in areas of literacy, student wellbeing and science;
- regular meetings of network members to discuss issues of common interest and use of the website as a forum for discussion; and
- regional conferences, the 'Big Day Out', the Principals Common, regional governance boards and Regional Network Leader forums.

The Department advised the Committee that it has a strong commitment to ensuring that best practice in teaching and learning is identified and disseminated. The Department's key initiatives in this area are as follows:¹¹⁴

- the *e5 Instructional Model* describes the knowledge and skills required to teach all students effectively and will provide teachers with a common understanding of how teachers can improve their practice as well as providing direction for their professional development;
- other departmental publications such as, the Developmental Framework for School Leaders, the Principles of Effective Professional Learning and School Improvement: A Theory of Action, all represent a distillation of the knowledge base on leadership, teaching and learning and school improvement;
- the Department's website contains an extensive resource base built up over five years which teachers and leaders can access;
- the Department's *Research Priority Areas of Interest 2008-11* sets future directions and broad research and evaluation priorities to guide and inform future policy development and is based on environmental scans of relevant national and international emerging issues and trends;
- *Research eLert* and the *Research eLert Extra* provide information to schools and other education providers about the Department's research and policy forums and summaries of local and international educational research reports on specific themes and topics to assist evidence-based decision making across the Victorian education sector;
- the Department's Innovation Showcase for up to 500 delegates will be held in May 2009 and includes presentations from over 40 educators who are pioneering new innovative teaching practices; and
- the *KnowledgeBank: Next Generation* portal will provide access to a range of quality assured, safe and targeted digital resources for teaching and learning. The portal will act as a content broker for the Victorian Government's student-centred online learning environment, the Ultranet, and will be accessible in schools, homes, public libraries and neighbourhood centres, providing access to non-government schools, education partners and other stakeholders.

¹¹³ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 22 April 2009, p.9

¹¹⁴ *ibid.*, pp.9-11

In respect to the development of the Department's Ultranet, the Department advised that the tender evaluation is currently in progress and is expected to be finalised in Term Two of 2009 and available to schools by the end of Term Three of 2010. It is intended that the Ultranet will provide school staff with an intuitive electronic online learning environment which will enable the recording of student data, learning materials and other school information and will facilitate knowledge sharing across the system.¹¹⁵

4.4 Review and Conclusion

The Committee's review of the material and advice provided by the Department indicates that school improvement is a major focus of both the Office for Government School Education and regional offices.

In terms of the Auditor-General's recommendations with respect to the identification of schools needing targeted support, the Department has advised the Committee that through implementation of the *System Improvement Model* and the *School Accountability and Improvement Framework*, adequate systems and processes are in place for identifying schools experiencing performance difficulties and also for documenting decisions regarding which schools should receive targeted support.

Regarding the Auditor-General's recommendation on the need for targeted support to be sustained over a longer period, the Secretary of the Department has acknowledged the importance of sustained funding to improve the outcomes of underperforming schools. The Department advised that it anticipates that recent increases in funding by both State and Commonwealth Governments for school improvement will assist in providing more sustained support to schools performing below expected levels. The Committee looks forward to improvements in the educational outcomes of underperforming schools as a result of these increased investments.

The Committee acknowledges the extensive range of school performance data sets collected and reported by the Department. As noted in the Auditor-General's report, it is critical that personnel responsible for managing school improvement within schools themselves are adequately proficient in the interpretation and analysis of performance data to accurately identify problem areas and select the most appropriate strategies to address the issues highlighted in the data.

With respect to the Auditor-General's recommendation concerning the need for greater knowledge sharing across the system on the merits of various school performance improvement strategies the Committee notes that the Ultranet initiative which the Department suggested in 2007 would address this issue is still some way from being fully operational. However, the Department advised the Committee of a range of alternative information sharing measures which are currently in place across the Department for sharing information.

Given the prominence afforded to the monitoring of school performance by the regional offices, the Committee expects that awareness of performance issues and the various interventions available would be high amongst regional staff. The Committee notes also the creation of Regional Network Leaders which, based on the information provided by the Department, should assist in fostering a common approach and shared understanding about the management of school performance issues across the government school system.

¹¹⁵ *ibid.*, p.11

- Recommendation 2:** **The Department of Education and Early Childhood Development should ensure that any targeted support provided to schools with student outcomes below expected levels is sustained over such a period as to make realised improvements in the school's performance outcomes. As part of the accountability process, the impact of targeted interventions in these schools should be clearly measured and documented.**
- Recommendation 3:** **The Department of Education and Early Childhood Development should ensure that the personnel responsible for managing and monitoring school performance both within schools and in regional offices are highly proficient in interpretation and analysis of school performance data, together with capabilities for identifying appropriate strategies for addressing issues highlighted by the data.**
- Recommendation 4:** **The Department of Education and Early Childhood Development should undertake an independent review of the effectiveness of the Regional Network Leaders model in 2012, including in regards to their impact on underperforming schools.**

CHAPTER 5: CAPACITY OF REGIONAL OFFICES TO SUPPORT SCHOOLS

5.1 Introduction

Under the 2003 Blueprint, regional offices were given increased responsibility for school improvement and in particular for providing support and assistance to schools with student outcomes below expected levels.

The amount of support regional offices are able to provide to schools is largely dependent upon the funding available to purchase the specific assistance required and the capacity of regional staff to provide the hands-on support which a school needs.

In reviewing the capacity of regional offices to support schools, the Auditor-General reviewed the funding allocation made to regional offices and human resources common to all regional offices namely, (the former) Senior Education Officers (SEOs) and Student Support Services Officers (SSSOs).

5.2 Funding of regional offices

5.2.1 Auditor-General's findings

The Auditor-General noted in his report that:¹¹⁶

Determining the most effective way to allocate resources across the regional offices is a perennial challenge. The change to regional office responsibilities resulting from the Blueprint reforms has again highlighted regional funding issues, especially in relation to how regions are able to carry out their school improvement role.

The Auditor-General noted that two of the three regional offices visited during the audit had indicated that the number of schools requiring targeted support exceeded the region's capacity to provide the required support.¹¹⁷ Further, despite the fact that schools with student outcomes below expected levels were distributed unevenly across the Department's regions in 1998, 2005 and 2006, regional offices received comparable funding. Resources were allocated to regions on a per student basis taking into account the number and geographical spread of schools in the region but not student profile factors. Some of the non-recurrent funding allocated to regional offices took into consideration the differing needs across regions.¹¹⁸

It is noted in the report that the Department indicated to the Auditor-General that it intended to undertake a review of regional office funding to provide a better reflection of students' needs and profiles.¹¹⁹

¹¹⁶ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.42

¹¹⁷ *ibid.*

¹¹⁸ *ibid.*, pp.43–5

¹¹⁹ *ibid.*, p.45

5.2.2 Follow-up by the Committee of schools identified in the Auditor-General's report as missing out on targeted support

At the Committee hearing in April 2009, the Department was asked to provide the Committee with information on the status of targeted support to 58 schools in two regions which had not received support in 2007 due to limitations in regional office resources.

In June 2009, the Department advised that the 58 schools identified by the Auditor-General's analysis had since received support through a number of universal and/or targeted interventions including.¹²⁰

- participation in one of 19 leadership programs offered;
- support through the Literacy Improvement Team initiative;
- support through the Teaching and Learning Coaches initiative which aims to bring about changes in classroom practice to improve student outcomes in maths and science; and
- achieving accreditation under the Performance and Development Culture, which includes, effective induction programs, feedback on teacher effectiveness, teacher development plans and professional development.

The Department also advised that a key aspect of the new Regional Network Leaders' responsibilities is to monitor the performance of schools in their network and provide them with assistance in implementing improvement strategies. The Department stated that, as such, these 58 schools will continue to be monitored.

The Committee requested further information from the Department as to whether there is any current level of unmet demand in the government school system across regions. The response from the Department in September 2009 stated the issue of regional capacity had been addressed. No further detail on the existence of any unmet demand was provided by the Department.¹²¹

5.3 Human resources in regional offices

5.3.1 Auditor-General's findings

The Auditor-General noted that the 2003 Blueprint had emphasised the important role which SEOs had in achieving improvement in school performance. This role required significant leadership and change management skills to assist underperforming schools and knowledge and understanding about how and when to intervene when goals were not being met.¹²²

The Auditor-General found that when the 2003 Blueprint was introduced the Department did not assess whether SEOs had the necessary skills and capabilities to undertake their responsibilities or whether there were a sufficient number of SEOs to ensure the success of the reforms.¹²³

In addition, the audit found that regional offices and schools considered SEOs to be stretched in working with their allocation of around 40 schools especially in those regions with a higher number of schools performing below expected levels.¹²⁴

¹²⁰ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 10 June 2009

¹²¹ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 11 September 2009, p.5

¹²² Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.46

¹²³ *ibid.*

5.3.2 Auditor-General's recommendation

The Auditor-General recommended that the Department undertake a review of the allocation of financial and human resources across the regions to ensure that schools' support needs are adequately considered and regions are able to effectively discharge their responsibilities in relation to school improvement.¹²⁵

5.3.3 Response by the Department of Education and Early Childhood Development

The Department accepted the Auditor-General's recommendation stating that action was being taken to ensure better targeting of both financial and human resources and better alignment with the necessary strategies and responses in local school communities.¹²⁶

In its response as contained in the *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, the Department reiterated that \$71.4 million had been allocated under the School Reform Resourcing package to support schools and networks with the school reform process. The Department states that Targeted School Improvement Funds will be provided to regions using a differential funding model comprising a base grant plus additional funding related to the number of schools performing below expected levels in each region.¹²⁷

Further, the Department referred to the recently released 2008 Blueprint which includes strategies such as:¹²⁸

- the establishment of the Victorian Institute for Educational Leadership to build workforce capacity;
- implementation of the enhanced *School Accountability and Improvement Framework* which includes an increased role for school networks; and
- the Secondary Teacher Assistants Initiative which will provide a total of 300 Student Support Services Officers to secondary schools over three years.

5.3.4 Subsequent developments

Funding of regional offices

The Auditor-General advised the Committee in April 2009, that the Department's response does not indicate whether there has been any review of recurrent funding to regions, in particular to those regions containing a large number of poorly performing schools.¹²⁹

In March 2009, the Committee wrote to the Department requesting further details on the differential funding model referred to in its response and action taken by the Department to increase the capacity of human resources within regional offices to enable staff to perform their duties more efficiently and effectively. Also sought was information about how the new Victorian Institute for Educational Leadership will build and improve workforce capacity in the regions.

¹²⁴ *ibid.*

¹²⁵ *ibid.*, p.48

¹²⁶ *ibid.*, p.8

¹²⁷ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.10

¹²⁸ *ibid.*

¹²⁹ Mr D Pearson, Auditor-General, Victorian Auditor-General's Office, letter to the Committee, received 9 April 2009, p.5

The Department advised that the 'differential funding model' is a component of the *System Improvement Model* which is currently being implemented by the Department. Funding and interventions in schools are based on the greatest educational need with prioritisation of schools nominated for targeted support by regional offices, and the amount of resources to be allocated, determined by the Office for Government School Education Executive Panel, under the parameters established by the Departmental Leadership Team.¹³⁰

At the public hearing in April 2009, the Committee requested the Department to provide details in relation to the present level of recurrent funding to regional offices. The Department advised that the regional budget is separated into two main components; regional administration and student support services. The regions' budgets take into account the number of schools and enrolments within the region, the Student Family Occupation Index (based on census data of various occupational categories relevant to the schools' student population) and a rurality factor. In addition, regions receive specific purpose grants such as, Targeted School Improvement Funding. The Department states that these grants will be further supplemented in 2009 through Commonwealth funding to support improvement related to literacy and numeracy, low socio-economic status and teacher quality.¹³¹

The following table shows the budget allocation in each of the regional offices for 2008-09.

Table 5: DEECD regional office budget allocation 2008-09

| Region | Regional Administration (\$m) | Student Support Services (\$m) | Total (\$m) |
|-----------------------|-------------------------------|--------------------------------|-------------|
| Barwon South Western | 3.5 | 5.0 | 8.5 |
| Grampians | 3.3 | 3.6 | 6.9 |
| Loddon Mallee | 3.9 | 5.5 | 9.4 |
| Hume | 3.6 | 4.5 | 8.1 |
| Gippsland | 3.6 | 4.0 | 7.6 |
| Eastern Metropolitan | 4.9 | 10.0 | 14.9 |
| Western Metropolitan | 3.8 | 7.4 | 11.2 |
| Southern Metropolitan | 5.5 | 12.3 | 17.8 |
| Northern Metropolitan | 4.7 | 8.2 | 12.9 |
| Total | 36.8 | 60.5 | 97.3 |

Source: Department of Education and Early Childhood Development

Staffing of regional offices

In relation to actions taken by the Department to increase the capacity of regional offices to support schools in need, the Department referred to the appointment of 70 Regional Network Leaders including 19 new positions in excess of what was previously in place in the form of SEOs. In addition, funding was provided in the 2008-09 Budget to enable regional offices to employ specialists to intervene in schools.¹³²

With regard to the regional offices themselves, the Department advised the Committee that the leadership structure has been revised to create a governance structure which more effectively manages the regions' extensive responsibilities. The Department advised that nine Assistant Regional Directors (School Improvement) have been appointed together with nine Assistant Regional Directors (Operations). It is intended also that nine Assistant Regional Directors (Early Childhood) will be appointed soon and Occupational Health and Safety experts have been appointed to each region as well as Student Support Services program co-ordinators. The

¹³⁰ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 22 April 2009, p.11

¹³¹ *ibid.*

¹³² *ibid.*

Department states that under the revised leadership structure, Regional Directors will be better able to impact the performance of schools in their regions. In addition, the Department anticipates that access to substantial funding from the Commonwealth Government will also significantly increase regional capacity.¹³³

Regarding the Victorian Institute of Educational Leadership, the Department advised that the Institute will be responsive to workforce capacity demands across the education system including preparing regional staff to intervene in schools experiencing performance difficulties and the training of regional literacy and numeracy experts. As noted earlier, the Institute is intended to commence operations in 2010.¹³⁴

At the public hearing in April 2009, the Secretary of the Department stated that the appointment of Regional Network Leaders was aimed at recruiting high quality personnel with expertise in leadership and performance management. Because of the increased number of Regional Network Leaders, compared to the former SEOs, these personnel are able to concentrate on a fewer number of schools within their network e.g. under the previous structure, SEOs were responsible for the oversight of 36 schools on average while Regional Network Leaders have responsibility for an average of 22 schools.¹³⁵

The Committee asked the Department to provide more detail about the role of Regional Network Leaders and how their performance would be monitored by the Department.

In June 2009, the Department advised that Regional Network Leaders will report to their Assistant Regional Director, School Improvement, and are accountable for:¹³⁶

- the development of a Network Strategic Plan, provision plan and professional learning strategy;
- the development of leadership capacity within and across schools in the network;
- improving teacher practice, with a particular emphasis on literacy and numeracy;
- the strategic and efficient deployment of network resources;
- creating a culture of collaboration and collective accountability in the network; and
- building partnerships with community, business and other government agencies.

In terms of monitoring the performance of Regional Network Leaders, the Department advised that each of the responsibilities outlined above form part of the Regional Network Leaders' performance and development plans and progress will be reviewed each trimester under the Department's Performance Enhancement Cycle.

¹³³ *ibid.*, p.12

¹³⁴ *ibid.*

¹³⁵ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.15

¹³⁶ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 10 June 2009

The Department advised that the new network model forms a part of the Department's acceptance of the findings and recommendation contained in the Auditor-General's report and is expected to increase the regional offices' capacity to better promote school improvement and educational provision. Regional Network Leaders are an integral part of the new network model and are responsible for delivering the changes that the new model is expected to create. Specifically, the Department advises that:¹³⁷

With greater authority and fewer schools per RNL [Regional Network Leader], the capacity of regions and networks to develop and deliver strategic and targeted improvement programs is expected to be enhanced, thus improving the performance of all Victorian schools, particularly those which have not previously had the capacity to take advantage of school improvement initiatives.

5.3.5 Review and conclusion

The Committee acknowledges actions taken by the Department in the wake of recommendations made by the Auditor-General aimed at improving resource allocation in the regions. The Committee looks forward to improvements in school performance as a result of the revision of the funding model applied to regional offices and the revised regional network structure which should allow for increased oversight and monitoring of schools by regional offices.

The existence in the regions of any continuing levels of unmet demand by schools for targeted support as was commented on in the Auditor-General's report was unable to be ascertained by the Committee. The Committee considers that it is important for the Department to be aware of the existence of any unmet demand for targeted support in the system and to monitor the seriousness of this demand in case the situation of the schools concerned worsens.

With respect to the appointment of Regional Network Leaders, the Committee notes advice received from the Department that the performance of Regional Network Leaders will be evaluated at periodic intervals. The Committee stresses the importance of appropriate evaluation of changes made to the funding model and network structure at a suitable time after their implementation to assess their effectiveness and make any further adjustments as required.

Recommendation 5: **The Department of Education and Early Childhood Development should ensure that regional offices identify the existence of any unmet demand for targeted support within their region. These schools should be monitored to allow early detection of any worsening in their performance and prompt intervention as required.**

Recommendation 6: **The Department of Education and Early Childhood Development undertake an evaluation of the revised regional funding model and newly implemented regional network structure following two years of operation to assess its success in improving the capacity of regional offices to better manage underperforming schools.**

¹³⁷ *ibid.*

5.4 Student Support Services Officers

5.4.1 Auditor-General's findings and recommendation

The Auditor-General noted that many of the schools performing below expected levels had a higher proportion of students with additional needs (i.e. learning and/or developmental difficulties in relation to their physical health and wellbeing; their social skills and wellbeing; their emotional maturity and/or their language and cognitive skills). The Auditor-General found that coping with the complexity of these additional needs was a challenge for most schools performing below expected levels.¹³⁸

Students with additional needs require access to a range of health and other professional student services (e.g. speech pathologists, psychologists, guidance officers and teachers). Student Support Services Officers (SSSOs), provided by regional offices, are the primary source of these services.

In his report, the Auditor-General noted many examples of long delays and waiting lists associated with accessing SSSOs.¹³⁹ Schools and regional offices visited during the audit expressed concerns about the lack of SSSOs generally and the composition of SSSOs available in terms of their specialist skills.¹⁴⁰

The Auditor-General also noted that there had not been any review of the number, composition or distribution of SSSOs across schools since 2000 but that the Department was currently in the process of reviewing the resource with anticipated changes to be made in 2008. He recommended that the issue of students receiving timely access to relevant SSSO resources be addressed by the Department as part of its review.¹⁴¹

5.4.2 Response by the Department of Education and Early Childhood Development

The Department accepted the Auditor-General's recommendation stating that an independent review of the SSSO resource had been commissioned and that one of the aims of the review is to ensure that all students receive timely access to relevant support services as needed.¹⁴²

In the *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, released in December 2008, the Department stated that the independent review of SSSOs had been completed with a discussion paper released for consultation. The Department states that a \$33.2 million package has been announced over four years to expand student support services in schools. This includes funding for an additional 70 SSSOs and nine new coordinators to ensure that support is assigned where it is needed most.¹⁴³

¹³⁸ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, p.37

¹³⁹ *ibid.*

¹⁴⁰ *ibid.*, p.47

¹⁴¹ *ibid.*, pp.47-8

¹⁴² *ibid.*, p.8

¹⁴³ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.10

Further, the Department states:¹⁴⁴

As part of the Blueprint for Education and Early Childhood Development implementation, working arrangements for Student Support Services Officers (SSSOs) will be reformed. This will provide young people with better access to the services they need, and provide SSSOs with more professional support, clearer management and accountability arrangements, and a more developed career structure.

5.4.3 Subsequent developments

In March 2009, the Committee wrote to the Department requesting information in respect to actions taken to address the issues raised by the Auditor-General in relation to the provision of SSSOs. In particular, the Committee requested details of:

- the new reforms to student support services in school;
- interim arrangements for student support services between the release of the Auditor-General's report and implementation of the new reforms; and
- funding of student support services in schools.

New reforms to student support services in schools

The Department advised that the Discussion Paper, '*signalling the proposed directions and components of a significantly enhanced service delivery model*', was released to all relevant stakeholders in August 2008 seeking feedback on how each of the five key elements could be implemented. In addition, regional forums were attended by 680 persons and 88 submissions were received.¹⁴⁵

The Discussion Paper proposed five key elements which would form the basis of a stronger student support services model of delivery in Victorian government schools.¹⁴⁶

- overarching state-wide student support services policy;
- targeted service delivery model in all regions;
- improved management structures;
- workforce support and supervision; and
- improved accountability and performance reporting arrangements.

¹⁴⁴ ibid.

¹⁴⁵ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 22 April 2009, pp.12–13

¹⁴⁶ ibid., p.12

In January 2009, the Department released the *Strengthening student support services directions paper: The way forward*, which outlines each of the five key elements and what the enhanced student support services program will include. The Directions Paper states that while implementation of the enhanced program will commence from Term One, 2009:¹⁴⁷

...any enhancements to student support services must be tailored to the requirements of each region. As there are a variety of service delivery and management models in place at the current time, changes will need to occur at different stages and rates according to local needs, structures and arrangements.

For this reason, each DEECD region will develop a Regional Implementation Plan by 1 March 2009 which outlines how each component of the strengthened model will be put into place and the timelines for actions to occur.

Information provided on the Department's website indicates that the allocation of student support services resources will take into consideration the number of students in government schools within each region, areas of disadvantage, rurality and the number of small schools, to ensure that resources are distributed in a consistent and targeted manner. The new arrangements are aimed at facilitating more strategic prevention and intervention measures at the school level to provide better outcomes for a broader range of students in need.¹⁴⁸

Further, the Department states that the appointment of additional staff in areas of highest need will expand the capacity of the program to meet unmet demand and respond to the changing needs of students and their families. Support services delivery via multidisciplinary teams will also result in the ability to respond to differing and complex student needs.¹⁴⁹

Delivery of student support services will be determined according to need across a network or sub-region depending upon the local arrangements particularly geographic issues. The Department points out that this will replace the current model of operation in many areas where individual staff are assigned to particular schools which does not necessarily make the best use of the range of expertise and knowledge available. The Department states that prevention and early intervention will be a major focus of the enhanced service delivery model. An important part of this will be stronger partnerships with other organisations and services which provide support to schools, children, young people and their families.¹⁵⁰

In terms of linking student support services with school improvement, the Department's website indicates that student support services will work closely with Regional Network Leaders and will be included in the strategic planning process which will be aimed at the implementation of school, network and regional improvement goals related to student learning, engagement and wellbeing.¹⁵¹

¹⁴⁷ Department of Education and Early Childhood Development, *Strengthening student support services directions paper: The way forward*, State of Victoria, Melbourne, January 2009, p.4

¹⁴⁸ Department of Education and Early Childhood Development, *Strengthening student support services, Frequently asked questions*, Issue No.2, February 2009, www.education.vic.gov.au/healthwellbeing/support/ssso, accessed 22 May 2009

¹⁴⁹ *ibid.*

¹⁵⁰ *ibid.*

¹⁵¹ *ibid.*

Interim arrangement for school support services

The Committee requested the Department provide details of the interim arrangements in place for the delivery of student support services (pending finalisation of the review).

In April 2009, the Department advised the Committee that in 2007-08, a total of \$51.6 million was allocated across the State for the provision of student support services. Prior to implementation of the reform package, approximately 500 Student Support Services Officers comprising psychologists, guidance officers, social workers, speech pathologists and visiting teachers were engaged in the provision of support and assistance to students in need.¹⁵²

Funding of the new reforms

The Committee requested the Department provide details of the \$33.2 million package referred to in the *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*.

The Department advised that the \$33.2 million allocation in 2008-09 is intended to fund a strengthened student support services model over a four year period. An amount of \$8 million has been provided for the 2008-09 financial year and has been allocated as follows:¹⁵³

- recruitment of 70 SSSOs and nine regional coordinators at a cost of \$7.64 million;
- appointment of Statewide Coordinator at a cost of \$115,000; and
- implementation of a student support services data collection and reporting system at a cost of \$250,000.

5.5 Review and conclusion

The Department accepted the Auditor-General's recommendation concerning more timely access of students to SSSOs and this was a factor for consideration in the review of the resource undertaken by the Department in 2008. According to the advice received from the Department action has been taken to increase the number of SSSOs available and improve the allocation of the SSSO resource across schools. The Department has advised that the allocation of SSSOs under the revised arrangements will be more strategic and more effective in ensuring that students with the greatest need receive prompt access to specialist support.

The Committee welcomes the actions taken by the Department to address problems associated with the adequacy of SSSO resources available in the government school system and looks forward to improved access by those Victorian government school students in need of additional attention and support. As the implementation of the new arrangements is currently underway in the Department, it is too early to assess their success. It is important for the Department to undertake an evaluation of the new arrangements at a future point in time to determine whether or not the problems formerly identified have been satisfactorily addressed or if further action is warranted.

¹⁵² Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 22 April 2009, p.14

¹⁵³ *ibid.*, p.14

Recommendation 7:

The Department of Education and Early Childhood Development should assess whether the issues surrounding the allocation of, and access to, Student Support Services Officer resources have been adequately addressed by the new arrangements for management of the resource so that improved access to services by government school students has been effected.

CHAPTER 6: MEASURING SCHOOL IMPROVEMENT

6.1 Introduction

As noted in the Auditor-General's report, in 1994 the *Schools of the Future Accountability Framework* introduced three sets of performance data for monitoring school performance. The data related to information about school management; student achievement in English and Mathematics in Prep to Year 10; and student performance in the Victorian Certificate of Education. The Department started publishing the data electronically in 1996 according to system-wide benchmarks. The data sets indicate student performance on a state-wide basis and also according to similar schools (referred to as 'Like School Groups').¹⁵⁴

As mentioned earlier in this report, in 2005 a new *School Accountability and Improvement Framework* was introduced which provided for a sharper focus on student outcomes in the key areas of student learning; student engagement and wellbeing; and student transitions and pathways.

The Department currently collects data on a wide range of student outcome performance measures in government primary and secondary schools. In addition, the Department uses annual surveys to obtain information on students' attitudes to school, staff organisational health and parent opinion. Combined, this information assists schools to identify their strengths and weaknesses in terms of their performance and allows the Department's central and regional offices to monitor system-wide performance and to target areas for improvement.¹⁵⁵

6.2 Auditor-General's findings and recommendations

The Auditor-General stated in his report that:¹⁵⁶

The Department's suite of measures for assessing school performance has improved and there is now a stronger focus on evaluating the success of school improvement initiatives and targeted support for schools performing below expected levels.

The Auditor-General commented that while extensive information is available about system-wide outcomes, less is known about progress made within particular groups or at an individual school level in terms of the impacts of various improvement strategies being implemented. The Auditor-General found that schools and regional offices need to develop their ability to understand school performance data and make better use of it to inform future directions and to measure improvement.¹⁵⁷

The Auditor-General recommended that schools be provided with greater support to improve their understanding of school performance data in order to better direct their school improvement strategies. In addition, he stated that schools require assistance in measuring and assessing progress made towards achieving improved student outcomes.¹⁵⁸

¹⁵⁴ Victorian Auditor-General's Office, *Improving our Schools: Monitoring and Support*, October 2007, pp.9–10

¹⁵⁵ *ibid.*, p.11

¹⁵⁶ *ibid.*, p.53

¹⁵⁷ *ibid.*

¹⁵⁸ *ibid.*, p.54

6.3 Response by the Department of Education and Early Childhood Development

The Department accepted the Auditor-General's recommendation stating that developing schools' understanding and use of performance data to better inform school improvement strategies is an accepted part of the continuous improvement agenda within the Department. The Department responded also that it is linking the use of data with the investment it is making in developing leadership and workforce capability.¹⁵⁹

In its response as detailed in the *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, the Department states that as part of the 2008 Blueprint, a revised process of data modelling will be implemented and school performance will be assessed using student outcomes and intake-adjusted data.

In addition, the Department states that training and accreditation is being developed for Regional Network Leaders across all school performance data and evaluation as part of core curriculum development and that leadership programs will continue to include a data component.¹⁶⁰

6.4 Subsequent developments

The Auditor-General advised the Committee in April 2009, that while the Department's response to the recommendation states that it will support schools to better understand and use data by helping school leaders improve their skills and through the introduction of a new data modelling process, it does not explain how it will assist schools to monitor the progress of their improvement strategies.¹⁶¹

At the Committee hearing in April 2009, the Secretary of the Department advised that while there is a four-year review cycle in place under the accountability framework, on an annual basis each school is required to report on its performance against its Strategic Plan and the Regional Network Leader would monitor the literacy and numeracy outcomes in addition to other aspects of performance of the schools in the network to assess how well they are going. The performance review and accountability reporting process rises from the schools to networks, to regions and then to the Office of Government School Education in the central office.¹⁶²

In March 2009, the Committee requested further details from the Department in relation to specific actions which have been taken to assist schools to better understand and use the data collected and to monitor and track their school improvement. The Committee also requested details of when the revised process of data modelling will be operational and what will be done to assist schools in its use.

¹⁵⁹ *ibid.*, p.8

¹⁶⁰ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.11

¹⁶¹ Mr D Pearson, Auditor-General, Victorian Auditor-General's Office, letter to the Committee, received 9 April 2009, p.6

¹⁶² Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, transcript of evidence, 29 April 2009, p.8

The Department advised that it has a dedicated data Division which is responsible for providing high quality evidence-based data and analysis in support of planning and action to improve outcomes for all government schools. The Division provides support to schools in the form of the School Performance Reports (which contain extensive data sets) together with associated materials to assist interpretation. The Division also plans to provide case study materials to schools in Term Two, 2009.¹⁶³

In addition, the Department states that Regional Network Leaders are working with schools to increase schools' understanding of how to utilise the data to inform their school improvement strategies. It is intended that the training being provided to Regional Network Leaders on use and interpretation of data will assist with identifying school performance issues and ensuring strategies are developed to address those issues.

The Department advised the Committee that building expertise across the system in relation to the use and interpretation of data has a high priority in the Department's professional development programs. The focus of these programs is to ensure teachers can understand and use the data to support the learning of children and young people in schools. The Department provided the following examples of its professional learning programs related to this area:¹⁶⁴

- the ongoing professional learning program for Regional Network Leaders includes the Harvard University *DataWise* program;
- Regional Network Leaders assist schools to use the NAPLAN Data Service;
- Teaching and Learning Coaches and Literacy Improvement Teams assist schools in the use of On-demand testing (similar to the Maths Online assessment);
- training in the new P-2 Assessments (English Online);
- the *Developmental Learning Framework for School Leaders* and the associated leadership programs include a focus on the use of data for performance improvement;
- a number of the professional learning programs for teachers include modules on data;
- regional analysis of data; and
- engagement with university academics to develop greater fluency in analysis and interpretation of regional, network and school data.

In addition to the above mentioned activities, the Department also provides a range of on-line resources for access by schools as required. The Department advised that the guidelines for the *School Accountability and Improvement Framework* require schools to share data with their school community and this requirement has had a flow-on effect of building data literacy amongst schools.¹⁶⁵

In terms of schools measuring their individual performance improvement, the annual planning and reporting cycle under the *School Accountability and Improvement Framework*, requires schools to report annually to their school community on key measures through their Annual Report. In addition to the data sets provided in their School Performance Reports, schools have access to the NAPLAN Data Service and VCE Data Service and, wherever possible, time-series data is provided to support schools in monitoring their progress.¹⁶⁶

¹⁶³ Professor P Dawkins, Secretary, Department of Education and Early Childhood Development, letter to the Committee, received 22 April 2009, p.15

¹⁶⁴ *ibid.*, p.16

¹⁶⁵ *ibid.*

¹⁶⁶ *ibid.*, pp.15–16

6.5 Review and conclusion

In regard to the Auditor-General's comments and recommendation on the need for increased support for schools in the use and interpretation of school performance data, the Committee notes advice from the Department that training in data analysis and interpretation has been afforded a high priority in the Department's professional development program and that Regional Network Leaders will be assisting schools in the interpretation of data to direct their school improvement strategies.

In terms of measuring individual school progress following the implementation of improvement strategies, the Department relies on the cycle outlined in the *School Accountability and Improvement Framework* which includes preparation by schools of an annual implementation plan, including the identification of achievement milestones to assess progress, and annual reports which reflect on the success of improvement strategies.

While the Department appears to have a comprehensive system of school monitoring and accountability in place together with an extensive array of data on school performance, the Committee considers that it is critical for staff responsible for managing school performance to be fully competent in understanding and using the data available to steer school improvement. Action on this should be a key performance goal for Regional Network Leaders.

Recommendation 8:

The Department of Education and Early Childhood Development should direct Regional Network Leaders to assess the use and understanding of school performance data by school personnel and ensure that relevant training is targeted accordingly.

**PART B: FUNDING AND DELIVERY OF
TWO FREEWAY UPGRADE
PROJECTS**

CHAPTER 1: BACKGROUND TO THE COMMITTEE'S REVIEW

1.1 Introduction

Victorian budgets over several years have targeted substantial investment in infrastructure.

In its 2008-09 Budget, the Government identified that delivering record investment in infrastructure was one of the seven key themes influencing the direction of the budget. It indicated that modern efficient infrastructure is vitally important in successfully meeting the future challenges facing Victoria and in supporting its growing population.¹⁶⁷ The budget allocated \$17 billion to infrastructure spending over the next four years, which was in addition to around \$20 billion invested in its infrastructure program since 1999.¹⁶⁸

In its latest 2009-10 Budget, the Government has further reinforced its commitment to infrastructure investment with projected infrastructure spending of \$20 billion over the four years to 2012-13, including a significant spending target of \$7.2 billion in 2009-10.¹⁶⁹ The 2009-10 Budget was delivered against the backdrop of the global financial crisis and the budget papers state that the Victorian economy faces a much more challenging economic environment than it has for many years. The budget papers indicate that the Government is helping to support economic growth and jobs in this difficult time through major investments in infrastructure projects. The government estimates that, through acceleration of its infrastructure program, the delivery of capital projects will secure up to 35,000 jobs in 2009-10.¹⁷⁰

The Government also announced, as part of the 2009-10 Budget, that Partnering with the Commonwealth Government had been included within the key themes underpinning the budget's direction.¹⁷¹ This action reflects the emerging significance of the partnership formed between the Commonwealth and Victorian governments to stimulate the economy, fast track investment in public infrastructure and secure jobs. It also recognises the increasing involvement of the Commonwealth Government, drawing on the work of its statutory advisory council, Infrastructure Australia, established in April 2008, in planning, funding and implementing Australia's future infrastructure needs.

The Chair of Infrastructure Australia has stated that Australia's future prosperity depends upon the quality of our national infrastructure. The Chair considers that, without adequate investment in infrastructure, Australia will struggle to achieve sustainable economic growth and improve the quality of life for current and future generations.¹⁷²

¹⁶⁷ Department of Treasury and Finance, *Victorian Budget 2008-09 Overview: Taking Action for our Suburbs and our Regions*, May 2008, p.10

¹⁶⁸ Budget Paper No. 1, *2008-09 Treasurer's Speech*, p.4

¹⁶⁹ Budget Paper No. 2, *2009-10 Strategy and Outlook*, pp.49–50

¹⁷⁰ Department of Treasury and Finance, *Victorian Budget 2009-10 Overview, Building Jobs: Building Victoria*, May 2009, pp.3, 14

¹⁷¹ *ibid.*, p.9

¹⁷² Infrastructure Australia, *Report to the Council of Australian Governments, Message from the Chair*, December 2008, www.infrastructureaustralia.gov.au, accessed 23 June 2009

From the Committee's perspective, the above circumstances, involving significant levels of government expenditure in Victoria on infrastructure over past years and earmarked for the immediate future, accentuate the importance of:

- effective management by government of individual infrastructure projects with a strong focus on adherence to cost and time targets;
- clear identification up front by responsible agencies of project identification processes and benefits, including economic benefits, expected from projects; and
- maximum transparency in the accountability mechanisms established by government for communicating to Parliament, at a suitable time after project completion, on actual outcomes and the return that has accrued to the State from its infrastructure investment.

The circumstances also point to the need for periodic audits by the Auditor-General of the State's performance in planning and managing major infrastructure projects. Such audits ensure that Parliament benefits from independent audit assessments of the quality and effectiveness of the actions of agencies responsible for delivering projects and achieving targeted outcomes.

The Committee is pleased that specific provision is made from time to time in the annual plans of the Auditor-General for one or more audits of major infrastructure projects, including projects planned and managed directly by government or in partnership with the private sector.

This follow-up inquiry of the Committee addresses the findings and recommendations of the Auditor-General set out in the report, *Funding and Delivery of Two Freeway Upgrade Projects*, presented to Parliament in December 2007.

1.2 Auditor-General's report on Funding and Delivery of Two Freeway Upgrade Projects

The Auditor-General's December 2007 report on *Funding and Delivery of Two Freeway Upgrade Projects* encompassed the results of three audits which examined:

- the financial implications for the State of the redemption of CityLink concession notes used to fund two major road projects, the Tullamarine-Calder Interchange (TCI) project and the M1 Upgrade project, and whether the redemption represented financial value for the State;
- whether the Tullamarine-Calder Interchange project, completed in 2007, was effectively managed and is delivering expected benefits; and
- the effectiveness of the planning and procurement processes used to plan and implement the M1 Upgrade project, which is scheduled for completion in 2011.

The audit of the redemption of concession notes focussed principally on the role and actions of the Department of Treasury and Finance (DTF) as the responsible central government agency. The audits of the two infrastructure projects involved planning and management actions of VicRoads, the State's principal road construction and management authority.

The Committee's follow-up inquiry included:

- detailed examination of the Auditor-General's report, its recommendations for future actions and the responses of DTF and of VicRoads published in the report;
- the seeking of written information from the Auditor-General, DTF, the Department of Transport and VicRoads on matters relating to the report and on actions taken by the three government agencies in the period since the report;
- the conduct of public hearings on 29 April 2009 with the above parties; and
- the seeking of further information from the parties on matters taken on notice at the public hearings.

The Auditor-General's report comprised four chapters, comprising an executive summary and three chapters dealing with each of the three audits. The remainder of this report of the Committee addresses the three substantive chapters of the Auditor-General's report.

CHAPTER 2: BUY-BACK OF CITYLINK CONCESSION NOTES

2.1 Introduction

Chapter 2 of the Auditor-General's report addresses agreements reached between the State and Transurban in June 2005 and May 2006 to 'encash' (or, convert into cash) concession notes previously held by the State as security for later redemption and to use the proceeds to:

- fund the upgrade of the Tullamarine-Calder Interchange (TCI); and
- partly fund the cost of the State's upgrade of the West Gate and Monash freeways (the M1 Upgrade project).

The audit report indicates that, under deeds of assignment, the State received encashment proceeds totalling \$151 million by 1 July 2006 in relation to the TCI project and is entitled to receive over the four-year period to 30 June 2010 proceeds amounting to \$614.3 million for the M1 Upgrade project. The face value of the concession notes subject to the two early redemptions was \$305.2 million and \$2.884.4 billion respectively.¹⁷³

In both cases, the State and Transurban agreed to share extra revenue generated by the road works involved with each construction project.

As mentioned in Chapter 1, the objectives of the audit were to examine the financial implications to the State of the above redemptions and whether they represented financial value to the State. The Auditor-General's report states that, in pursuing these objectives, the audit considered the:¹⁷⁴

- basis of the decision to proceed with the redemption as the appropriate financing method for the upgrade projects;
- financial model and determination of the discount rates applied to the future redemption profile of the concession notes; and
- results of benchmarking comparisons and risk and reporting processes.

The audit did not address the original arrangements for encashment of concession notes entered into between the State and Transurban. The audit report indicates these arrangements have been examined in past reports of the Auditor-General.¹⁷⁵

¹⁷³ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, pp.24–5

¹⁷⁴ *ibid.*, p.25

¹⁷⁵ *ibid.*, p.26

2.2 Consideration of alternative funding sources

The Auditor-General did not present any recommendations to Parliament arising from the audit examination of the encashment of concession notes. There were two audit findings relating to the adequacy of the Government's approach to consideration of alternative funding options.

The Auditor-General found:¹⁷⁶

- for the TCI project, *'there was no evidence of any detailed consideration of funding sources other than the encashment of concession notes. Consideration of budget funding was confined to analysis of impact of the existing budget allocation to VicRoads on the timing of the project.'*
- for the M1 Upgrade project, while, in contrast to the TCI project, a number of funding alternatives, including debt finance, were considered and analysed in depth, *'the State did not draw comparative conclusions on the advantages and disadvantages of the long-term financial implications of encashment compared with debt financing options, in the context of the State budget, other than the high level impact of debt financing on the Gross State Product to net debt ratio.'*

In reaching the finding relating to the TCI project, the Auditor-General pointed out that the State identified three methods of financing, namely, through the State Budget, the encashment strategy with Transurban and sale of concession notes to a third party. The audit found that the advantages and disadvantages of the latter option were subject to detailed consideration by DTF which led to the decision to proceed to encashment of concession notes with Transurban. It also found that, given budget constraints and a desire to deliver the project by late 2006, the State determined that the encashment option with Transurban offered significant benefit over funding via the budget.¹⁷⁷

The audit analysis leading up to the finding concerning the M1 Upgrade project showed that the State identified five financing alternatives (including the preferred encashment strategy) for the project and that DTF, when assessing these alternatives, considered their impact on the State's five-year forward estimates. The audit concluded the analysis:¹⁷⁸

...was not sufficiently detailed and did not draw conclusions as to the advantages and disadvantages of the financial impact on the State budget of each alternative. The analysis did not set out any information in relation to the alternatives beyond the next five years nor did it consider how any debt financing might be repaid in the future.

The Secretary of DTF commented in the Auditor-General's report that the Department welcomed the Auditor-General's review of the concession notes transaction. The Secretary noted many of the positive findings emanating from the Auditor-General's report, including:¹⁷⁹

- a number of alternative funding sources were considered and analysed in depth for the M1 project;
- due diligence procedures were undertaken that verified key assumptions were reasonable;
- suitably qualified personnel were employed to negotiate the transactions; and
- the State identified the risks involved with the transactions and ensured strategies were in place to manage those risks throughout the process.

¹⁷⁶ ibid., pp.2, 26

¹⁷⁷ ibid., pp.27–8

¹⁷⁸ ibid., pp.29–30

¹⁷⁹ ibid., p.3

The Secretary also commented that the encashment process was very complex and dealt with a range of inter-related issues. In addition, detailed analysis of the pros and cons of the various options and alternatives and associated risks was presented in formal advice to the Government and explored in verbal briefings.¹⁸⁰ The Secretary also commented that:¹⁸¹

...DTF considers that the level of formality and documentation was appropriate to the context. The suitability of the risk assessment process is supported by the findings that the State identified major risks relevant to the transactions and employed effective strategies to manage those risks.

The Secretary further stated that under the existing budget funding programs, the TCI project could not have been delivered before 2010 and early delivery of the project via a notes transaction was viewed as a significant benefit.¹⁸²

The Secretary also indicated that, in relation to the Auditor-General's finding for the M1 project that the State did not draw a comparative conclusion on the advantages and disadvantages of the long-term financial implications of debt financing rather than encashment of concession notes, 'the analysis of the appropriate discount rate for the notes transaction was a tool used to examine this issue.'¹⁸³

The Committee's assessment of the Auditor-General's findings on the Government's consideration of alternative funding sources included:

- the reasons put forward by the Auditor-General for not supplementing the audit analysis of the subject and the related audit findings with audit recommendations to Parliament; and
- the seeking of an assurance from DTF that its *Investment Lifecycle Guidelines*, updated since the Auditor-General's report, adequately address the findings presented in the audit report.

2.2.1 Rationale for lack of audit recommendations

During the public hearing, the Committee provided an opportunity for the Auditor-General to explain the way he had set out his findings without recommendations in this section of the audit report. The issues raised by the Committee centred around the question on whether the making of a direct recommendation would have facilitated the setting of a benchmark for future major infrastructure projects. The comments provided by the Auditor-General to the Committee on this point included:¹⁸⁴

...Yes, clearly that is why we made that finding. Our view is that there should be a comprehensive analysis. In terms of a direct recommendation, I suppose the judgement was that we are auditing this, and it is not a continuing project. You will notice that there is a degree of difference of view in the response of the Department of Treasury and Finance to our findings, so to make a direct recommendation in relation to this project was frankly redundant. Yes, in principle there should be a full analysis but this is the area of debate, and I think that is something the Committee might like to give some consideration to. Our judgement clearly is that the level of analysis was short of expectations. I think you will see from the agency response they would have a somewhat different view.

¹⁸⁰ *ibid.*, pp.3–4

¹⁸¹ *ibid.*, p.4

¹⁸² *ibid.*, p.4

¹⁸³ *ibid.*, p.5

¹⁸⁴ Mr D Pearson, Auditor-General, Victorian Auditor-General's Office, transcript of evidence, 29 April 2009, p.7

On the importance of a full analysis by the Government of all funding options for major projects, the Auditor-General stated:¹⁸⁵

In principle there should, and in this case that is clearly what we said. There will always be a value judgement about the degree of comprehensiveness and the degree of detail, but I consider we have been quite conclusive there. We came up with an outright statement that it had not occurred. You cannot be more definite or precise than saying something did not happen.

2.2.2 Committee's comments

The Committee notes the view expressed by the Auditor-General on the absence of evidence to indicate the Government:

- comprehensively evaluated funding options, other than the encashment of concession notes, for the TCI project; or
- undertook a comparative analysis of the advantages and disadvantages of the long-term financial implications of potential funding options identified for the M1 upgrade projects.

The Committee also notes the views of DTF, that there was significant benefit from delivering the project via the encashment of the concession notes.

In directing attention to this issue during its inquiry, the Committee recognised early encashment of concession notes was an option uniquely connected to the two projects, given their structural links to the CityLink toll road system owned and operated by Transurban. It also recognised, as did the Auditor-General, that use of the encashment strategy as a funding mechanism for the projects constituted a one-off action with no direct relationship to funding of the Government's other infrastructure projects.

The Committee is of the view there were two obvious messages emanating from the reported findings of the Auditor-General. The first message was that conveyed by the Auditor-General in the audit report that it was not possible to determine if the encashment of concession notes was the most economic funding action. The second message, while inferred but not addressed through a recommendation in the audit report, was future-oriented and centred on the importance of government ensuring there is always robust evaluation of all available funding options in the planning of infrastructure projects.

On balance, the Committee considers there were grounds for the Auditor-General to explicitly emphasise this latter point through an audit recommendation to Parliament to reinforce the importance of government action to ensure the circumstances identified for funding of the two subject projects were not repeated in the planning of any future projects. Importantly, however, as identified in the Committee's commentary in the following paragraphs, the Government has acted positively on the Auditor-General's findings through revisions to its best practice guidance to agencies, which were updated in 2008.

¹⁸⁵

ibid.

2.2.3 Assurance that the Government's updated best practice guidance adequately addresses the findings of the Auditor-General

During its inquiry, the Committee considered the nature of action taken by the Government to address, in terms of future projects, the shortcomings identified by the Auditor-General in the examination of funding options for the TCI and M1 Upgrade projects.

The Committee was pleased to hear from DTF that, in July 2008, the Government released the latest version of its best practice guidance, the *Investment Lifecycle Guidelines*.¹⁸⁶

The guidelines comprise seven documents encompassing an overview document and documents on six identified phases of an investment management lifecycle. They must be applied by government departments and other agencies falling under the *Financial Management Act 1994* to major government investments (those with a total estimated investment greater than \$5 million), but can be used for any investment, whatever its type, complexity or cost. They also apply to asset proposals to be delivered under public/private partnerships and alliancing arrangements.¹⁸⁷

Table 6 summarises the contents of the guidelines as shown on a special lifecycle guidance website established by DTF.¹⁸⁸

Table 6: Contents of the Government's Investment Lifecycle Guidelines, as updated in July 2008

| Guidance document | Investment management question applicable to document |
|----------------------------|--|
| Overview | - |
| Strategic Assessment | 'What is the business need and the likely solution?' |
| Options Analysis | 'Which option will provide the best solution?' |
| Business Case | 'Is there a compelling case to invest?' |
| Project Tendering | 'What is the preferred delivery option?' |
| Solution Implementation | 'Is the investment proceeding as planned?' |
| Post-implementation Review | 'What benefits were delivered and what were the investment lessons?' |

Source: Department of Treasury and Finance, *Investment Lifecycle Guidelines*, July 2008

¹⁸⁶ Mr J Fitzgerald, Department of Treasury and Finance, Deputy Secretary, Commercial Division, letter to the Committee, received 20 April 2009, p.2

¹⁸⁷ Department of Treasury and Finance, *Investment Lifecycle Guidelines*, July 2008, www.lifecycleguidance.dtf.vic.gov.au, accessed 20 May 2009

¹⁸⁸ *ibid.*

From its analysis of the documents, the Committee identified that the guidance provided at the business case phase of the investment management lifecycle directly addresses the issues raised by the Auditor-General on the evaluation of funding options for the two upgrade projects. Table 7 identifies extracts from pages 4 and 29 of the business case phase of the guidelines that illustrate this point:

Table 7: Extracts from the business case segment of the Government's July 2008 Investment Lifecycle Guidelines

| Subject addressed in document | Relevant extracts from guidelines |
|---|--|
| Definition of a business case | A business case provides advice to decision-makers so they can determine whether a project is worth proceeding with. It makes a substantial argument for the preferred option and its delivery. It rigorously examines the options, costs, timeframe and risks. Once approved, it becomes the core governance document for managing and measuring the project. |
| Key principles in preparing the business case | One of the four key principles in the guidelines addresses the need to ' <i>substantiate the preferred option and show how it meets government and departmental service delivery needs better than other alternatives, taking into account future scenarios and assumptions.</i> ' |
| Purpose of a business case | A full business case provides key decision-makers with information to assess how the preferred option best meets the service need on a comparative whole-of-life cost-benefit or cost analysis basis of the short-listed options. There should be sufficient information for decision-makers to, among other things, ' <i>agree on the levels and sources of proposal funding.</i> ' |
| Segment of the business case template on budget analysis and funding strategy | A budget analysis should illustrate how the options relate to output funding and delivery as well as capital funding. The analysis should allow decision-makers to consider the option that will deliver the best outcomes in line with government objectives and will have a demonstrable effect on output/service delivery performance. The analysis should outline, among other things, ' <i>cash outflows and inflows, including explicit recognition of the proposed funding sources and details of any financial arrangements, including user charges.</i> ' |

Source: Department of Treasury and Finance, *Investment Lifecycle Guidelines*, July 2008, pp.4, 29

2.2.4 Committee's comments

The Government's July 2008 *Investment Lifecycle Guidelines* are both comprehensive and informative.

The above extracts from the guidelines illustrate the extent of the requirements governing the identification and analysis of alternative funding options that agencies must now follow when developing business cases for major investment proposals. The Committee considers that the discipline imposed on agencies in this area means they are responsible for ensuring there is always a strong evidential trail to support the evaluation of funding options and formulation of the recommended funding approach.

From a wider perspective, the Committee recognises that the business case phase of the guidelines, when coupled with the preceding options analysis phase, clearly shows that agencies are responsible for ensuring that a structured approach, consistent with better practice principles, is applied to the formulation of a business case.

The Committee expects that all government agencies will strictly adhere to DTF's guidelines. If this proves to be the case, the outcome from the business case phase of an investment proposal will be the submission by agencies of a well-founded basis for proceeding with the proposal that should, in turn, facilitate the reaching of an optimum decision by the Government.

It would therefore be disappointing to the Committee if the Auditor-General did not always find in future audits of major infrastructure projects that began planning after July 2008, that there had been robust evaluation by managing agencies of all alternative funding options.

2.3 Auditor-General's assessment on whether the redemption of concession notes with Transurban represented financial value to the State

The Auditor-General's report sets out the steps, and the audit assessment of those steps, followed by the Government in establishing that the encashment of concession notes with Transurban to fund the two upgrade projects represented value-for-money for the State.

2.3.1 TCI project

For the TCI project, the audit report identifies:¹⁸⁹

- the due diligence procedures undertaken by VicRoads to evaluate the reliability of information and sensitivity of assumptions underpinning a negotiation model developed by Transurban for estimating the future redemption profile of the concession notes;
- action by VicRoads to test the forecast traffic growth rates incorporated in the negotiation model;
- the advice provided to the State by its advisor to assist in consideration of an appropriate discount rate to be used to derive the net present value of forecast future cash flows arising from the redemption of the concession notes; and
- the results of a benchmarking analysis conducted by the State's advisor which included market soundings with a cross-section of potential third party purchasers of the concession notes – the findings from these soundings indicated that it would be beneficial to the State to directly negotiate with Transurban than with a third party. A discount rate of 9.5 per cent was ultimately negotiated with Transurban, a rate favourable to the State when compared to the range quoted by market sounding participants.

The Auditor-General commented favourably on the outcome of the audit examination of the above actions. The Auditor-General concluded that:¹⁹⁰

The discount rate of 9.5 per cent implicit in the transaction with Transurban to encash a number of the concession notes to finance the TCI project was based on sound commercial pricing methodology.

The benchmarking analysis undertaken by the State's advisor, through its market sounding exercise, was a reasonable method to assess whether better financial value would be obtained by an encashment of the concession notes with Transurban or a sale of the concession notes to a third party. The benchmarking results provided the State with relevant and reliable evidence that better financial value-for-money was likely to be obtained through an encashment of the concession notes with Transurban, than through a transaction with a third party.

¹⁸⁹ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, pp.31–5

¹⁹⁰ *ibid.*, pp.2, 3, 35

2.3.2 M1 Upgrade project

With regard to the M1 Upgrade project, the Auditor-General's report described in a similar manner the salient aspects of the negotiation process involving VicRoads, DTF and Transurban.¹⁹¹ This process involved some distinguishing features from the negotiations pertaining to the TCI project in that:

- the State and Transurban could not agree on the negotiation model developed for the project and, as a result, negotiations centred on the consideration to be paid by Transurban rather than the discount rate to be applied to an agreed redemption profile – the consideration ultimately negotiated with Transurban was \$614.3 million payable over four years which implied a discount rate of 9.27 per cent; and
- a market sounding exercise was not repeated as the market was already aware that the State had entered into an encashment transaction with Transurban for the TCI project and further market soundings would be unlikely to provide additional guidance. However, DTF engaged an advisor to conduct a benchmarking analysis which was based on the previous market sounding exercise. The advisor indicated that the discount rate to be used for the M1 Upgrade project should reflect appropriate cost of equity benchmarks. After consideration of the advisor's input, the State concluded that a discount rate of 9.27 per cent was within the advisor's target range and represented a better outcome than the State independently pursuing the M1 project.

As with the TCI project, the Auditor-General concluded favourably on the ultimate outcome of the negotiation process for the M1 project. The Auditor-General reported that:¹⁹²

The discount rate of 9.27 per cent implicit in the transaction with Transurban to encash its remaining entitlement to the concession notes was based on sound commercial pricing methodology, in particular, in comparison with the discount rate that would be likely to be achieved in a sale of the concession notes to a third party.

The due diligence procedures undertaken by VicRoads were reasonable.

The cost of equity benchmarking analysis considered by the State and reference to the previous market sounding exercise, were appropriate benchmarks upon which to compare the transaction discount rate of 9.27 per cent with the potential discount rate a third party investor may require.

2.3.3 Experience of key individuals undertaking negotiations

For both the TCI and M1 Upgrade projects, the Auditor-General found that DTF and VicRoads engaged suitably qualified personnel to negotiate the encashment transactions with Transurban.¹⁹³

¹⁹¹ ibid., pp.35–9

¹⁹² ibid., pp.2, 3, 39

¹⁹³ ibid., p.39

2.4 Identification and management of risks

The Auditor-General's report under this heading sets out the results of an examination by audit to determine whether the State:¹⁹⁴

- identified the risks relevant to the encashment transactions with Transurban; and
- developed effective strategies to manage the identified risks.

The commentary within the Auditor-General's report indicates that the State, through the actions of DTF and VicRoads and their advisors, identified and addressed:

- the risks of entering into a transaction with Transurban that did not meet value-for-money criteria and the risk that the redemption profile in the M1 negotiation model did not represent a reasonable estimate of the future redemption profile of the concession notes;
- the risks implicit in holding the concession notes for the life of the concession period, including the primary risk of a potential fall in value in the concession notes should redemption be deferred due to issues relating to CityLink's future financial performance – these risks focussed on the adequacy of the ring fencing provisions within the existing arrangements created to provide protection to the State from these possible eventualities; and
- the risks, viewed by the State as significant, to alternatives that involved it upgrading the Monash and West Gate freeways independently of any Transurban upgrade of the Southern Link – risks included the ability of the State to successfully pursue a claim with Transurban to share in 50 per cent of any revenue uplift from improved traffic flows on CityLink as a result of works undertaken by the State.

The Auditor-General concluded from the audit examination of the management of risks that:¹⁹⁵

The State identified major risks relevant to the transactions and employed effective strategies to manage the risks that were identified. However, the State did not conduct a formal, documented risk assessment of the encashment transactions.

In addition, the State identified that there were risks to the State in holding the concession notes. Accordingly, it was concluded there were significant advantages in relation to risk mitigation to the State in encashing its interest in the concession notes, as part of the financing arrangements for the M1 upgrade project.

2.5 Committee's overall comments on buy-back of concession notes

Early encashment of concession notes was an option uniquely connected to the TCI and M1 Upgrade projects because of their structural links to the CityLink toll road system owned and operated by Transurban. In addition, use of the encashment strategy as a funding mechanism for the projects constituted a one-off action with no direct relationship to funding of the Government's other infrastructure projects. Nevertheless, the Auditor-General has reported it was not possible, because of an absence of evidence, to determine if the encashment of concession notes in relation to the TCI project was the most economic funding option.

¹⁹⁴ *ibid.*, pp.39–42

¹⁹⁵ *ibid.*, pp.3, 42

The above finding of the Auditor-General reinforces the importance of the Government ensuring there is always robust evaluation of all available funding options in the planning of infrastructure projects. To its credit, the Government has acted positively on the Auditor-General's finding through significant revisions to its best practice guidance to agencies in 2008.

It was also pleasing for the Committee to find that the Auditor-General's analysis, beyond the State's decision to encash concession notes to fund the TCI and M1 Upgrade projects, led to favourable conclusions on most aspects of the State's management of the process. The Auditor-General found that the process included complex negotiations with Transurban and predominately involved suitably qualified personnel engaged by DTF and VicRoads.

The independent audit analysis undertaken by the Auditor-General identifies that, in complex negotiations with Transurban, the State reached agreement on discount rates implicit in the encashment transactions that were based on commercial pricing methodology.

The Auditor-General's review also shows that benchmarking analyses conducted for the State by an external advisor generated relevant and reliable evidence that better financial value-for-money was likely to be obtained through an encashment of concession notes with Transurban to fund the two freeway projects, rather than through a transaction with a third party.

Finally, while the audit report contained favourable comment on most aspects of the State's identification and management of risks in the lead up to its encashment decision, the Auditor-General pointed out that the State did not conduct a formal, documented risk assessment of the encashment transactions. The Committee believes that proper recognition of risks, including a formal, documented risk assessment process, is a fundamental prerequisite for the management of all projects.

CHAPTER 3: THE TULLAMARINE-CALDER INTERCHANGE PROJECT

3.1 Introduction

Chapter 3 of the Auditor-General's report deals with the delivery of the Tullamarine-Calder Interchange (TCI) project. The Auditor-General's examination of this project focussed principally on VicRoads, the State's major road construction agency responsible for the planning and delivery of the project.

The Auditor-General's report identifies that the TCI project was launched in January 2005 with an expected cost of \$150 million and a scheduled completion date of December 2007. It states that VicRoads described the Interchange in the business case supporting the project as '*one of the worst bottlenecks and accident black spot sites in Victoria*'.¹⁹⁶

The audit report states that the business case identified the three key benefits expected from the project as:¹⁹⁷

- a reduction in congestion and travel time during peak hours by up to ten minutes between the Melbourne central business district and Melbourne Airport;
- improved road safety and fewer casualty crashes; and
- economic benefits of \$508 million.

The expected economic benefits of \$508 million comprised:¹⁹⁸

- \$25 million – vehicle operating costs savings;
- \$460 million – travel time savings; and
- \$23 million – savings from avoided or reduced crashes.

An important feature of the TCI project, as indicated in the audit report, is that it was the first major alliance agreement entered into by VicRoads. The audit report describes project alliancing as a form of cooperative contracting arrangement where:¹⁹⁹

...the owner, designer and constructor are bound by a single agreement. Typically, an 'alliance' organisation is formed between the parties (i.e. the designer, the constructor and the owner) to deliver the project, so that the obligations of delivery are collective between the alliance partners.

The audit report also indicates that a project alliance board is established and consists of representatives from all parties. Once the alliance agreement is in place, all decisions are taken on a 'best for project' basis. The aim with this cooperative arrangement is to avoid the adversarial environment of traditional contract arrangements. Cooperative arrangements are generally considered for projects that are more complex, are fast-tracked, have ill defined risks or many unknowns.²⁰⁰

¹⁹⁶ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, pp.43, 46

¹⁹⁷ *ibid.*, p.46

¹⁹⁸ *ibid.*, p.57

¹⁹⁹ *ibid.*, p.47

²⁰⁰ *ibid.*

During the inquiry, DTF informed the Committee that the business case for the TCI project was prepared and submitted two years before the release of its alliance and better practice guidelines. DTF stated it observed and participated in key aspects of the project including selection of partners and project delivery. It added that much of the experience and learnings of the project were captured in the development of the procedures and good practice standards reflected in its April 2006 *Project Alliancing Practitioners' Guide*.²⁰¹

In the chapter on the State's asset investment program in the Committee's report on the 2006-07 financial and performance outcomes, the Committee advised Parliament it was particularly interested in comments received from the former Department of Infrastructure on the TCI project. These comments identified that the project had advanced ahead of budget due to 'innovative construction scheduling' and a 'groundbreaking construction approach and alliance agreement'.²⁰²

Against the above background, the ambit of the Committee's focus on the TCI project during its inquiry extended beyond actions taken by VicRoads and DTF in response to the Auditor-General's recommendations. It also encompassed:

- the planning and management initiatives applied to the project by VicRoads; and
- the main lessons learnt by VicRoads from its initial experiences with the alliancing approach in terms of capturing improvements for its future operations as well as benefiting other agencies involved with major asset projects.

In addition to these matters, the Committee assessed the action taken by DTF, incorporating feedback from VicRoads, to further strengthen its 2006 *Project Alliancing Practitioners' Guide*.

3.2 Consideration of action taken in response to the Auditor-General's recommendations

The Auditor-General's overall objective for the audit of the TCI project was to assess whether the project has been effectively managed and is delivering the expected benefits to date.²⁰³

In pursuing this objective, the audit assessed:²⁰⁴

- the rigour of analysis of project delivery options within the business case;
- the alignment of the procurement strategy with the business need;
- the extent of compliance with relevant requirements and guidelines over the procurement;
- the effectiveness of project management and governance by VicRoads; and
- the extent to which the State's objectives and the project's expected benefits have been delivered, or can be expected to be delivered.

The Auditor-General presented nine recommendations to Parliament arising from the examination of the TCI project. Eight recommendations were directed to VicRoads and one (dealing with the need to separate the roles of a probity advisor and a probity auditor) was directed to the Department of Treasury and Finance (DTF).

²⁰¹ Mr J Fitzgerald, Deputy Secretary, Commercial Division, Department of Treasury and Finance, letter to the Committee, received 20 April 2009, p.2

²⁰² Public Accounts and Estimates Committee, *Report on the 2006-07 Financial and Performance Outcomes*, May 2008, p.207

²⁰³ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, p.48

²⁰⁴ *ibid.*

3.2.1 Rigour of analysis of project delivery options within the business case

The Auditor-General's report indicates that, after many years of considering concepts to improve the function and traffic flow of the Interchange, VicRoads finalised its business case for the TCI project in November 2004. The business case was reviewed by the former Department of Infrastructure in February 2005 prior to submission to the Government.²⁰⁵

When formulating evaluative criteria for the audit, the Auditor-General recognised that DTF's alliance and better practice guidelines were released some two years after the finalisation of the business case for the TCI project and that the experiences with the project actually informed the development of the alliancing guidelines. As such, in assessing the development of the project's business case, the audit used the released guidance in an objective rather than prescriptive manner to identify consistency rather than compliance with better practice.²⁰⁶

In evaluating the rigour of analysis within the project's business case, the Auditor-General concluded favourably on several points including that:²⁰⁷

- the business need was clearly specified and the expected outcomes of improved traffic flow and reduced crashes addressed the identified project need;
- the identified options were representative of the main viable options to improve the interchange; and
- the costs, benefits and risks associated with the various options were well-documented.

However, the Auditor-General was critical of the business case in two areas in that:

- while key stakeholders were identified, their expectations and needs, and potential impacts were not well-documented, and the need to identify stakeholder expectations and plans to meet them was allocated to the TC1 Alliance after it was formed – the Auditor-General considered it is better practice to conduct this work prior to finalising the business case in order to minimise the cost implications of potential expectations and to avoid exposure to unplanned stakeholder management costs; and
- VicRoads made several changes to the traffic model developed by its consultant to validate the project's expected economic costs and benefits but there was no additional independent validation of revised input assumptions or the mathematical accuracy of the model.

Recommendations of the Auditor-General

The Auditor-General made the following two recommendations based on the above findings:²⁰⁸

Audit recommendation 3.1

So that future business cases align with DTF better practice guidance, VicRoads should conduct the required stakeholder analysis and consultation specified for infrastructure projects.

²⁰⁵ ibid., p.54

²⁰⁶ ibid.

²⁰⁷ ibid., pp.55–7

²⁰⁸ ibid., pp.11, 56–8

Audit recommendation 3.2

Prior to economic estimates being used in business cases put forward for Government decision-making on major roads projects, VicRoads should continue to ensure independent validation to confirm the reasonableness of the assumptions and inputs underlying cost and benefit estimates, as well as the rigour and accuracy of the modelling.

In its responses published in the Auditor-General's report, VicRoads indicated that it accepted both recommendations.²⁰⁹ It identified that future business cases will include stakeholder analysis and appropriate consultation in line with DTF's better practice guidelines. VicRoads also stated in its response that the business case for the TCI project:

...was prepared and submitted in December 2004, 2 years before the DTF better practice guidelines were released. The business case did refer to the extensive review of a number of options developed over many years, and that these reviews clearly took account of impacts on stakeholders likely to be affected by each proposal.

Further, the audit report does acknowledge the significant consultation that had taken place in developing the TCI business case with those critical stakeholders that represented a significant risk to the project. Other more detailed stakeholder expectations would, quite normally, be dealt with during the design development and construction process.

Responses by the Minister for Finance to the two recommendations, as included in a report tabled in Parliament in December 2008, stated that both recommendations have been implemented by VicRoads through amendments to its Scope Cost and Time Control Guidelines. The Minister pointed out that a number of relevant documents of the Department of Transport relating to strategic planning and assessment of project delivery options have now been included in VicRoads' Project Management Toolkit.

The Minister also indicated that the amendment to the Scope Cost and Time Control Guidelines addressing audit recommendation 3.2 applies to major road projects that are greater than \$100 million.²¹⁰ During the inquiry, the Committee asked VicRoads to outline the reasons supporting the use of a threshold of \$100 million. VicRoads advised the Committee that:²¹¹

The nominated \$100 million is typically the lower threshold for major projects that have wider transport network implications.

The impact of lower cost projects (such as outer metropolitan road duplications or road widenings) do not generally have an impact on the surrounding road network. That is, they do not result in significant traffic redistribution on the surrounding network. As such, network transport modelling is not undertaken to assess the benefits of these types of investments. The analysis undertaken is referred to as 'link analysis', which compares the impacts the road investment has on the travel times, road crashes and vehicle operating costs on that particular road section.

Larger projects (generally with a cost greater than \$100 million, such as the M1 and TCI projects), result in a traffic redistribution on the surrounding road network (i.e. road users will be attracted to a vastly improved road corridor from adjacent roads if travel times are improved or made more reliable on a particular

²⁰⁹ ibid., p.11

²¹⁰ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.111

²¹¹ Mr G Liddle, Chief Executive, VicRoads, letter to the Committee, received 23 April 2009, p.4

corridor). It is these changes to travel patterns that require network transport modelling to be undertaken as part of the economic analysis. The outputs of the network modelling is then incorporated into a whole-of-network benefit-cost analysis. It is this output (and the assumptions and inputs made in the transport model) that may benefit from independent validation.

Committee's assessment of action taken in response to recommendations 3.1 and 3.2

The Committee was pleased to see that these two recommendations of the Auditor-General were accepted by VicRoads at the time of the audit and, as more recently advised by the Minister for Finance, have now been implemented.

During its inquiry, the Committee requested VicRoads to elaborate on the changes that had been made to its Scope Cost and Time Control Guidelines. The purpose of such action was to assess the extent to which such changes adequately address the specific issues concerning stakeholder analysis and consultation, and independent validation of assumptions underpinning cost and benefit estimates raised by the Auditor-General.

With regard to audit recommendation 3.1, VicRoads advised that its business case submissions must now address the following matters relating to stakeholder and community management:²¹²

- provide a list of groups or individuals who have a direct interest in, or who are affected by the proposed investment;
- identify the nature of that interest and any communication requirements;
- identify any actions or endorsements required from the stakeholders which may affect scope, timing or proposed costs;
- provide details of any consultation undertaken or proposed (for example, consultation with state or federal government, local councils, developers, residents or businesses affected by the proposal); and
- identify how stakeholder issues will be managed including community consultation, potential commercial or legal issues, communications, public relations, environmental issues, personnel and statutory processes.

In relation to audit recommendation 3.2, VicRoads informed the Committee that its revised guidelines now require, for business case submissions pertaining to significant works, that there is '*...independent validation of the assumptions and inputs underlying cost and benefit estimates and the rigour and accuracy of the modelling.*'²¹³

The Committee considers that the above improvements to VicRoads' business planning process for major projects adequately address the issues raised by the Auditor-General in recommendations 3.1 and 3.2 of the audit report. It will be important that VicRoads ensures that these more stringent requirements are fully adhered to in the development of business cases for future investment proposals.

²¹² ibid., p.3

²¹³ ibid., p.4

Recommendation 9: VicRoads ensure that its expanded provisions relating to stakeholder consultation and independent validation of traffic and financial models are fully complied with in the development of business cases for future major road projects.

3.2.2 Alignment of the procurement strategy with the business need

The Auditor-General's report describes the steps taken during the audit to assess whether the procurement strategy adopted for the TCI project, involving use of an alliance contract, was consistent with the identified business need and followed procurement rules.²¹⁴

As mentioned in an earlier paragraph of this report, DTF informed the Committee during its inquiry that the business case for the TCI project was prepared and submitted two years before the release of revised best practice and alliance guidance.

The Auditor-General found that VicRoads determined during development of the project's business case that an alliance would be its preferred procurement option and had signalled this preference in a briefing note to the Minister on 2 August 2004. VicRoads proposed this strategy given the inherent risks associated with the project, particularly in relation to project timelines, potential traffic disruption and impact on other stakeholders. It also believed an alliance would provide the best opportunity for early delivery of the project.²¹⁵

The CEO of VicRoads commented in the Auditor-General's report that:²¹⁶

The choice of an alliance procurement approach for the TCI upgrade was taken on the basis of an assessment of the exceptional project risks including, inter alia, the upcoming Commonwealth Games and the need for appropriate traffic management arrangements during the games, the large water main that runs under the freeway (and the need to deal with that during very restrictive time windows), and the adjacent airport and toll road.

VicRoads understood that a more traditional procurement methodology would carry more risk than its standard construction delivery methods and most likely lead to a high claims environment. The risk analysis supported some form of relationship contract management rather than the traditional 'hard dollar' contract. The decision was supported by the DTF Gateway Review undertaken at the time.

²¹⁴ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, pp.60–1

²¹⁵ *ibid.*, p.61

²¹⁶ *ibid.*, p.12

The Auditor-General was critical of aspects of the approach followed by VicRoads in determining the chosen procurement strategy for the TCI project in that:²¹⁷

- the audit only observed qualitative commentary in the business case concerning other potential procurement options including a Partnerships Victoria approach and a traditional design and construct contract; and
- while VicRoads prepared an economic evaluation for an alliance contract, there was no evidence of an equivalent evaluation of the other procurement options.

The Auditor-General therefore concluded that:²¹⁸

- it was not possible to compare any of the outcomes of the alliance mechanism with outcomes that may have been achieved through an alternative delivery mechanism; and
- decision-makers could not have been fully informed about the costs, benefits and risks associated with procurement options when considering the business case.

Recommendation of the Auditor-General

The Auditor-General made the following recommendation based on the above findings:²¹⁹

Audit recommendation 3.3

So that future business cases align with DTF better practice guidance, prior to confirming its preferred procurement approach, VicRoads should analyse other procurement options, to allow decision-makers to be sufficiently informed as to their costs, benefits and risk impacts.

In its response published in the Auditor-General's report, VicRoads accepted this recommendation, while acknowledging that the DTF guidelines, against which the audit criteria were assessed, were released after the submission of the TCI business case.²²⁰

As mentioned in an earlier paragraph, VicRoads also stated that the choice of an alliance procurement approach for the TCI upgrade was taken on the basis of an assessment of the exceptional project risks including, inter alia, the upcoming Commonwealth Games and the need for appropriate traffic management arrangements during the games, the large water main that runs under the freeway (and the need to deal with that during very restrictive time windows) and the adjacent airport and toll road. It also explained that that a more traditional procurement methodology would carry more risk than its standard construction delivery methods and most likely lead to a high claims environment. The risk analysis supported some form of relationship contract rather than the traditional 'hard dollar' contract and this decision was supported by the DTF Gateway Review undertaken at the time.

²¹⁷ ibid.

²¹⁸ ibid., p.62

²¹⁹ ibid., pp.11, 62

²²⁰ ibid., p.12

The December 2008 response by the Minister for Finance confirmed that this recommendation has been implemented, with amendments to the Project Scope and Cost Control Guidelines requiring project managers to consider other procurement options prior to confirming a preferred approach. The Minister explained that an internal VicRoads paper titled *Guidelines for Selecting a Delivery Mechanism (Decision Tree)* has been endorsed by project directors and contains resource material which will assist project managers to decide on an appropriate delivery mechanism for future major infrastructure projects.²²¹

Committee's assessment of action taken in response to recommendation 3.3

The Committee is pleased that this recommendation was accepted by VicRoads and has been implemented.

During the inquiry, VicRoads provided some additional information to the Committee which elaborated on the points mentioned in the response by the Minister for Finance. VicRoads advised that the analysis of procurement options culminates in a report on the project delivery strategy which recommends:²²²

The type of procurement method, a break up of the project into separate contracts (and by section, if required) taking into account funding profile constraints, staging and timing requirements, cost and availability of resources, and consideration of delivery risks.

VicRoads went on to say that, where there are a number of feasible delivery options available for a project, an assessment is undertaken on the merits of each option. VicRoads also advised that the Selecting a Delivery Mechanism guideline mentioned in the response of the Minister for Finance has been included in the 'Project, Scope and Cost Control Procedure'.

The Committee is satisfied that the strengthening by VicRoads of its procedures governing the evaluation of potential procurement options leading to the identification of a recommended procurement strategy adequately addresses the issues raised by the Auditor-General. It is also relevant that the comprehensive best practice guidance for the development of business cases within DTF's *Investment Lifecycle Guidelines*, released in July 2008, reinforces the need for all agencies, in preparing a business case, to:²²³

Substantiate the preferred option and show how it meets government and departmental service delivery needs better than other alternatives, taking into account future scenarios and assumptions.

The Committee considers that the combination of VicRoads' strengthened procedures and the onus imposed on agencies under the 2008 best practice guidance to fully substantiate the preferred delivery option should ensure that the practices identified by the Auditor-General with regard to the TCI project are not repeated by VicRoads in its business planning for future major projects.

²²¹ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.112

²²² Mr G Liddle, Chief Executive, VicRoads, letter to the Committee, received 23 April 2009, p.5

²²³ Department of Treasury and Finance, *Investment Lifecycle Guidelines, Business case*, July 2008, p.4

3.2.3 **Extent of compliance of procurement approach with relevant requirements and guidelines**

Under this heading, the Auditor-General's report examined management by VicRoads of the TCI tender. The report addressed issues according to six key probity requirements for commercial engagements set out in policy documents promulgated by the Victorian Government Purchasing Board (VGPB).

The findings of the Auditor-General fall into two categories, namely:²²⁴

- VicRoads appointed a probity auditor but did not appoint a probity advisor although the auditor was nominated as an advisor on two panels for the Request for Proposal (RFP) and some invoices from the auditor referred to 'probity advisor' services – the Auditor-General drew attention to this clouding of the distinction between the two roles and that VGPB's published guidelines do not clearly specify that different practitioners should carry out these roles in major projects; and
- a series of management practices identified under each of the six key probity requirements set out in the VGPB's policy documents.

The management practices reported by the Auditor-General, as summarised below, encompassed:

- an undated probity plan with no evidence it had been approved by an appropriate VicRoads responsible officer;
- deficiencies in the content of the probity report issued by the probity auditor;
- weaknesses in the recording of communications with tenderers;
- an absence of documented evidence for key aspects of the functioning of the evaluation panel such as agenda papers, minutes and potential conflicts of interest;
- a lack of action on an instance of non-compliance by a tenderer with a specific requirement of the RFP;
- an absence of evidence to indicate if a dedicated procedure was developed for ensuring security of information submitted by tenderers;
- a lack of evidence to indicate that a requirement of the probity plan that all team members (including advisors and consultants) sign a confidentiality deed had been met; and
- an absence of a requirement for prospective tenderers to complete a conflict of interest declaration or statement as part of the RFP process.

The Auditor-General commented on the consequential risk to the integrity of the TCI tender process established by VicRoads that could potentially have eventuated in each of the above instances.

²²⁴ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, pp.63–9

Recommendations of the Auditor-General

The Auditor-General made the following three recommendations based on the above findings, with the first dealing with the separate roles of a probity auditor and probity advisor directed at DTF and the remaining two on probity management procedures directed at VicRoads:²²⁵

Audit recommendation 3.4

The VGPB should consider revising and amending its probity advice to:

- *ensure that a probity auditor's role is not confused with the role of a probity advisor in order to maintain clarity of the 2 distinct roles and strengthen accountabilities of the separate functions.*
- *provide sample templates on the acceptable form and content for probity audit reports.*

Audit recommendation 3.5

For future projects worth more than \$10 million, VicRoads should comply with government policy and implement approved probity plans which accord with the VGPB Probity Best Practice Advice.

Audit recommendation 3.6

VicRoads should ensure that future alliance procurement processes address the following procurement issues which were identified in the TCI Alliance project:

- *documenting all changes to core documents (including probity plans) and communicating those changes to tenderers*
- *documenting agendas and minutes of evaluation panel meetings*
- *gaining formal probity sign-off that processes and documents meet agreed criteria (as documented in the probity plan)*
- *implementing a detailed procurement documents security policy so that the movement of documents is recorded and controlled, and commercially sensitive or tender-related information should be stored in secure conditions with access limited to authorised persons*
- *if required in a probity plan, anyone with access to tender-related information should sign a confidentiality agreement, and ensure that only authorised staff with a direct 'need to know' should be privy to tender-related commercially sensitive information*
- *improving existing probity processes to ensure that documents relating to conflicts of interest or confidentiality are accounted for and any issues are included at the commencement of all meetings*
- *ensuring all tenderers are compliant with Request for Proposal (RFP) requirements*
- *requiring EOI and RFP tenderers to declare any known conflicts of interest as part of the bid process.*

²²⁵ *ibid.*, pp.12–14, 69

DTF's response to the first bullet point in audit recommendation 3.4, as published in the Auditor-General's report, indicates that VGPB guidelines allow discretion as to whether separate probity practitioners should be engaged to fulfil different roles, depending on assessment of the complexity and process risks of a project. It stated the current policy is considered industry standard and, therefore, appropriate. DTF added it will ensure that its guidelines relating to probity practitioners remain abreast of industry standards and contain appropriate and detailed guidance.²²⁶

On the second bullet point, DTF stated that:²²⁷

A sample template setting out the suggested form and content of a probity audit report already exists (Probity Template No.2, attached to the VGPB Good Practice Guidelines: Conduct of Commercial Engagements in Government, June 2006).

With regard to audit recommendation 3.5, VicRoads responded in the Auditor-General's report that, while it continues to follow closely VGPB guidance on industry best guidance, it does so on a voluntary basis as that guidance relates to the supply of goods and services, not to the construction industry. VicRoads added that the construction industry is covered by the *Project Development and Construction Management Act 1994* and the probity plan produced for construction by the Building Commission differs only very slightly from the probity plan that VicRoads requires as part of its normal business practices for projects over \$10 million.²²⁸

On audit recommendation 3.6, VicRoads stated, in its response to the Auditor-General's report, that it had accepted all of the matters raised by the Auditor-General.²²⁹ The December 2008 response by the Minister confirmed that the recommendation was in the course of being implemented through amendments to VicRoads' Procurement Toolkit.²³⁰

Committee's assessment of action taken in response to audit recommendations 3.4, 3.5 and 3.6

The Committee previously addressed at some length probity auditor and probity advisor roles in its November 2008 report into the findings and recommendations of the Auditor-General's report into the new ticketing system tender.²³¹ The Committee's consideration of the subject in that report was in response to a view expressed by the Auditor-General that combining the two roles of probity auditor and probity advisor '*confuses the allocation of roles and weakens the perception of independence*'.

The Committee concluded in its earlier report that an arms length separation of probity advisory and audit functions in major tender projects helped ensure Parliament, government and the community as to the integrity and soundness of procurement and tender processes. The Committee recommended DTF amend the policy guidance to preclude combining of the two roles in all major projects in the public sector.

²²⁶ *ibid.*, p.12

²²⁷ *ibid.*

²²⁸ *ibid.*, p.14

²²⁹ *ibid.*

²³⁰ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.113

²³¹ Public Accounts and Estimates Committee, *Review of the Findings and Recommendations of the Auditor-General's Reports tabled July 2006-February 2007*, November 2008, pp.84-5

During its inquiry, the Committee heard from DTF on whether any amendments to VGPB's guidelines on probity audit and advisory roles have been made since the Committee's report on the new ticketing system tender or are planned. DTF reiterated to the Committee its view that the utilisation of separate probity auditor and probate advisory roles in any one project is best left to the discretion of an agency's senior responsible officer. However, DTF also indicated to the Committee that VGPB's procurement governance structures, policy and guidelines were under examination as part of the Government's review of the *Financial Management Act 1994* and that the review will take into account the findings of the Auditor-General's report into transport ticketing tender and the associated recommendation of the Committee. DTF acknowledged to the Committee that the views of the Auditor-General and the Committee advocate, amongst other things, 'a greater focus on the probity of major Victorian government procurement activities.'²³²

The Committee was subsequently pleased to find that the Government advised Parliament in May 2009 that it had accepted the Committee's recommendation to amend the VGPB guidelines to separate the roles of probity advisor and probity auditor for major projects.²³³ The Committee considers such action will reinforce within the guidelines the important distinction between the functions and responsibilities attached to the two roles. It will also provide greater assurance to Parliament and the Government on the integrity of tendering processes established for major projects in the public sector.

Audit recommendation 3.5 points to the desirability of VicRoads complying with government policy and implementing approved probity plans which accord with VGPB's best practice guidance for future projects worth more than \$10 million. As identified in the Auditor-General's report, the probity plan developed by VicRoads for the TCI project was undated and there was no evidence it had been approved by an appropriate responsible officer.

The Committee noted with interest the information presented by VicRoads in its response to this recommendation that it follows closely VGPB guidelines on industry best practice but that these guidelines do not apply directly to the construction industry. As identified by VicRoads, the probity plan developed for the construction industry differs very slightly to that produced by the VGPB.

During the inquiry, VicRoads furnished to the Committee a detailed comparison of the salient features of the probity plan template issued by the Building Commission and that presented in the VGPB guidelines. The Committee had sought this information to establish that the Building Commission's probity plan adequately satisfies the specific accountability obligations of public sector agencies in the management of public funds. VicRoads concluded from this exercise, and the Committee shares its conclusion, that there is no material difference between the two documents.²³⁴

The Committee considers, however, that the substance of the Auditor-General's finding and recommendation was that the approval process for probity plans developed by VicRoads should complement the rigorous requirements for probity plans set out within the VGPB guidelines. The minimum requirements of the guidelines covering fourteen specific areas were summarised in the audit report.²³⁵ The Committee is of the view that culminating this important aspect of the tender process with an undated probity plan and no evidence of official approval is not an outcome consistent with what would be expected following compliance with the VGPB best practice guidance.

²³² Mr J Fitzgerald, Deputy Secretary, Commercial Division, Department of Treasury and Finance, letter to the Committee, received 20 April 2009, p.4

²³³ Victorian Government, *Response to the Recommendations of the Committee on the Review of the Findings and Recommendations of the Auditor-General's reports tabled July 2006-February 2007*, 6 May 2009, p.9

²³⁴ Mr G Liddle, Chief Executive, VicRoads, letter to the Committee, received 23 April 2009, p.6

²³⁵ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, p.64

The Committee considers that VicRoads should ensure that this aspect of the development of probity plans is strengthened for all future projects.

Recommendation 10:

VicRoads should ensure that probity plans established for major projects are dated and formally approved, consistent with the rigour required by the Victorian Government Purchasing Board best practice guidance for the development of such plans.

The Committee was surprised to find that the Auditor-General detected so many management practices by VicRoads involving some key probity aspects of the TCI procurement process. It would have expected a somewhat different outcome given that VicRoads is the State's major public sector road construction body with deep-seated experience in the field.

In the report's Foreword, the Auditor-General referred to the management practices as '*administrative lapses*' but went on to say that they require, from VicRoads, '*a continued focus on robust administrative and procurement systems and processes to increase the probability of successful outcomes for future projects.*'²³⁶

The Committee concurs with these comments. It considers that any one of the issues raised by the Auditor-General had the potential to seriously undermine the integrity of the tendering approach adopted for the TCI project.

The response to this recommendation from the Minister for Finance indicated that procedures set out in VicRoads' Procurement Toolkit will be reviewed to address the issues raised by the Auditor-General. The Committee was therefore particularly interested during the inquiry to seek information from VicRoads on the nature of the changes made to its procurement procedures for major construction projects as well as assurance that its corrective action will satisfactorily resolve the numerous administrative shortcomings reported by the Auditor-General.

The information provided to the Committee by VicRoads during the inquiry indicated that its Procurement Toolkit has been updated in three areas in response to the Auditor-General's recommendations.²³⁷ For example, the Toolkit now requires for alliance projects that agendas and minutes of all evaluation panel meetings are to be documented and ongoing potential conflicts of interest or confidentiality issues must be addressed at the commencement of each evaluation panel meeting. The Toolkit has also been updated to ensure that tenderers for alliance projects are required to declare any known conflicts of interest as part of the bid process. A further amendment to the Toolkit requires that any changes to the probity plan be documented.

In several other areas, VicRoads advised the Committee that the actions recommended by the Auditor-General were already addressed in its probity plan template and that '*No updates to the Procurement Toolkit or other processes are considered necessary.*'²³⁸ The relevant actions recommended by the Auditor-General encompass some important elements of the procurement process including a need for formal probity sign-off that procedures and documents meet agreed criteria, implementing strong security measures governing access, movement and storage of key documents, and ensuring all tenderers comply with RFP requirements. While the Committee accepts the assurance from VicRoads that it is not necessary to amend its documented procedures for these matters, the Auditor-General's findings, which led to the recommendations, identified clear instances of non-compliance with these procedures.

²³⁶ *ibid.*, Foreword, p.v

²³⁷ Mr G Liddle, Chief Executive, VicRoads, letter to the Committee, received 23 April 2009, pp.7–8

²³⁸ *ibid.*

Management practices of the type detected by the Auditor-General, which involve departures from prescribed procedures, magnify the risk of damage to the reputation and credibility of VicRoads as a competent and professional performer in road construction in the public sector. The Committee therefore considers that, based on the audit findings for this aspect of the TCI project, VicRoads should tighten its management of key probity issues during the procurement phase of all future major road projects. It also should reinforce to its staff the importance of ensuring there is always a strong evidential trail that demonstrates total adherence to its documented procurement practices.

Recommendation 11: **Based on its experiences with the Tullamarine-Calder Interchange project, VicRoads ensure there is a robust approach to the management of key probity issues during the procurement phase for future major road projects, supported by clear evidence of full adherence to its documented procedures.**

3.2.4 Effectiveness of project management and governance

Commentary by the Auditor-General under this heading within the audit report centred on the governance and management framework established by VicRoads for the TCI project. The commentary recognised that some non-traditional project governance and management approaches were adopted, given that TCI was an alliance project.

The Committee noted that the Auditor-General identified several positive features of VicRoads' project governance and management practices, such as:²³⁹

- creation of a cooperative relationship with the alliance partners under the TCI alliance leadership and management structure – this structure comprised an Alliance Leadership Team, an Alliance Management Team and a Wider Project Team and, as pointed out by the Auditor-General, was cited as exhibiting some 'exemplar' practices in a 2005 Gateway Review;
- effective monitoring of works with over 300 works improvement notices raised by the alliance team during the course of the project; and
- direct alignment of project progress reports with the key result areas detailed in the alliance agreement.

The Auditor-General also concluded positively on the procedures followed by VicRoads for the monitoring of expenditure against budget and the manner in which this aspect of the project's management was effectively dealt with under the alliance's cost and risk sharing arrangements.²⁴⁰

²³⁹ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, pp.72–3

²⁴⁰ *ibid.*, pp.75–6

At the inquiry's public hearing, the Committee received information from VicRoads on a comparison of actual costs and timelines against established targets for the TCI project. VicRoads advised that:²⁴¹

...the forecast total estimated costs for the project is \$138 million compared to the budget of \$150 million – or it was around \$138 million. In terms of the times on which the project was delivered, the opening of the inbound carriageway was 10 months ahead of schedule. The project was completed five months ahead of the original program.

Given the size and complexity of the TCI alliance project, the Committee considers the above conclusions of the Auditor-General reflected positively on the soundness of the planning and management framework established by VicRoads for the alliance project.

The one critical finding by the Auditor-General in this area was a need for more evidence of management review and approval of project progress reports to provide assurance that management processes were working as expected. In reaching this finding, the Auditor-General considered that there was insufficient evidence of appropriate debate and consideration of the progress reports in the minutes of meetings of the Alliance Leadership Team and the Alliance Management Team.²⁴² It was evident to the Committee that this finding was similar to the absence of evidence found by the Auditor-General at the procurement stage of the TCI project to support decisions of the evaluation panel.

Recommendation of the Auditor-General

The Auditor-General made the following recommendation based on the above finding:²⁴³

Audit recommendation 3.7

VicRoads should develop a corporate governance and project management protocol that specifies minimum standards of documentation of management meetings and the basis of decision-making. This protocol should achieve an appropriate corporate record and audit trail so that an external party would be able to understand the basis of management actions and decisions.

VicRoads responded in the Auditor-General's report that this recommendation has been accepted for alliance projects.²⁴⁴ The December 2008 response by the Minister for Finance indicated the recommendation was in course of implementation, with procedures in VicRoads' Procurement Toolkit under review 'to include a protocol for documenting the basis of decision making at management meetings for future alliances.'²⁴⁵

Committee's assessment of action taken in response to audit recommendation 3.7

During its inquiry, the Committee sought information from VicRoads on the status of the review of procedures in the Procurement Toolkit, as cited in the response by the Minister for Finance, and an explanation of how the changed procedures will specifically address the issue raised by the Auditor-General.

²⁴¹ Mr J Cunningham, Director, M1 Projects, VicRoads, transcript of evidence, 29 April 2009, p.5

²⁴² Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, p.73

²⁴³ *ibid.*, pp.15, 74

²⁴⁴ *ibid.*, p.15

²⁴⁵ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.113

VicRoads informed the Committee that a review of the Procurement Toolkit has been completed and the Toolkit has been updated to include a requirement for the recording of the basis of decisions on issues of a significant nature. VicRoads also indicated that its response to recommendation 3.6 (as mentioned in an earlier paragraph) provides a list of all changes made to the Toolkit.²⁴⁶

The earlier comments of the Committee in relation to recommendation 3.6 and its concluding recommendation under that heading that appropriate corrective action be taken by VicRoads are also applicable to this matter. As with recommendation 3.6, the Committee expects that VicRoads will place greater emphasis across its organisation on the need in future projects for robust evidence to support key decision-making at management meetings and for full compliance with its updated procedures.

3.2.5 Extent to which the State's objectives and the project's expected benefits have been delivered, or can be expected to be delivered

The final section of the Auditor-General's report on the TCI project addressed the project's important post-completion phase. The Auditor-General examined whether:²⁴⁷

- functionality was achieved as per VicRoads' design and quality standards;
- project milestones were achieved and delays investigated and resolved; and
- benefits delivered to date had been tracked.

On the first point, the Auditor-General reported that, while there was evidence that the alliance and VicRoads monitored quality during the construction phase of the project, a formal post-commissioning review had not been conducted at the time of the audit. The Auditor-General considered that such a review would provide a greater level of assurance on whether the Interchange has achieved expected functionality consistent with VicRoads' design and quality standards, and the State has received a quality asset reflecting the value of its investment.

On the second point, the Auditor-General reported favourably on the approach followed under the TCI alliance for the monitoring of performance against milestones and the investigation and resolution of delays. The Auditor-General indicated that key result areas were tracked in detail in monthly progress reports which also monitored progress against construction milestones and actions taken to investigate actions on undue delays.

The commentary by the Auditor-General on the tracking of project benefits identified that the alliance contract for the TCI project contained detailed measures for the evaluation of project benefits on completion.

²⁴⁶ Mr G Liddle, Chief Executive, VicRoads, letter to the Committee, received 23 April 2009, p.9

²⁴⁷ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, pp.76–80

The Auditor-General found that data collected by VicRoads showed that traffic flow and average vehicle speed have improved with:

- the TCI now accommodating 7000 vehicles per hour at peak times compared with a previous maximum flow of 5000 to 5500 at peak times; and
- average vehicle speed during the day now consistently within the 80-100 kph band compared with average speeds of as low as 40 kph prior to construction, and 50 kph during partial operation of the interchange.

The Auditor-General also found that initial results support the business case expectations of reduced traffic crashes (particularly casualty accidents).

The Auditor-General concluded that, while outcomes from the project have been monitored regularly since opening, it was not possible at the time of the audit to directly link results to the forecast projections in the business case. The Auditor-General stated the TCI alliance parties will need to maintain a commitment to long-term monitoring and that VicRoads should proceed to a Gateway 6 Review when reliable data is available in order to compare the project's actual benefits against business case estimates.

Recommendations of the Auditor-General

The Auditor-General made the following two recommendations based on the above findings:²⁴⁸

Audit recommendation 3.8

VicRoads should conduct a formal post-commissioning construction quality review of the Tullamarine-Calder Interchange to provide assurance that:

- *the interchange has achieved expected functionality in accordance with VicRoads' approved design and quality standards.*
- *the State has received a quality asset that reflects the value of its investment.*

Audit recommendation 3.9

VicRoads should:

- *continue to formalise the monitoring exercise to test the accuracy of modelling and expectations about economic benefits arising from the TCI project.*
- *proceed to a 'Gate 6 – Benefits Realisation' Gateway Review once the formal data capture exercise is completed and reliable data available, to compare the project's actual benefits with its business case estimates.*

VicRoads accepted both recommendations and indicated in its response published in the Auditor-General's report that post-construction reviews, including the development of detailed handover reports and maintenance and operations manuals, are part of its normal business practices.²⁴⁹ The December 2008 response by the Minister for Finance to the two

²⁴⁸ *ibid.*, pp.15, 77, 80

²⁴⁹ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, p.15

recommendations indicated that post construction traffic monitoring and post construction noise monitoring have been completed and a Gateway 6 Review will be arranged when all post construction reviews are finalised.²⁵⁰

Committee's assessment of action taken in response to audit recommendations 3.8 and 3.9

During the inquiry, the Committee sought information from VicRoads on the status of all of its post-completion reviews for the TCI project. VicRoads informed the Committee that:²⁵¹

Other than the road safety analysis, all post-completion reviews have been completed. Monitoring has been undertaken on the following:

- *Travel time savings*
- *Traffic usage of the interchange*
- *Traffic usage on the surrounding local and arterial roads*
- *Noise level testing*
- *Road crash analysis - which compares the number of crashes five years pre and post the project completion. As the TCI project was completed in mid 2007, post completion crash analysis is continuing.*

The Committee also requested that VicRoads provide an outline of the nature and significance of the principal findings arising from each completed action. In communicating with the Committee on this matter, VicRoads cross-referenced its response to additional information sought by the Committee in relation to the matters addressed in audit recommendation 3.9 below. That recommendation deals with a comparison of actual performance against all expected benefits from the project.

The Committee has therefore considered the adequacy of action taken by VicRoads since the Auditor-General's report in response to audit recommendation 3.8, as part of its consideration of the status of action taken on audit recommendation 3.9.

Because of the interim nature of the tracking by VicRoads of benefits realised under the TCI project at the time of the Auditor-General's report, the Committee requested information from VicRoads during the inquiry on:

- details of all monitoring actions undertaken to date and a comparison in each case of actual results against expected outcomes;
- a description of the long-term monitoring regime established for the project and the expected frequency of data analysis and reporting over future years; and
- the planned date of commencement of the Gateway 6 Review.

²⁵⁰ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.114

²⁵¹ Mr G Liddle, Chief Executive, VicRoads, letter to the Committee, received 23 April 2009, p.9

In its response to the Committee, VicRoads summarised the key findings from its post completion monitoring actions for the TCI project as:²⁵²

Traffic Volume – TCI

- *A 17 per cent increase in the daily traffic volume through the interchange, with a 25 per cent increase during the AM peak period.*
- *A 25 per cent increase in the number of commercial vehicles through the interchange.*

Traffic Volume – Surrounding Road Network

- *A reduction of up to 25 per cent on adjacent arterial roads during the AM peak period.*
- *A reduction of up to 40 per cent on adjacent local roads during the AM peak period.*

Travel Time Savings

A 20 to 30 per cent travel time saving has been achieved during the peak periods.

Road Safety

A preliminary analysis of the site shows that there have been 18 casualty crashes between August 2007 and December 2008. This represents about a 65% reduction per year in crashes.

In addition, there is anecdotal evidence (including advice from the City Link Incident Response Team) that there has been a significant reduction in the number of crashes since the completion of the project.

It should be noted that the measurement of crash rates needs to be done over a five year period (or more) to provide statistically reliable comparisons.

Noise Levels

Noise monitoring undertaken post completion concluded that the measured noise levels comply with the VicRoads Traffic Noise Reduction Policy.

VicRoads also advised that the ongoing monitoring of the project site will be incorporated into its overall network monitoring program, which is undertaken on an annual basis. This monitoring program collects and analyses traffic performance on freeways and arterial roads in Melbourne and rural Victoria. The outcome of this monitoring is reported in the Austroads National Performance Indicator publication to enable trend comparisons between the states.

VicRoads further advised that it has commenced discussions with the DTF – Gateway Unit regarding the Gateway 6 Review for the TCI project and a review has been scheduled for July 2009.

²⁵² *ibid.*, pp.10–11

The three key benefits set out in the business case for the TCI project, as identified in the Auditor-General's report, are:²⁵³

- a reduction in congestion and travel time during peak hours by up to ten minutes between the Melbourne central business district and Melbourne Airport;
- improved road safety and fewer casualty crashes; and
- economic benefits of \$508 million.

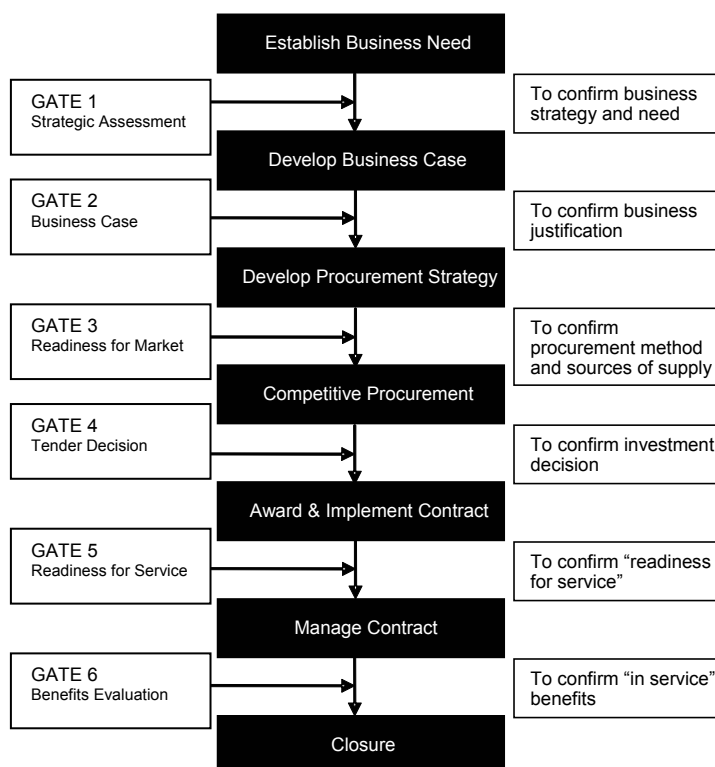
The information submitted to the Committee by VicRoads provides an impressive listing of benefits in terms of traffic volume, travel time savings and road safety that have been identified to date from the TCI project. As pointed out by VicRoads, it will be some time before more robust data on the measurement of casualty crash rates is available.

The Committee recognises that a more complete picture of the effectiveness of the TCI project in achieving the above three key benefits set out in the project's business case will not be available until completion of the planned DTF Gateway 6 Review.

The Gateway Review Process managed by DTF is an important component of the Government's best practice Gateway initiative. This initiative aims to assist agencies in ensuring investments are well spent, meet the Government's strategic objectives and achieve value-for-money outcomes.

The Gateway Review Process involves reviews carried out at the key decision points in a project's lifecycle set out in Figure 4 below:

Figure 4: Key decision points in Gateway Review Process



Source: Department of Treasury and Finance, Gateway Review Process, as set out in the Department's website www.gatewayreview.dtf.vic.gov.au

²⁵³

Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, p.46

As shown in Figure 4, the Gateway 6 Review focuses on the final decision point of a project's lifecycle and addresses the evaluation of benefits.

Given the importance of the Gateway 6 Review Process to the reaching of conclusions on the overall effectiveness of the TCI project, including the extent to which targeted economic benefits of \$508 million have been realised, the Committee is pleased that the review was scheduled to take place in July 2009.

Prior to completion of its report, the Committee was informed by DTF that the Gateway 6 Review had been finalised. The Committee was also advised by VicRoads, through its senior responsible officer for the TCI project, that the review team provided the following summary of the project:²⁵⁴

The Tullamarine-Calder Interchange project provides an outstanding example of a successful project delivery. Noteworthy achievements include:

- *Completed ahead of time*
- *Completed within TOC and budget*
- *Met the primary objectives of reducing congestion and (on early indications) improving road safety in the precinct*
- *Minimised disruption to traffic during construction, in particular, during the critical Commonwealth Games period*
- *Met the expectation of all stakeholders interviewed*
- *Comprehensive and effective stakeholder management.*

The Gateway initiative is principally oriented to meeting the internal needs of managing agencies. DTF guidance on the initiative states that reviews are conducted on a confidential basis for an agency's senior responsible officer.²⁵⁵ This internal focus is an important feature of the Gateway initiative.

The Committee considers, however, that, with major projects such as the TCI project, the results of the Gateway 6 Review, as the final review action in the project lifecycle, should also incorporate an external accountability purpose. As such, the Committee advocates that key findings on the extent of achievement of benefits compared with targets as presented in Gateway 6 Review reports should, at least for major projects, be published by the responsible agency in its annual report following finalisation of the review. DTF could incorporate this requirement within its Gateway best practice initiative for projects with an estimated cost greater than \$100 million.

External reporting along these lines would enhance the transparency of Gateway 6 Review reports. Parliament would be informed on the overall effectiveness of completed major projects, as assessed by the Gateway 6 Review team, and assisted in forming a view on the extent to which the State has achieved value-for-money outcomes consistent with the level of the underlying investments.

Recommendation 12:

The Department of Treasury and Finance widen its best practice Gateway initiative to incorporate, at the Gateway 6 Review stage, a requirement for agencies to publish in annual reports the key findings from the review report on benefits achieved from major projects compared with targets.

²⁵⁴ Mr B Gidley, Executive Director, Major Projects, VicRoads, email received 25 August 2009

²⁵⁵ Department of Treasury and Finance, www.gatewayreview.dtf.vic.gov.au, accessed 17 June 2009

The Committee also considers there would be merit in the Auditor-General undertaking an audit of the contents of the Gateway 6 Review report for the TCI project, as soon as practicable having regard to existing audit commitments, after the report's completion. This extension of the earlier audit would round out the Auditor-General's examination of the project. It would provide Parliament with an independent assessment of the extent to which targeted benefits, including the forecast economic benefits, have been realised following completion of the project.

Recommendation 13: **The Auditor-General conduct, as an extension of the earlier audit, an audit of the findings of the Gateway 6 Review report for the Tullamarine-Calder Interchange project as soon as practicable after the report's completion.**

3.3 Experiences and lessons learnt from the TCI project, Victoria's first major alliance project

As mentioned in the introductory paragraphs of this chapter, the TCI project was the first major alliance agreement entered into by VicRoads. Some of the characteristics of an alliance project were identified in the Auditor-General's report and summarised in the earlier introductory paragraphs of this chapter.

As also pointed out in the earlier introductory paragraphs, DTF informed the Committee during the inquiry that the business case for the TCI project was prepared and submitted two years before the release of alliance and better practice guidelines. DTF stated it observed and participated in key aspects of the project including selection of partners and project delivery. It added that much of the experience and learnings of the project were captured in the development of the procedures and good practice standards reflected in its April 2006 *Project Alliancing Practitioners' Guide*.²⁵⁶

The Committee therefore directed particular attention during the course of its inquiry to the overall experiences of VicRoads, as assessed following completion of the TCI project, and how the main lessons learnt from those experiences had been channelled into enhancing the management of future projects and further strengthening DTF's best practice alliancing guidelines.

VicRoads submitted detailed information to the Committee which addressed the strengths of the TCI alliance, the innovative techniques utilised for the project and the key lessons learnt from its experiences with this initial alliance project. Because of the significance of this information relating to VicRoads' first alliance project and its relevance for future alliance projects in Victoria, the Committee determined to publish, as set out in Table 8, the information in its entirety:

Table 8: TCI project – VicRoads' experiences and main lessons

| Subject | Experience / lesson learnt |
|---------------------------|--|
| Strengths of TCI Alliance | <p>The Alliance involved a partnership between the constructor – Baulderstones Hornibrook; the designer – Parsons Brinkerhoff; and client – VicRoads. Under this arrangement, the client was a partner not an adversary. In this way, potential conflicts gave way to collaboration, with greater levels of shared understanding and alignment of project objectives.</p> <p>The Alliance allowed a more flexible approach to the development and delivery of this project, as compared to a more traditional design and construct contract.</p> |

²⁵⁶ Mr J Fitzgerald, Deputy Secretary, Commercial Division, Department of Treasury and Finance, letter to the Committee, dated 20 April 2009, p.2

| | |
|-----------------------|--|
| | <p>Under the Alliance, the construction and financial risks were owned and shared by all three partners.</p> <p>The project goals were agreed to early, with the Alliance challenged to go beyond business-as-usual to achieve 'game breaking' targets in the eight identified key result areas (safety, quality, cost, schedule, traffic operations, stakeholder relations, environment/aesthetics, legacy).</p> <p>Staff from all three organisations were located in the same office which allowed exposure to each other's role and organisational cultures. This helped drive positive changes and behaviours on the project, to ensure that the shared responsibility for the project was embedded into the wider project team.</p> |
| Innovative Techniques | <p>Alignment – the design developed by the Alliance resulted in 70% of the project being constructed in the 'greenfield' area of Essendon Airport. This significantly reduced the contact with traffic and minimised disruption to the freeway network. The design also separated a number of merging and diverging vehicle movements.</p> |
| | <p>Water Main Diversion – the Alliance partners agreed to relocate a major water main prior to the commencement of the roadworks. This avoided a potential six month delay if the partners had waited until the Alliance agreement was fully implemented.</p> |
| | <p>Capacity for future expansion – the design solutions developed by the Alliance provide scope for future expansion, which can be constructed with a much-reduced impact on the operation of the interchange. This will significantly reduce any future disruption to road users.</p> |
| | <p>Environmental innovations – for the first time in Australia, solar panel cells were installed on noise walls which provides up to 10% of the freeway energy demand. Recycled plastic was used in two kilometres of drainage pipes, in lieu of concrete. This is equivalent to 660,000 plastic milk bottles and a more efficient placement, as a result of the reduced weight. About 99% of waste created was recycled into the final project solution</p> |
| | <p>Off-Site Noise Attenuation – in a first for VicRoads, off-site attenuation was used on individual properties in response to resident preferences. This involved direct home improvements to reduce internal noise impacts. The alternative was to construct high noise walls which would have blocked views from homes.</p> |
| | <p>Air Safety – underground tanks were installed to store stormwater runoff, in place of ground level retarding basins. This avoided attracting additional bird life in the environs of Essendon Airport, thus reducing the risk of bird-strike to flight operations.</p> |
| | <p>Safety Index – the project set new benchmarks for workplace safety above industry standards. A Safety Index was established to track the project's performance, which has since been used by the Office of the Federal Safety Commissioner as an industry case study.</p> |
| Lessons Learnt | <p>Lessons learnt from the TCI project have been documented and shared with other organisations, including the DTF. These lessons have been taken into consideration on the development of alliances subsequent to the TCI project. A summary of the key lessons includes:</p> <ul style="list-style-type: none"> • Provide more detailed information on the project scope to prospective alliance partners during the selection process. • Once an Alliance has been set up, establish a shared office as soon as possible. This will ensure that a 'one team' philosophy is embedded early to allow team building and internal communications to prosper sooner, rather than later. • Administrative systems (such as quality management, document control, IT systems) should be established as soon as possible. • Ensure strong relationships are established as early as possible with stakeholders. |

Source: Mr G Liddle, Chief Executive, VicRoads, letter to Committee, received 23 April 2009, pp.1–2

The Committee was pleased to receive such informative and encouraging material from VicRoads concerning important aspects of its experiences with the TCI project and the lessons learnt from those experiences. It was also pleased to hear from VicRoads during the inquiry that the TCI project had been recognised in several external awards. On this matter, VicRoads advised that:²⁵⁷

The project was awarded the 2008 Alliance Contracting Excellence Award, Excellence in Major Capital Alliances.

The project was a finalist in the Banksia Built Environment Award presented for buildings, development infrastructure, services, technologies and products in the built environment incorporating sustainable development principles and practices.

In 2007, a Commendation Award by the Illuminating Engineering Society of Australia and New Zealand was made to the project for the lighting design.

The Committee also viewed as positive the advice received from VicRoads that it has documented the lessons learnt from the project and shared them with DTF and other organisations. The Committee considers that the experiences, innovations and lessons learnt constitute valuable contributions to furthering improvement in the planning and management of future alliance projects in the Victorian public sector.

The Committee's assessment of the feedback received from VicRoads was confirmed during the inquiry by DTF which advised that it has commenced working closely with VicRoads on its planning for the following three alliancing projects:

- M80 (Upgrade between Airport and Sydney Road);
- Anthony's Cutting; and
- Springvale Road Upgrade.

DTF also indicated that VicRoads has requested DTF's input and critical review of its planning, processes and resourcing of alliancing projects. DTF added that, to the credit of VicRoads, it has sought a 'before and after' assessment by the DTF alliancing team of the VicRoads' capability during the course of those projects. DTF indicated that:²⁵⁸

...it is still too early for DTF to comment authoritatively on the planning, processes and resourcing of VicRoads' three Alliancing projects identified above. However, we note VicRoads' strong appetite for continuous improvement and ongoing attention to the development of their capabilities and skills for managing Alliance contracts.

These comments from DTF on the positive stance adopted by VicRoads to further strengthening its capabilities and skills for managing future alliance contracts are encouraging to the Committee. It looks forward to seeing the evidence of continuing improvement strategies reflected in outcomes achieved by VicRoads from its current and future alliance projects. The results of DTF Gateway Reviews of future alliance projects, and of audits of such projects conducted from time to time by the Auditor-General, are likely to be useful indicators to the Committee of the extent of qualitative progress achieved by VicRoads.

²⁵⁷ Mr G Liddle, Chief Executive, VicRoads, letter to the Committee, received 29 June 2009

²⁵⁸ Mr J Fitzgerald, Deputy Secretary, Commercial Division, Department of Treasury and Finance, letter to the Committee, received 20 April 2009, p.2

The Committee was equally encouraged, from a future improvement perspective, by the news from DTF of its major initiative associated with a review of its best practice alliancing guidelines, the *Project Alliancing Practitioners' Guide*, released in April 2006. The Guide incorporates a value-for-money reporting requirement to facilitate the capturing of lessons on specific projects. DTF informed the Committee it had initiated:²⁵⁹

...an extensive review of the Government's position regarding the delivery of Alliancing projects. This review is being conducted collaboratively with the Treasuries of Western Australia, Queensland and New South Wales.

DTF also stated that the work program for the review includes:

- planning and implementation of a National Alliancing Benchmarking Study titled *In Pursuit of Additional Value* which is expected to be completed in August 2009. The aim of this study is to dimension the incremental value-for-money opportunities offered by project alliancing delivery compared with alternative procurement methods;
- development of a set of common policy principles that each member State would be comfortable to adopt;
- re-development of the current Victorian alliance guidelines (in line with Benchmarking Study insights, lessons learned and new policy principles) into guidelines that each State would be comfortable to adopt; and
- development and recommendation of training programs that support the new policy and guidelines.

DTF pointed out that the study will concentrate on alliancing projects that have been procured within the last five years that are valued over \$100 million. It indicated the study will take a sample from a range of alliances throughout Australia.

The Committee welcomes the above advice provided by DTF of its wide-ranging improvement initiative for alliancing projects. The Committee sees significant value emerging from the various components of the initiative and a strong likelihood that the exercise will culminate in the adoption of well-founded national principles and guidelines on alliancing projects.

The use of the Victorian guidelines as the basis for re-development into potentially national guidelines following completion of the Benchmarking Study reflects positively on the quality of those guidelines that were developed and released by DTF in 2006.

The Committee awaits with interest the publishing by DTF of the results of the Benchmarking Study, scheduled for completion in August 2009, and of the outcomes of the other components of the work program soon after their finalisation. The Committee considers it will be important that DTF ensures that the collective results of the exercise are effectively disseminated through training and other means across relevant Victorian public sector agencies in order to maximise the benefits, in terms of expected improved value-for-money outcomes, in future alliancing projects.

Recommendation 14:

Consistent with its leadership role in a major national improvement initiative, the Department of Treasury and Finance ensure there is effective dissemination through training and other means of the initiative's outcomes across relevant Victorian public sector agencies.

²⁵⁹ *ibid.*, p.3

CHAPTER 4: THE M1 UPGRADE PROJECT

4.1 Introduction

Chapter 4 of the Auditor-General's report relates to the M1 Upgrade project. The objective of the audit was to assess the effectiveness of the planning and procurement processes used by VicRoads to plan and implement the M1 Upgrade project.²⁶⁰

The background commentary in the Auditor-General's report states that the M1 (West Gate-CityLink-Monash) freeway corridor is the State's busiest road, spanning 75 kilometres from Werribee to Narre Warren and carrying more than 160,000 vehicles a day, including 20,000 trucks.²⁶¹

The report indicates the Government announced in May 2006 a major upgrade to the M1 freeway, including strengthening of the West Gate Bridge. The project commenced in early 2007 and is expected to be completed by 2011. Its expected benefits include:²⁶²

- reduction in peak hour travel times;
- improved reliability along the freeway; and
- reduction in crashes by 20 per cent.

The project is being delivered and managed over three geographic sections:²⁶³

- West Gate Freeway (Yarraville to west of the CityLink tunnels);
- Southern Link (CityLink tunnels to east of Glenferrie Road); and
- Monash Freeway (east of Glenferrie Road to the South Gippsland Freeway).

The Auditor-General identified that VicRoads is managing the works on the Monash and West Gate freeways while Transurban is responsible for work on the Southern Link section of CityLink. The Auditor-General pointed out that the estimated cost of the project was \$1.023 billion comprising:²⁶⁴

- \$737 million for upgrade works for the Monash and West Gate freeways;
- \$120 million to strengthen and reinforce the West Gate Bridge; and
- \$166 million for the CityLink 'Southern Link' revamp (funded by Transurban).

The M1 Upgrade project is clearly a significant road project. During its inquiry, the Committee focused on the actions taken by VicRoads and DTF in response to the Auditor-General's recommendations. It also sought from VicRoads information on its experiences to date with the project and how those experiences can be directed to enhancing the planning and management of future projects.

²⁶⁰ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, p.84

²⁶¹ *ibid.*, p.83

²⁶² *ibid.*

²⁶³ *ibid.*, p.84

²⁶⁴ *ibid.*, p.83

4.2 Consideration of action taken in response to the audit recommendations

In assessing the planning and procurement processes used by VicRoads for the M1 Upgrade project, the Auditor-General examined the following three areas:²⁶⁵

- the analysis of options to meet the identified business need and the rigour applied, considering the value of, and the risk associated with, the project;
- the adopted procurement strategy (such as pursuing a project alliance contract) and its consistency with the identified business need; and
- compliance of the procurement approach with relevant requirements and guidelines.

The Auditor-General presented four recommendations to Parliament arising from the examination of the M1 Upgrade project. These recommendations mirrored the wording in equivalent recommendations made for the TCI project. Three recommendations were directed to VicRoads and one (dealing with the roles of a probity advisor and a probity auditor) was directed to the Department of Treasury and Finance (DTF).

4.2.1 *Rigour of analysis of options to meet identified business need*

The Auditor-General's report examined whether VicRoads conducted an analysis of the business need for the M1 project prior to committing to the project. The report also examined the approach taken by VicRoads to the development and analysis of options to meet the identified business need, including the costs and benefits of developed options.²⁶⁶

The Auditor-General's conclusions from this examination were mainly favourable. Based on an analysis of the M1 business case, the audit found:²⁶⁷

- four high-level strategic options and 11 specific design options were developed and analysed in detail;
- costs and benefits were modelled for all options;
- all of the costs and benefits are outcomes of a complex traffic model, not readily understandable to an external reviewer or clearly evidence-based; and
- the net present value of benefits related to the package of options that was accepted by the Government is \$14.462 billion, or equivalent to a benefit-cost ratio of 16 to 1. The audit considered this value to be high compared with similar road-based projects.

The Auditor-General also reported that the M1 business case was a lengthier and more detailed body of work compared with the TCI project's business case and it more clearly aligned to DTF's best practice guidelines in its structure and focus of analysis.²⁶⁸

²⁶⁵ ibid.

²⁶⁶ ibid., pp.88–98

²⁶⁷ ibid., pp.91–2, 96

²⁶⁸ ibid., p.97

The audit analysis in this area concluded with comment on the lack of clarity on how estimates driving the project's economic benefits, as embodied in traffic modelling outputs, such as length of average trips, time savings for average trips and vehicle numbers likely to use the upgraded freeway, were formulated. The Auditor-General recognised that, while this issue applies to all road projects, the M1 business case, like the TCI business case, would have been improved if the source and basis of the assumptions used to develop the project's traffic model were transparently identified.²⁶⁹ The Auditor-General's final pertinent comment was that, in these circumstances:²⁷⁰

...decision-makers were asked to rely on an estimation of economic benefit arising from the project which, in turn, totally relied on traffic modelling outputs, which are inherently uncertain and not transparent.

Recommendation of the Auditor-General

The Auditor-General made the following recommendation based on the above finding:²⁷¹

Audit recommendation 4.1

VicRoads should use independent validation to confirm the reasonableness of the assumptions and inputs underlying cost and benefit estimates, as well as the rigour and accuracy of the modelling. This should occur prior to these economic estimates informing business cases put to the Government for decision.

As the wording for this audit recommendation was very similar to that used in recommendation 3.2 pertaining to the TCI project, VicRoads provided the same response, 'The recommendation is accepted' in the audit report to both recommendations.²⁷² In addition, the response of the Minister for Finance in December 2008 was cross-referenced to the response given for the earlier recommendation.²⁷³

During its inquiry, the Committee sought from VicRoads similar information to that discussed earlier in Chapter 3 relating to recommendation 3.2 for the TCI project, but modified accordingly to reflect the circumstances of the M1 Upgrade project. VicRoads responded to the Committee in the following terms:²⁷⁴

Refer Recommendation 3.2

The development of the M1 Upgrade business case included the development and analysis of a number of options (varying in cost and project benefits). As part of this process, network transport modelling was undertaken to assess the impact of each option.

The initial modelling was undertaken by VicRoads using the Department of Transport's Melbourne Integrated Transport Model (MITM). The outputs of this modelling were then used to develop the benefits of each option.

Veitch Lister Consulting (VLC) was then engaged by VicRoads to validate the model results. VLC used its own transport model, assumptions and inputs to model the various options. The results of the independent validation by VLC were comparable to the VicRoads outputs.

²⁶⁹ *ibid.*, p.98

²⁷⁰ *ibid.*

²⁷¹ *ibid.*, pp.19, 96

²⁷² *ibid.*, pp.11, 19

²⁷³ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.114

²⁷⁴ Mr G Liddle, Chief Executive, VicRoads, letter to the Committee, received 23 April 2009, p.14

The Committee's earlier commentary in Chapter 3 on audit recommendation 3.2 relating to the TCI project welcomed the acceptance by VicRoads of that recommendation. The commentary also identified the revisions that VicRoads had made to its project management guidelines which the Committee viewed as adequately addressing the issues raised by the Auditor-General in that recommendation. The Committee recommended that VicRoads ensures that its more stringent requirements relating to independent validation of traffic models are fully adhered to in the development of business cases for future investment proposals (see the Committee's Recommendation 9 in Chapter 3).

The Committee's earlier commentary in Chapter 3 and its recommendation are equally applicable to the above circumstances relating to the M1 Upgrade project.

4.2.2 Consistency of adopted procurement strategy with the identified business need

Under this heading, the Auditor-General's report assessed whether the procurement strategy adopted for the M1 Upgrade project was consistent with the identified business need and followed relevant procurement rules.²⁷⁵

The Auditor-General pointed out that the M1 project involves a hybrid procurement containing three alliances and two standard design and construct contracts. Two of the alliances, the West Gate Alliance and the Monash Alliance, and the design and construct contracts are managed by VicRoads together with two separate works packages involving development of a Freeway Management System (FMS) and the West Gate Bridge strengthening project (the latter was not subject to examination by the Auditor-General).

The audit report identified that the procurement strategy adopted by VicRoads for the project reflected a management decision to sub-divide the project into distinct sections of works and that this approach, reflecting the differing characteristics of the project's various sections, had been endorsed by a consultant.²⁷⁶

The audit analysis showed that the procurement options for the various sections of the project were generally consistent with the consultant's recommendations and with the characteristics deemed to be appropriate in DTF's guidelines for alliancing and design and construction contracts. The Auditor-General also concluded positively on the clear identification in tender documents for all sections of work of the expectations of VicRoads regarding the objectives of the project, services to be procured and the procurement process.

However, the Auditor-General reported there was insufficient evidence of a comparative analysis of procurement options, particularly the procurement risk, for all but one of the designated work sections. The Auditor-General also found that, if the risks associated with alliance contracting are to be appropriately managed, VicRoads needs to ensure active, ongoing attention to the development of the skills required to manage this method of procurement.²⁷⁷

²⁷⁵ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, p.98

²⁷⁶ *ibid.*, p.100

²⁷⁷ *ibid.*, p.102

Recommendation of the Auditor-General

The Auditor-General made the following recommendation based on the above findings:²⁷⁸

Audit recommendation 4.2

So that future business cases align with DTF better practice guidance, prior to confirming its preferred procurement approach, VicRoads should analyse other procurement options, to allow decision-makers to be sufficiently informed as to their costs, benefits and risk impacts.

In its response published in the audit report, VicRoads accepted this recommendation.²⁷⁹ Because the wording was exactly the same as that used in audit recommendation 3.3 relating to the TCI project, the response by the Minister for Finance in December 2008 was cross-referenced to the earlier recommendation.²⁸⁰

VicRoads subsequently advised the Committee during the inquiry that an analysis of the procurement options was undertaken as part of the M1 Upgrade business case.²⁸¹ VicRoads also referred the Committee to its response to recommendation 3.3 and an overview of its experiences with the project which the Committee requested during the inquiry. Full details of this overview are set out in a later paragraph of this chapter. Relevant to this audit recommendation was the view expressed by VicRoads that:²⁸²

The procurement method for each contract [for the M1 project] was selected to ensure the risks to the State are minimised and to provide the greatest opportunity to deliver value for money to the State.

Notwithstanding this view, it was apparent to the Committee from the findings of the Auditor-General on this subject, that there was insufficient documentary evidence available to the Auditor-General to verify the selection process for procurement options cited by VicRoads.

In its commentary in Chapter 3 (relating to the TCI project) on action taken by VicRoads in response to audit recommendation 3.3, the Committee was satisfied that the strengthening by VicRoads of its procedures governing the evaluation of potential procurement options leading to the identification of a recommended procurement strategy adequately addresses the issues raised by the Auditor-General. The Committee also considered that the comprehensive best practice guidance for the development of business cases within DTF's *Investment Lifecycle Guidelines* released in July 2008 reinforces the need for all agencies to fully assess alternative procurement options when preparing a business case.

The Committee's earlier commentary and conclusion in Chapter 3 on recommendation 3.3 concerning the TCI project are equally applicable to the above circumstances relating to the M1 Upgrade project.

²⁷⁸ *ibid.*, pp.20, 102

²⁷⁹ *ibid.*, p.20

²⁸⁰ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.115

²⁸¹ Mr G Liddle, Chief Executive, VicRoads, letter to the Committee, received 23 April 2009, p.14

²⁸² *ibid.*, p.12

4.2.3 Compliance of the procurement approach with relevant requirements and guidelines

The Auditor-General's analysis initially focused on the West Gate Alliance and Monash Alliance sections of work. The Auditor-General concluded favourably for these two sections that:²⁸³

The procurement was clearly documented and followed, with the execution of each step in the process recorded, reflecting consistency with internal and external procurement requirements and guidelines.

The Auditor-General also identified that VicRoads used the same external probity practitioner to fulfil the roles of probity advisor and auditor for the M1 procurements which gave rise to the same concern in the audit about the confusion regarding these roles that was reported for the TCI project.²⁸⁴

Recommendation of the Auditor-General

The Auditor-General made the following recommendation directed at DTF based on the above probity finding. The wording mirrored that used in the first bullet point of the earlier audit recommendation 3.4 (see Chapter 3) relating to the TCI project:²⁸⁵

Audit recommendation 4.3 (pages 20 and 107 of Auditor-General's report)

The VGPB should consider revising and amending its probity advice to ensure that a probity auditor's role is not confused with the role of a probity advisor in order to maintain clarity of the 2 distinct roles and strengthen accountabilities of the separate functions.

The response by DTF to this recommendation was cross-referenced to its response to the earlier recommendation 3.4.

The Committee's commentary in Chapter 3 of this report in relation to recommendation 3.4 identified that it has previously called for the VGPB policy guidelines to require an arms length separation of probity advisory and audit functions in all major tender projects. The commentary indicated the Committee was pleased to receive advice from the Government in May 2009, in its response to the Committee's earlier report on the new ticketing system, that it had accepted the Committee's recommendation in that report to amend the VGPB guidelines to separate the role of probity advisor and probity auditor for major projects.

As also mentioned in Chapter 3, the Committee considers the Government's flagged action will help to reinforce the important distinction between the functions and responsibilities attached to the two probity roles and lead to greater assurance to Parliament and the Government on the integrity of tendering processes established for major projects in the public sector.

In this final section of the audit report, the Auditor-General found it necessary to reiterate in audit recommendation 4.4 a call, previously made in recommendation 3.5 (see Chapter 3) relating to the TCI project, for VicRoads to comply with government policy in the development and implementation of probity plans. The reiteration of the audit message stemmed from an audit

²⁸³ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, p.106

²⁸⁴ *ibid.*, pp.106–7

²⁸⁵ *ibid.*, pp.20, 107

observation that the probity plan for the design and construct contract for the M1 project covering from Warrigal Road to Jacksons Road did not foresee a need for an external probity auditor.²⁸⁶

This issue was discussed at some length by the Committee in Chapter 3 in the commentary on audit recommendation 3.5. Following that commentary, the Committee recommended (see recommendation 11) that VicRoads should ensure that this aspect of the development of probity plans is strengthened for all future projects.

4.3 Experiences and lessons learnt from the M1 Upgrade project combining alliance and design and construct contracts

As was the case with the TCI project, the Committee directed particular attention during the course of its inquiry to:

- the experiences to date of VicRoads with the M1 Upgrade project; and
- the main lessons learnt from those experiences that can be directed to enhancing the remaining delivery of the project and the management of future projects.

Because of the size and complexity of the M1 project and its high public interest, the Committee determined to publish within its report the entirety of the detailed information presented by VicRoads on its experiences and lessons learnt to date with the project. Table 9 shows the material submitted by VicRoads to the Committee.

Table 9: Overview of VicRoads' experiences and lessons learnt to date with the M1 Upgrade project

| Subject | Experience/Lesson learnt |
|--|---|
| Planning | During the planning for the M1 Upgrade project some of the key risks identified included the delivery of the freeway upgrade under live traffic conditions, management of the contractual obligations between the State and Transurban under the M1 Corridor Redevelopment Deed, developing standards for a unique freeway management system and the coordination with other projects such as the Melbourne Convention Centre. In assessing the planning for the project some of the key processes and activities undertaken that have assisted in mitigating the risks include: |
| Establishing a centralised VicRoads M1 project Directorate and Project Leadership Team (PLT) | With the project being delivered over 75 kilometres and across different functional areas it was appropriate to establish a centralised VicRoads M1 Project Directorate. The Project Directorate has established a series of working groups covering functional areas of traffic management, program coordination and communication management to ensure efficiencies across the entire project can be realised and to have a consistent approach to managing stakeholders. The Project Directorate is also providing the governance structure to manage the M1 Corridor Redevelopment Deed, similar to the role that the Melbourne City Link Authority and South Eastern Integrated Transport Authority performed for the delivery of the CityLink and EastLink projects, respectively. To ensure a more collaborative relationship with Transurban, a PLT consisting of two senior executives from Transurban and VicRoads has been established to coordinate aspects of the project that impact on the interests of the parties. |

²⁸⁶

ibid., p.107

| | |
|--|--|
| Assessing each of the individual work packages and determining the most appropriate procurement method | <p>VicRoads is delivering ten formal contracts across the M1 Upgrade, comprising of five Design and Construct contracts, two alliance contracts, a Construct Only contract, a Design Consultant contract and a Government Information Technology and Communications Framework contract. The procurement method for each contract was selected to ensure the risks to the State are minimised and to provide the greatest opportunity to deliver value for money to the State.</p> <p>The two most complex sections of the upgrade, the design and construction between Warrigal Rd and Glenferrie Rd on the Monash Freeway, and between the CityLink tunnels and the West gate Bridge on the West Gate Freeway are being delivered through alliance contracts. The commercial framework that an alliance provides has delivered significant innovation to the original scope providing a superior freeway configuration than the original concept and a construction methodology that has been able to deliver the works with only marginal increases to travel times along the corridor.</p> <p>The Alliances have also managed the day to day coordination with adjacent projects along the corridor. Through the interaction with the Melbourne Convention Centre Development, it has been concluded that where there is an interface in the delivery of two or more State projects, the government departments involved need to understand the complex contractual arrangements of each agreement. This knowledge and any commitments then need to be passed down to all contracting parties to ensure that the contractual obligations of each party are satisfied.</p> |
| Coordinated Freeway Ramp Signals Pilot Project | <p>The Project Business Case estimated the benefits of the coordinated freeway ramp signals being installed along the corridor to be in the order of \$1.5 billion. At the commencement of the project, the technology for the system was being researched and developed. To ensure that the system would be operational at the completion of the project and deliver the benefits that had been modelled, a \$1 million pilot project of the technology has been implemented on the Monash Freeway.</p> |
| Project Cost | <p>In May 2006 the original project cost for the M1 Upgrade Project, including works on the West Gate and Monash freeways, Southern Link, and the State funded contribution to the West Gate Bridge Strengthening Project was \$1.023 billion. In May 2008 the estimate for the M1 Upgrade was increased to \$1.39 billion. The additional estimate was required for the two complex sections of the project, between Warrigal Road and Glenferrie Road on the Monash Freeway and between the CityLink Tunnels and the West Gate Bridge on the West Gate Freeway. The increased estimate was due to:</p> <ul style="list-style-type: none"> • Construction works being done at night to reduce disruption to motorists; • The provision of additional ramp storage to meet new requirements for ramp signalling and metering, which result in the safer operation of the network; • Significant relocation of underground or overhead utilities and services, including gas and electricity; • Better environmental management to meet new standards; • A 7 per cent nationwide increase in the cost of labour and materials; • Management of the interface with other construction projects including the Melbourne Convention Centre to ensure both projects meet timing commitments. |
| Key Learnings | <p>To assist other projects, VicRoads is developing a Key Lessons Learnt document that will be available for other projects to learn from. Although not complete, the lessons learnt to date have been communicated to the M80 Upgrade project to assist in its implementation.</p> |

Source: Mr G Liddle, Chief Executive, VicRoads, letter to Committee, received 23 April 2009, pp.12–13

As was the case with the TCI project, the Committee was informed by VicRoads of its experiences with the M1 project and some innovative features of its overall approach to the project. The Committee also learnt from VicRoads of the factors contributing to an increase in May 2008 to the project's estimated cost from around \$1 billion to \$1.39 billion.

The Committee was also pleased that VicRoads is developing a Key Lessons Learnt document that will be available to assist management of other projects. As pointed out by VicRoads, lessons learnt to date have been addressed in the implementation of another alliancing project, the M80 Upgrade project.

The Committee commented in Chapter 3 on initiatives taken by VicRoads to learn from its early experiences with alliancing projects from the TCI project in order to enhance its planning and management of future projects. It similarly notes the improvement initiatives introduced to date for the M1 project.

The M1 Upgrade project is expected to be completed by 2011.²⁸⁷ The Committee considers it will be important for VicRoads to ensure that its continuing improvement strategies contribute positively to the attainment of all expected benefits and outcomes established for the project. VicRoads should also publish useful commentary in its annual report on the project's progressive and final outcomes so that Parliament is adequately informed on the overall effectiveness of the organisation's performance in the delivery of the project.

Recommendation 15:

VicRoads ensure Parliament is adequately informed, in the period up to and beyond the completion of the M1 Upgrade project, on the effectiveness of its performance in the achievement of the project's expected benefits and outcomes.

²⁸⁷ Victorian Auditor-General's Office, *Funding and Delivery of Two Freeway Upgrade Projects*, December 2007, p.81

CHAPTER 5: THE STRATEGIC ROLE OF THE DEPARTMENT OF TRANSPORT IN MAJOR INFRASTRUCTURE PROJECTS MANAGED BY VICROADS

5.1 Creation of the Department of Transport in April 2008

In a machinery-of-government change, the former Department of Infrastructure became the Department of Transport (DOT) in April 2008, several months after the Auditor-General's December 2007 report. As such, any departmental involvement in the matters addressed by the Auditor-General in the audit report to Parliament would have been via the former Department of Infrastructure.

During its inquiry, the Committee sought information from DOT to gain an insight into its strategic functions relating to major infrastructure projects managed by VicRoads. The Committee was also interested in any changes to the Department's strategic role in this area that it had introduced following its creation in April 2008.

On its strategic role in the roads and ports portfolio, DOT informed the Committee that it was established to provide a stronger focus on the delivery of transport improvements. It indicated it has the lead responsibility for the strategic planning and delivery of Victoria's essential transport services and major transport infrastructure investments.²⁸⁸ DOT stated that it *'aims to build a safer, fairer and greener transport system for all Victorians – creating a more prosperous and connected community'* and that this role has the following two main components with regard to major infrastructure projects managed by VicRoads:

Firstly, DOT establishes the strategic direction of the transport portfolio, including that for transport agencies such as VicRoads. DOT does this by producing long-term transport plans (such as The Victorian Transport Plan) and short-term corporate plans, and ensuring that transport agencies' corporate and business plans align with the objectives of the transport portfolio.

Secondly, DOT oversees the development of business cases for major transport infrastructure projects, including those managed by VicRoads, through its Project Management Framework (PMF). The PMF framework is integrated with the Department of Treasury and Finance's (DTF) Gateway process. The PMF includes a number of review and endorsement stages that support the decision making process throughout the lifecycle of a project.

DOT further advised that, under changes introduced in mid-2008 following its creation, the strategic direction of the transport portfolio is now a direct responsibility of the DOT Leadership Team, chaired by the Secretary, and including senior DOT executives and the Chief Executive Officer of VicRoads. A collaborative approach is taken to the development of corporate and business plans to achieve better integration and alignment of DOT's strategic objectives and priorities across the transport portfolio.

²⁸⁸ Mr J Betts, Secretary, Department of Transport, letter to the Committee, dated 22 April 2009, p.1

DOT also indicated that coordination of project development and delivery is the responsibility of its newly established Program Management Office (PMO). It stated that the PMO plays a key role in helping to ensure that the forward program of works for the Department has been strategically planned, projects under development have been accurately scoped and costed, and projects approved for implementation are responsibly managed, delivered on time and on budget, and achieve their social and economic goals.²⁸⁹

At the inquiry's public hearing, DOT elaborated on its strategic relationship with VicRoads. After briefly outlining DOT's role in Victoria's transport system, DOT's Secretary advised that:²⁹⁰

...Clearly with that span of responsibilities the department's relationship with VicRoads is critical to its mission. The two organisations exist within the same ministerial portfolio, and VicRoads is the infrastructure provider, not just for private cars but also for road haulage for 90 per cent of public transport services and for bikes, pedestrians and others. The department has a clear policy interest in all of those. Increasingly, in the last 12 months, ...the CEO of VicRoads, and I have tried to move away from a siloed approach towards the planning, building, management and regulation of the transport system and to recognise in our work that we have one transport system in Victoria which performs multiple tasks.

The Secretary of DOT then referred to a recent report by the State Services Authority and went on to say that:²⁹¹

Last Friday [24 April 2009] Minister Pallas published a report by the State Services Authority on VicRoads and its role, and there were a number of conclusions emerging from that, including that henceforth VicRoads should report through the Secretary of the Department of Transport on all matters and that the Department of Transport should strengthen its strategic integrated planning function ...So we are moving in the direction of even greater union between the two organisations, the Department of Transport and VicRoads, and that is reflected in the common frameworks for project development and management, which are mentioned in my department's response to the Committee's questions.

5.2 Review of the governance and operational capability of VicRoads by the State Services Authority

The Committee's examination of the State Services Authority's report, referred to in the above comments of the Secretary of DOT, identified that the report titled Review of the Governance and Operational Capability of VicRoads addressed a wide range of issues relating to VicRoads and the transport policy and planning capabilities of DOT.²⁹² The report contained 35 recommendations across 12 areas, all of which have been directly supported or supported in principle by the Government.

²⁸⁹ *ibid.*

²⁹⁰ Mr J. Betts, Secretary, Department of Transport, transcript of evidence, 29 April 2009, p.2

²⁹¹ *ibid.*

²⁹² State Services Authority, *Review of the Governance and Operational Capability of VicRoads*, 2008

Many of the recommendations of the State Services Authority focus on the importance of a well-structured integrated approach to transport planning in Victoria and on a consequential need for strengthening DOT's responsibility in a number of key areas. Several of the recommendations therefore impact on the ambit of VicRoads' strategic role in transport policy and planning and introduce changes to its governance practices. The report's recommendations include:

- DOT having responsibility for all strategic transport policy functions, other than road safety;
- continuation of the current role of VicRoads as the primary provider of road safety policy advice;
- reallocation of transport planning functions between DOT and VicRoads with DOT to be responsible for all transport network planning activities, including VicRoads' current road network planning functions;
- DOT be required to produce a long-term (20-25 year) transport plan and a medium-term (3-5 year) plan;
- DOT strengthen its internal capabilities in transport planning and improve links between transport policy and operations by
 - undertaking workforce planning to identify key skills requirements and implement strategies to attract and retain suitably qualified transport planners;
 - pursuing options for staff secondments and internal transfers with key transport delivery agencies, such as VicRoads; and
 - encouraging the development of tertiary level training and skills in strategic transport planning.
- VicRoads reporting through the Secretary, DOT on all matters, with VicRoads' funding program and other corporate priority documents developed jointly with DOT and approved by the Secretary;
- VicRoads implement arrangements to ensure, through such measures as staff transfers and secondments, adequate commercial knowledge transfer with special purpose procurement bodies, such as the Southern Eastern Integrated Transport Authority; and
- DOT and VicRoads develop options, such as staff secondments, temporary transfers of project management and delivery teams, project management practitioner forums, technology sharing, provision of training and harmonisation of project management processes, to share project management skills across agencies delivering infrastructure projects.

In the commentary leading to the particular recommendation requiring VicRoads to report to the Secretary, DOT, on all matters, the State Services Authority recognised the importance of VicRoads retaining its operational autonomy and stated:²⁹³

...However, VicRoads would remain a statutory authority to allow the operational autonomy of the Chief Executive [of VicRoads] to be retained, such that day-to-day management decisions for VicRoads would continue to be the responsibility of the Chief Executive. This is important, as the Review found that there are significant benefits in preserving VicRoads' independent legal status [as a statutory authority] and separate employment arrangements.

The State Services Authority also identified a need for DOT to consult with VicRoads in the preparation of road-related policy advice.²⁹⁴

²⁹³ ibid., p.44

The Committee was also interested in the recommendations concerning the sharing of VicRoads' project management skills across agencies delivering infrastructure projects in the public sector. The commentary in the report by the State Services Authority identified that:²⁹⁵

To assist in addressing this issue, there are opportunities for VicRoads' capabilities in this area to be shared more widely across other transport and infrastructure projects within government.

The Committee sees clear benefit in the wider dissemination across the public sector of the project management skills of VicRoads, as recommended by the State Services Authority. It considers that implementation of the various recommended options for achieving this objective would have direct relevance to DTF's continuing improvement strategies for enhancing its project management guidelines. It will be important that DTF closely monitors the implementation of the various strategies followed by VicRoads for the sharing of project management skills across the public sector and incorporates key outcomes within its best practice guidelines.

294 *ibid.*, p.33
295 *ibid.*, p.61

PART C: PRIORITY TWO REPORTS

CHAPTER 1: AGRICULTURAL RESEARCH INVESTMENT, MONITORING AND REVIEW

1.1 Introduction

The Victorian agricultural industry produces goods valued at approximately \$9 billion a year,²⁹⁶ making agriculture very important to the Victorian economy. Agriculture is also a vital part of the economy of regional Victoria, and provides approximately 20 per cent of regional employment.²⁹⁷

As such, the agricultural sector must be innovative to compete in an environment of global competition. In facilitating this objective, the Department of Primary Industries (DPI) is managing and coordinating the agricultural investment strategy, including funding and undertaking research, commercialising new technologies and managing intellectual property. In particular DPI is involved in *‘applied research, developing existing technologies and in ‘strategic research’ areas identified as having the potential for high growth and high public benefit.’*²⁹⁸

The Auditor-General examined DPI’s management of agricultural research investment and focused on how DPI:²⁹⁹

- prioritised its investment in agricultural research activities;
- supported, monitored and reported on research activities and their outcomes; and
- reported on the management and commercialisation of intellectual property.

The Auditor-General found that DPI had undertaken a recent review of agricultural investment and was in the process of implementing the recommendations. The Auditor-General commented that *‘Audit supports DPI’s new approach.’* As a result of this examination, the Auditor-General made ten recommendations. The recommendations focused on the following areas:³⁰⁰

- agricultural research investment;
- performance monitoring, reporting and evaluation; and
- intellectual property and commercialisation.

In response to the audit findings, DPI commented that it welcomed the audit and its findings as a way of strengthening and further developing its new Science Investment Framework (SIF). DPI also stated that many of the recommendations made by the Auditor-General were already planned or being implemented.³⁰¹

As part of this follow-up review, the Committee sought written information from DPI on the implementation of the recommendations made by the Auditor-General. The Committee also sought comments from the Auditor-General regarding the implementation of the recommendations by DPI. Their responses have been included below, where appropriate.

This chapter focuses on the three areas identified by the Auditor-General as requiring improvement and examines whether the ten recommendations made have been implemented.

²⁹⁶ Department of Primary Industries, <http://new.dpi.vic.gov.au/agriculture>, accessed 24 July 2009

²⁹⁷ Victorian Auditor-General’s Office, *Agricultural Research Investment, Monitoring and Review*, February 2008, p.1

²⁹⁸ *ibid.*

²⁹⁹ *ibid.*

³⁰⁰ *ibid.*, pp.5–6

³⁰¹ *ibid.*, pp.6–7

1.2 Agricultural research investment

The Auditor-General noted that for agricultural research investment to be effective and deliver outcomes, there needs to be a sound governance and investment framework in place that guides investment choices. The Auditor-General also commented that setting public research priorities is very complex because there are a wide range of risks and considerations for DPI to take into account.³⁰²

The report identified four key principles the Auditor-General considered should underpin a priority-setting framework for public research.³⁰³

- clarity and transparency in respect of roles, priority setting framework and processes;
- consistency in the application of principles across the framework;
- rigorous processes based on evidence; and
- an alignment between decisions made, the goals of the Department and the whole-of-government goals to ensure the appropriate research is undertaken.

In regards to agricultural research investment, the Auditor-General made four recommendations aimed at:³⁰⁴

- improving DPI's agricultural investment framework to maximise benefits for Victoria;
- increasing flexibility in the annual allocation of funds to allow for investment in emerging priorities;
- developing a strategic plan for agricultural research capability in Victoria and developing strategic partnerships with other research providers; and
- ensuring DPI report on the effectiveness of its new investment approach within two years.

1.2.1 Agricultural investment framework

In 2006, DPI undertook a review of its approach to research investment, with the aim of improving transparency, rigour and evidence for decision making and to better align DPI's research program with the Government's goals. As a result of this review, DPI made a number of changes to its approach to research investment. The review stated that these changes would provide DPI with an international best practice model. The new model was also expected to:³⁰⁵

In the words of the Department, the arrangements realign the Department from a 'contract research organisation' ('third generation research organisation') to a 'knowledge intensive technology organisation' ('fourth generation research organisation').

At the time of audit, the new agricultural investment framework was being implemented by the Department. The Auditor-General found that the changes were likely to provide a sound framework for the future. The Auditor-General commented that the approach should enable a better alignment of goals, increased transparency in decision making processes and more scrutiny of research proposals.³⁰⁶

³⁰² ibid., p.21

³⁰³ ibid., p.22

³⁰⁴ ibid., p.4

³⁰⁵ ibid., p.28

³⁰⁶ ibid., p.32

The Auditor-General found that there were some aspects where the framework could be improved. The Auditor-General made a recommendation suggesting the following aspects of DPIs agricultural investment framework be improved:³⁰⁷

- communicating and clarifying the nature and scope of the investment criteria and the funds allocation method;
- implementing a quantitative approach to prioritising research, based on measures such as undertaking a cost benefit analysis;
- ensuring that key investment principles are able to be implemented, possibly by the use of a formal risk framework;
- clarifying how the elements, approaches and criteria will work as part of the integrated whole;
- embedding a continuous improvement system in the new approach;
- undertaking a more extensive ‘market validation’ of proposed projects and programs; and
- demonstrating how an appropriately high level of farming community input into decision making will be sought and used.

The Department informed the Committee that its Science Investment Framework was implemented in late 2007. The Department reports that it has further expanded the SIF to incorporate all services it provides to both the agricultural and fisheries sector.³⁰⁸

Communicating and clarifying the investment criteria

The Department has in place a four year strategy for the Agricultural and Fisheries Sector. This strategy is reviewed annually and it identifies the Department’s priorities and service objectives for investments in the coming year. It also provides the investment criteria and the Department’s methods for funds allocation.³⁰⁹

In terms of ensuring that the nature and scope of the investment criteria is communicated and clarified, the Department reports that the review method assists with this. As well, the Department engages with external stakeholders to contribute to strategy development and raise awareness of DPI’s priorities and scope via an annual DPI Investment and Evaluation Conference (Investment Conference). External stakeholders include groups such as the Victorian Farmers Federation, Rural Industry Research and Development Corporations, other government departments as well as interstate agencies.³¹⁰

Quantitative approach to prioritising research

In regards to implementing a quantitative approach for prioritising research, the Department has informed the Committee that for each proposed project, a cost benefit analysis is undertaken as well as an assessment of the role of government and an analysis on the return on investment. The Department has commenced to assess a range of analytical tools that will assist them to make decisions and ensure there is a balance in the investment portfolio.³¹¹

³⁰⁷ ibid., p.4

³⁰⁸ Mr R Bolt, Secretary, Department of Primary Industries, letter to the Committee, received 22 July 2009, p.1

³⁰⁹ ibid.

³¹⁰ ibid.

³¹¹ ibid., pp.1–2

The Department, however, pointed out that the quantitative approach alone was not an appropriate method and that it has undertaken an international benchmarking review that also showed that a purely quantitative approach was not in line with best practice.³¹²

The Committee concurs with the Department that a wholly quantitative approach would not be beneficial when prioritising research and that the approval process should consider both qualitative and quantitative information. The introduction of a cost benefit analysis tool by the Department will ensure that DPI assess both qualitative and quantitative information.

Implementing key investment principles

The Department informed the Committee that it has implemented the key investment principles by including them in project proposals at the development phase. Projects must address the key investment criteria and principles. These are reviewed by senior departmental committees and at the Investment Conference chaired by the Secretary and includes external stakeholders.³¹³

In terms of developing a risk management framework, and consideration and removal of possible barriers, DPI reported that risk management plans are developed as part of a project framework and that the project risk framework considers technical risk, capability risks, risks of beneficiaries not co-investing and delivery and commercialisation risks. The Committee considers that while it is very important for projects to have a documented risk management plan, the Auditor-General's recommendation was aimed at DPI ensuring that there was a risk management framework and plan for the agricultural investment framework which would consider risks at a higher level across the framework.

| | |
|---------------------------|--|
| Recommendation 18: | The Department of Primary Industries undertake a formal risk assessment for the agricultural research investment framework as a whole to ensure that it identifies possible risks and barriers to achieving its new directions and can appropriately mitigate those risks and barriers. |
|---------------------------|--|

Clarification of the elements, approaches and criteria

To ensure that the elements, approaches and criteria work together to make part of the integrated whole, DPI report that this is done via their four year strategy (which forms part of the SIF), which defines the outcomes, objectives and actions. As discussed above, when projects are discussed for possible funding at the Investment Conference, projects are assessed against the four year strategy. The Department is also producing an evaluation framework, which will include an annual revision of the four year strategy.

Continuous improvement

The Department informed the Committee that it is in the process of bedding down an evaluation framework. This will include a formalised approach to reviewing all elements of the investment and delivery cycle as well as reviewing the SIF.

³¹² ibid., p.2
³¹³ ibid.

Market validation

The Department has put in place a market validation process, which involves consultation with external stakeholders and collaborators/competitors. Representatives from Research and Development bodies, the Victorian Farmers Federation, Rural Industry bodies and government departments participate in developing strategy, programs and conferences.

Farming community input

To ensure that there is a high level of farming community input into decision making, the Department stated that it involved a number of bodies, such as the Victorian Farmers Federation and the Rural Industry Body. The Department has also established a new State Advisory Committee which involves farming stakeholders.

1.2.2 Increased flexibility in funding

The Auditor-General identified that one of the deficiencies with the new framework was that it lacked flexibility in being able to allocate funds. At the time of audit, funds were allocated to specific research streams and projects competed for funding within that stream. The Department's ability to move funding to different streams was limited. The Auditor-General commented that this arrangement:³¹⁴

...impairs the ability of DPI to move rapidly to exploit new research opportunities and to respond to changing priorities. It also means there is a risk that low-potential research projects in one stream will be selected over substantially higher potential projects in another.

The Department informed the Committee that its new SIF has a four year and 20 year strategy which lays out the short, medium and long term trends for the agriculture and fisheries sectors as well as DPI's priority outcomes, objectives and action areas for research. With this new framework, research divisions can shift funding allocations to address priority areas, providing it fits with the overall strategy or support any new government priorities that may arise.³¹⁵

In addition, DPI informed the Committee that the four year strategy has put in place a new program, *Exploratory Studies and Capability*, which provides seed funding to respond to new and emerging research areas. Similarly to other programs, this funding is approved annually at the Investment Conference. The Department reported that these new measures have had the following positive impacts:³¹⁶

- provided a higher level of transparency and scrutiny for funds allocation on short, medium and long term priorities;
- increased the engagement of stakeholders; and
- given the Department the ability to identify emerging and changing research areas.

³¹⁴ Victorian Auditor-General's Office, *Agricultural Research Investment, Monitoring and Review*, February 2008, p.32

³¹⁵ Mr R Bolt, Secretary, Department of Primary Industries, letter to the Committee, received 22 July 2009, pp.4–5

³¹⁶ *ibid.*, p.5

Strategic planning for agricultural research capability

The Auditor-General found that research capability planning was a new area and there was little guidance or better practice available. There was no strategic plan in place to drive agricultural research capability in the longer term. The Auditor-General commented that having such a plan in place would complement the Department's four-year strategy.³¹⁷

The Auditor-General recommended that the Department develop a strategic plan for agricultural research capability in the State as well as develop deeper and more extensive strategic partnerships with other research providers.³¹⁸

In its response in the Minister for Finance's report, the Department agreed in principle to this recommendation.³¹⁹ On further questioning by the Committee, DPI explained that it cannot implement this recommendation solely, as it is dependent upon the implementation of a national framework in which Victoria participates, which is being driven by the Primary Industry Ministerial Council.³²⁰

As discussed above, while DPI is not leading the development of a national plan, the Department has informed the Committee that it is a major contributor to establishing a National Primary Industries Research Development and Evaluation (RD&E) Framework. The Framework:³²¹

...is a national approach to establishing an efficient and effective research capability to address RD&E needs and priorities for primary industries. The Framework is working in partnership with all State and Commonwealth agricultural research agencies, university sector and the Rural Research and Development Corporations for all agricultural industry sectors.

There will be a National RD&E Strategy for each primary industry sector (for example, dairy and grains). Each strategy will contain a national agricultural research capability strategic plan, which will identify what research is required to be undertaken by the sector at a national level. While DPI is working on the development of all strategies on behalf of Victoria, it is leading the development of the dairy and animal welfare strategies. These strategies are still under development, and will present a significant body of work for DPI in 2009-10.³²²

In regards to developing deeper and more extensive relationships with other research providers, the Department informed the Committee that since the Auditor-General's report, it has been developing formal partnership agreements with other research institutions. In particular, DPI has put in place partnership agreements with LaTrobe University, South Australia Research and Development Institute, DOW Agrisciences and the Australian Commonwealth Scientific and Research Organisation (CSIRO).³²³

³¹⁷ Victorian Auditor-General's Office, *Agricultural Research Investment, Monitoring and Review*, February 2008, p.33

³¹⁸ *ibid.*, p.36

³¹⁹ Department of Treasury and Finance, *Response by the Minister for Finance to the Auditor-General's Reports issued during 2007-08*, December 2008, p.88

³²⁰ Mr R Bolt, Secretary, Department of Primary Industries, letter to the Committee, received 22 July 2009, p.7

³²¹ *ibid.*, p.6

³²² *ibid.*, p.6

³²³ *ibid.*, p.7

1.2.3 Effectiveness of the new investment approach

The Auditor-General found that with the implementation of a new framework, there had been a large number of changes made to the agricultural investment framework in the past few years. With the implementation of the recommendations made by the Auditor-General, more change has occurred. The Auditor-General therefore recommended that the Department review the effectiveness of its new investment framework within two years.³²⁴

The Auditor-General stated in a letter to the Committee that as 18 months had passed since the audit, it should be expected that the Department has made substantial progress in collecting data that can demonstrate the impact of the new approaches on agricultural research investment.³²⁵

In its response to the Committee, DPI stated that there have been a number of ongoing reviews of the new investment framework and approach undertaken. The Department believes that the success of its approach is demonstrated in the widening of the Framework to include policy, regulation compliance and RD&E.³²⁶

The Department has also informed the Committee that it has completed an internal review following the first 16 months of operation of the Framework. The Department was in the process of undertaking a review following the completion of the second year, in line with the recommendation made by the Auditor-General. In line with the comments of the Auditor-General, the Committee also anticipates that DPI makes substantial progress in ensuring that the positive impact of its new approaches towards agricultural research investment can be demonstrated.

The Framework, along with the policy and regulation activities is scheduled to be reviewed at the end of 2010. The Department indicated that this review may be an external review. The Committee considers that an external review at the end of 2010 would be most beneficial and would offer DPI a more impartial level of scrutiny.

Recommendation 19: **The Department of Primary Industries undertakes an appropriate external review of its Agricultural Investment Framework at the end of 2010.**

1.2.4 Conclusion

The Committee considers that overall, the Department has acted positively in implementing the Auditor-General's recommendations. A number of improvements to the agricultural investment framework have already been made, and DPI is continuing work on ensuring that there are strong links with research organisations and a nation wide RD&E framework.

There is scope, however for DPI to undertake a formal risk assessment for the agricultural investment framework. The Committee also considers that an external review of the agricultural research investment framework would be beneficial.

³²⁴ Victorian Auditor-General's Office, *Agricultural Research Investment, Monitoring and Review*, February 2008, p.36
³²⁵ Mr D Pearson, Auditor-General, Victorian Auditor-General's Office, letter to the Committee, received 15 July 2009, p.6
³²⁶ Mr R Bolt, Secretary, Department of Primary Industries, letter to the Committee, received 22 July 2009, pp.7–8

1.3 Performance monitoring, reporting and evaluation

The Auditor-General noted that performance monitoring, reporting and evaluation is critical for organisations as it ensures that the organisation is able to:³²⁷

- demonstrate what it has achieved, against their objectives;
- report on and measure efficiency and effectiveness;
- ensure that there is continuous improvement; and
- evaluate programs and services and develop ways forward based on this.

The Auditor-General found that some of the Department's processes were in line with better practice, particularly program logic models were well established and used. However, the Auditor-General concluded that DPI needed to strengthen its monitoring, reporting and evaluation processes for agricultural research to provide stakeholders including the community and Parliament with an appropriate level of assurance to show that the programs are meeting the outcomes of the Department and the Government.

In regards to performance monitoring, reporting and evaluation, the Auditor-General recommended that DPI:³²⁸

- strengthen its performance monitoring and evaluation framework to ensure that the achievement of goals is able to be demonstrated;
- review its performance reporting system to ensure that achievements are able to be measured and make reporting processes more transparent;
- develop a standard framework for reporting that will minimise duplication in reporting to multiple stakeholders and reduce the internal workload on staff; and
- advance the business case for a single system and enquire into alternative systems in other jurisdictions.

1.3.1 Strengthening performance monitoring and evaluation

The Auditor-General found that the performance monitoring and evaluation framework DPI has in place meets some better practice principles. However, to strengthen the existing framework, the Auditor-General recommended that DPI's framework should do the following:³²⁹

- measure the contribution of research to government goals, the Department's outcomes, value-for-money achieved and return on investment;
- evaluate how research funding was allocated;
- examine the adherence to the Department's investment principles;
- assist to inform future priorities; and
- provide a consistent evaluation method across all programs and institutions to measure and compare results.

³²⁷ Victorian Auditor-General's Office, *Agricultural Research Investment, Monitoring and Review*, February 2008, p.37

³²⁸ *ibid.*, p.5

³²⁹ *ibid.*, p.52

The Department informed the Committee that it has developed an evaluation framework and was in the process of implementing it. The framework will measure and evaluate performance at the project, key project and aggregate level. Other measures in place to strengthen the performance monitoring and evaluation framework include:³³⁰

- each project providing evidence in regards to how it is contributing to the outcomes. The results are provided to the Department's Secretary and external stakeholders;
- having criteria used for project development and selection that allows the Department to evaluate how the funding was allocated. A portfolio balance assessment study of research is also being undertaken to improve DPI's evaluation framework;
- documenting and assessing how each project meets the investment criteria and that it has a formal evaluation plan to meet the objectives of the Department's evaluation framework;
- providing key principles that need to be considered and examined when conducting evaluations; and
- ensuring the evaluation criteria includes a mix of both comparable criteria and results, such as return on investment and uptake by next users and end users.

1.3.2 Reviewing the performance reporting system

The Auditor-General identified that there are a number of levels at which performance data is collected in DPI. This data includes information relating to the Department's key results areas, research, key project data and administrative data. At the time of audit, there were data quality standards that were linked to sub-project and key project specifications.³³¹

The Auditor-General concluded that this does not provide consistency in data gathering or reporting across the Department or between sub-projects or in key projects. This meant that DPI and other stakeholders could not determine the benefits derived from project. The Auditor-General recommended that the Department:³³²

Review its performance reporting system to enable the assessment of the contribution of research activity to the achievement of DPI and government priorities to be reliably measured, and to increase the transparency of reporting on research activity to stakeholders. DPI's performance reporting system should:

- *provide Key Project level and aggregated data*
- *align project-level indicators and DPI indicators*
- *address identified reporting gaps, including programs discontinued and capability areas discontinued or merged.*

In commenting to the Committee on this recommendation, the Auditor-General stated that he expected the Department to have implemented its new evaluation and reporting system.³³³

³³⁰ Mr R Bolt, Secretary, Department of Primary Industries, letter to the Committee, received 22 July 2009, pp.8–10
³³¹ Victorian Auditor-General's Office, *Agricultural Research Investment, Monitoring and Review*, February 2008, p.49
³³² *ibid.*, p.52
³³³ Mr D Pearson, Auditor-General, Victorian Auditor-General's Office, letter to the Committee, received 15 July 2009, p.7

In response to questions from the Committee regarding the implementation of this recommendation, DPI reported that it is currently in the process of developing a departmental performance reporting system during 2009. Further, the Department reports that it has developed key performance indicators (KPIs) for the *Future Farming Strategy* already this year, and these will be used to assess how the strategic objectives are being met.³³⁴

The Department is still developing KPIs to assess the intermediate objectives. These KPIs will be incorporated into the four year strategy and the Department believes that this will provide the basis for aggregating and aligning project data with DPI and government objectives and priorities.³³⁵

While the Department has not yet implemented its new evaluation and reporting system, the Committee considers that DPI are making good progress towards implementing a comprehensive system in 2009.

1.3.3 Development of a standard reporting framework

The Department has a large number of reporting requirements. Along with the complexity in the amount of indicators DPI needs to report against, the Auditor-General also identified that there were problems with the current reporting arrangements in place. Specifically, the Auditor-General found that the large number of reporting requirements had different formats, therefore it placed a large administrative burden on staff. As well, a large number of sub-projects being undertaken at any one time and their multi-partner collaborations add to the reporting burden.³³⁶

The Auditor-General concluded while there were a large number of reports produced, these did not actually provide an overall snapshot of research activities, trends or developments in research activity over time. Gaps considered more significant by the Auditor-General included:³³⁷

- funding sources were not all recorded in the one place;
- explanations regarding prioritisation of funds were not evident;
- complete lists of research funded or concluded were not produced; and
- where programs were merged or discontinued, these were no longer reported on.

To improve reporting, the Auditor-General recommended that the Department develops a standard reporting framework that will minimise duplication of reporting at the key-project and sub-project level, reduce the administrative burden associated with producing multiple reports and speed up the availability of timely and accurate data.³³⁸

The Auditor-General, in a letter to the Committee, stated that the new reporting framework should be developed to incorporate the external reporting requirements of the Department to minimise duplication.

In response to this recommendation, the Department informed the Committee that it has implemented a new Planning and Reporting Policy, which includes an annual reporting cycle that links with the SIF. The Department also informed the Committee that it is keeping information on project milestones and final reports on a centralised contract management database.³³⁹

³³⁴ Mr R Bolt, Secretary, Department of Primary Industries, letter to the Committee, received 22 July 2009, p.11

³³⁵ *ibid.*

³³⁶ Victorian Auditor-General's Office, *Agricultural Research Investment, Monitoring and Review*, February 2008, p.49

³³⁷ *ibid.*, p.50

³³⁸ *ibid.*, p.52

³³⁹ Mr R Bolt, Secretary, Department of Primary Industries, letter to the Committee, received 22 July 2009, p.12

The Department reports that using this system has reduced duplication across systems, which has reduced the need for producing multiple reports. As well, DPI reports that it has improved the alignment of the financial management and project management databases which has provided more timely and consistent data, however that work on this project is continuing.³⁴⁰

1.3.4 Advancing the case for a single system

The Auditor-General found that there were a number of systems being used to collect information on agricultural research investment. As noted above, this situation led to duplication of data in systems and effort. The Auditor-General found that the Queensland Department of Primary Industries and Fisheries had implemented a system called ‘Clarity’, which was used to record all program information. At the time of audit, the New South Wales Department of Primary Industries had also implemented this system.³⁴¹

The Auditor-General recommended that the Department advance the business case for one single system and investigate systems used in other jurisdictions. The Auditor-General concluded that this consolidation of systems had the potential to increase transparency of reporting and the potential to leverage lessons learnt across DPI.³⁴²

The Department has informed the Committee that this issue is being addressed during 2009-10 by the Portfolio and Project Management project, undertaken by the Department’s Corporate Services Group. The Committee considers that the Department has made some progress in ensuring that issues regarding a single IT system are being investigated.

The Committee considers that while having the Corporate Services Group undertaking the review adds a level of independence to the process, it will be important that staff involved in administering the agricultural research program are also part of the review to ensure that there is a good understanding of the specifications and practicalities of any system recommended for implementation.

To ensure that the Auditor-General’s recommendation is fully implemented, the Committee consider that it is important this review investigate the IT systems used in other jurisdictions.

Recommendation 20:

The Department of Primary Industries ensure that staff involved in administering the agricultural research program are part of the Portfolio and Project Management project being undertaken by the Corporate Services Group.

Recommendation 21:

The Department of Primary Industries ensure that its investigation of IT systems for the agricultural research program considers the systems currently being used in other jurisdictions.

³⁴⁰ *ibid.*, pp.12–13

³⁴¹ Victorian Auditor-General’s Office, *Agricultural Research Investment, Monitoring and Review*, February 2008, p.50

³⁴² *ibid.*, p.52

1.3.5 Conclusion

Overall, the Committee found that the Department is in the process of, or has completed a number of measures to improve its performance monitoring, reporting and evaluation framework for agricultural research investment. The Department has already strengthened its performance reporting framework and put in place evaluation criteria for projects to produce comparable results. As well, DPI has a new performance reporting system, however KPIs for this are still under development. The Committee considers that the new reporting framework will reduce duplication and reporting done by the Department for stakeholders, in line with the Auditor-General's recommendation.

The Committee also notes that the Department is still in the process of investigating a new IT system and has recommended that DPI ensure staff involved in administering the agricultural research program are part of this review and that the review examines systems currently being used in other jurisdictions.

1.4 Intellectual Property and Commercialisation

The Department funds research activities primarily to provide benefit to the public and generating revenue via commercialisation is not a key priority. However, the Auditor-General noted that:³⁴³

An important component of a publicly funded agricultural research program is ensuring that research and development findings, ideas and technology are appropriately used and commercialised. This allows intellectual property to be protected for the community's interest, adding value and contributing to a sustainable and competitive agricultural sector and viable regional and rural communities

In examining how well DPI was managing intellectual property and commercialisation, the Auditor-General undertook an analysis of international trends and practices as well as reviewing available documentation, talking with staff and seeking advice from experts.³⁴⁴

The Auditor-General concluded that the Department's management of intellectual property and commercialisation has been 'competent' and that DPI has in place the appropriate policies, procedures and controls. However, the Auditor-General identified improvements and made two recommendations, that DPI:³⁴⁵

- communicate more fully to Parliament and the community the economic, social and environmental benefits of the research and commercialisation associated with agricultural research investment; and
- have a continuous improvement process and demonstrate the nature and impact of innovation in the way DPI manages and commercialises intellectual property. DPI should establish a high-level group to oversee, manage and commercialise intellectual property.

³⁴³ ibid., p.54

³⁴⁴ ibid., p.55

³⁴⁵ ibid., p.56

1.4.1 Benefits of research and commercialisation

The Auditor-General found that the Department's research and development program provides benefits through the sharing of non-commercialised research, which were reported to have significant social and economic benefit for the community. However, current arrangements do not allow for these benefits to be reported or identified.³⁴⁶

Therefore, the audit concluded that there were opportunities for the Department to have a more thorough set of measures that encapsulate the economic, social and environmental benefits of agricultural research investment in regards to both commercialised and non-commercialised research.³⁴⁷

The Department has informed the Committee that its newly developed Evaluation, Monitoring and Reporting Framework has an objective regarding evaluating the '*short, medium and long term economic, social and environmental benefits*'. The Department also noted that while it has methodologies to assess the economic impact, generally it is acknowledged that quantifying social and economic benefits is more difficult and DPI are continuing to work on this area.³⁴⁸

The Committee acknowledges that DPI is working to ensure that the economic, social and environmental benefits of agricultural research are quantified. However, the Department did not inform the Committee as to how it intends to share this information. The Committee considers that it is important the Department ensure that Parliament and the community better understand the benefits derived from research and investment activities. The Committee considers an appropriate method for this is through the DPI annual report.

Recommendation 22:

The Department of Primary Industries include in its annual report information on the economic, social and environmental benefits of commercialised and non-commercialised agricultural research investment in Victoria.

1.4.2 Continuous improvement in commercialisation

The Auditor-General found that DPI investigates both nationally and internationally how other organisations manage and commercialise intellectual property. The Auditor-General recommended that the Department could produce an annual overview of innovation and the way it commercialises intellectual property.³⁴⁹

As well, the Auditor-General found improvements could be made to the administration and governance of the Department's commercialisation and intellectual property. The Auditor-General recommended that DPI:³⁵⁰

- embed a continuous improvement approach and show the nature and impact of innovation in how the Department commercialises intellectual property; and
- establish a high-level group that comprises senior staff within the Department as well as external members to review intellectual property and commercialisation activities and processes.

³⁴⁶ *ibid.*, p.55

³⁴⁷ *ibid.*

³⁴⁸ Mr R Bolt, Secretary, Department of Primary Industries, letter to the Committee, received 22 July 2009, p.13

³⁴⁹ Victorian Auditor-General's Office, *Agricultural Research Investment, Monitoring and Review*, February 2008, p.55

³⁵⁰ *ibid.*, p.56

The Department has a commercial entity, Agriculture Victoria Services Proprietary Limited (AVS), through which it commercialises intellectual property. Overseeing AVS is a Board of Directors, including external experts that oversee management and commercialisation practices.³⁵¹

To better consider new commercialisation approaches, the Department reports it has engaged both internal and external experts to undertake a review. This review is examining the commercialisation strategy of AVS and its strategic relationship with the Department's intellectual property generation from research. The review is expected to be completed at the end of 2009.

1.4.3 Conclusion

With regards to intellectual property and commercialisation, the Committee considers that the Department has made progress in implementing the recommendations of the Auditor-General. While the Department has been able to measure the economic impact to communicate this to stakeholders, it is still working towards quantifying the social and environmental impacts. The Committee acknowledges that these indicators are more difficult to quantify.

The Committee considers that DPI could report more fully, via its annual report on the benefits derived from commercialised and non-commercialised research investment activities in Victoria.

The Committee notes that DPI has in place a high level group to oversee innovation and commercialisation practices within AVS. The Department is currently undertaking a review of its commercial entity AVS, with a view to examining the commercialisation strategy and strategic relationships.

³⁵¹ Mr R Bolt, Secretary, Department of Primary Industries, letter to the Committee, received 22 July 2009, p.14

CHAPTER 2: PROGRAM FOR STUDENTS WITH DISABILITIES: PROGRAM ACCOUNTABILITY

2.1 Introduction

The Program for Students with Disabilities (PSD) is administered by the Department of Education and Early Childhood Development (DEECD). Funds are allocated to assist in meeting the needs of students with disabilities attending either special schools or 'mainstream' Victorian government schools.³⁵²

In February 2008, there were almost 18,000 students receiving individual support through the PSD. Approximately 55 per cent attended a mainstream school and 45 per cent attended special schools.³⁵³ Students receiving support through the PSD make up approximately 3 per cent of the total student population. The Department reported that in 2008-09, the investment made in providing services to students with disabilities totalled \$428 million.³⁵⁴ Funding for individual students has grown from under 1 per cent in 1993 to over 3 per cent of government school children.³⁵⁵

The objective of the audit was to examine the extent to which the accountability framework in place for the PSD has clear measures for performance as well as appropriate levels of accountability. The audit examined two key areas:³⁵⁶

- whether DEECD has an accountability framework in place for the PSD with clear measures of performance as well as appropriate levels of accountability; and
- whether DEECD is working towards further improving the accountability framework for the PSD.

The audit did not review schools' actions in implementing plans for students with disabilities or the tools and processes in place to assess eligibility and the level of need. Rather, the audit focused on documents, processes and data in place to manage the program as well as literature and research on education programs for students with disabilities and evaluation and reporting in other jurisdictions.³⁵⁷

2.1.1 Audit findings

The audit found that the Department is accounting for and monitoring the outputs and inputs of the PSD. There was a strong focus on outcomes for individual students through cooperative arrangements between schools parents/carers on student plans and progress.³⁵⁸

The audit also found that the Department had yet to establish a clear and consistent stated objective for the program and had yet to identify performance indicators that allowed the Department to monitor and evaluate program outcomes for reporting purposes.³⁵⁹

³⁵² Department of Education and Early Childhood Development, *2007-08 Annual Report*, p.59

³⁵³ *ibid.*

³⁵⁴ *ibid.*, p.26

³⁵⁵ Victorian Auditor-General's Office, *Program for Students with Disabilities: Program Accountability*, 2007, p.44

³⁵⁶ *ibid.*, p.2

³⁵⁷ *ibid.*, pp.2-3

³⁵⁸ *ibid.*, p.3

³⁵⁹ *ibid.*

The Auditor-General noted that there is a *'highly individualised focus of the PSD.'* The program is individualistic in nature, with the program designed to focus on individual students needs. The program is also devolved in nature, with schools responsible for spending allocated funds and management of service.

The Auditor-General found that this individualised and devolved nature might impact on the Department, in terms of having a centralised, whole-of-program reporting that could capture reliable information to inform stakeholders on the program's effectiveness. However, the report noted that this seemed to be the case in other Australian jurisdictions with Victoria performing *'at least as well as any other Australian jurisdiction.'*³⁶⁰

The audit acknowledged that DEECD was initiating and developing the PSD via research, development of the 'Abilities Index' and further developing the PSD accountability framework. While these bodies of work had the ability to strengthen the program in the long-term, the Auditor-General found that there needed to be more work undertaken in the shorter term.³⁶¹ The audit made the following four recommendations aimed at DEECD:³⁶²

- establishing a clear objective for the PSD that is outcome focused and can be measured;
- establishing performance indicators that monitor program outcomes across the whole PSD. These indicators should be relevant, measurable and auditable;
- managing the collection and analysis of performance information data so that outcomes for the PSD can be identified for students in special schools and mainstream schools; and
- improving its program accountability for the PSD, with a view to ensuring that whole-of-program achievements are able to be measured within two years.

In response to the audit findings, DEECD responded that they welcomed and accepted the Auditor-General's findings.³⁶³

As part of this follow-up review, the Committee sought written information from DEECD on the implementation of the recommendations made by the Auditor-General. The Committee also sought written comments from the Auditor-General regarding the audit findings and implementation of the recommendations by DEECD. These responses have been included, where appropriate.

2.2 Accountability framework for the PSD

2.2.1 A clear objective and performance indicators for the program

A sound program accountability framework should have a clearly defined objective or statement of what the program intends to achieve. As well, this objective should be focused on outcomes and be measurable.³⁶⁴

The Auditor-General found that there was no one statement that clearly identified the objective of the PSD, rather there were a number of statements to convey the purpose of the program or what the program intended to achieve.³⁶⁵

³⁶⁰ ibid., pp.3–4

³⁶¹ ibid., p.5

³⁶² ibid. p.6

³⁶³ ibid.

³⁶⁴ ibid. p.16

³⁶⁵ ibid., pp.17–18

The Auditor-General identified that DEECD collected a range of performance information relating to school level outcomes for all government school students as part of its *School Accountability and Improvement Framework*. The Framework was introduced in 2005 and established one accountability framework for all government schools, including special schools. It has three broad areas of student outcomes for government schools:³⁶⁶

- student learning;
- student engagement and wellbeing; and
- student pathways and transitions.

Under each of these three outcome areas, DEECD has performance indicators, and it collects data against these. This data is collected by schools and this information can be analysed by DEECD by school group, region and across the whole system.³⁶⁷ The Auditor-General found that this data was school-focused rather than program focused and information regarding students in the PSD could not be extracted from the data.

In responding to the Committee's request for information, the Auditor-General commented that he believed that since almost two years had passed since the original audit, and in light of the timeframe recommended by the Auditor-General (that whole-of-program achievements can be measured within two years), his office expected that the Department would have made significant progress towards implementing the recommendations.³⁶⁸

The Department informed the Committee that it has developed objectives and performance indicators for the PSD. These were approved by the Minister for Children and Early Childhood Development in December 2008. The objective is:³⁶⁹

The Program for Students with Disabilities aims to maximise student potential growth in education and learning, and ensure that students with disabilities are valued and participate in all aspects of school life, consistent with optimal and relevant goals and aspirations. There are three specific objectives which together will achieve this goal for the Program for Students with Disabilities:

- (a) Student learning – Student potential for growth and development in (academic) discipline-based, personal and interpersonal learning, and independence in learning is maximised and is consistent with their goals and aspirations.*
- (b) Student engagement and wellbeing – Students are motivated and are able to participate fully in their education and wider school life, consistent with optimal and relevant goals and aspirations.*
- (c) Student pathways and transitions – Students successfully transition to, throughout and from school, and the pathways selected maximise their potential for growth and development while they attend school and after they leave school.*

The Committee noted that the Department has included its program objective in the *Program for Students with Disabilities Guidelines 2010*, ensuring the program has a clearly stated objective.

³⁶⁶ ibid., p.19

³⁶⁷ ibid., p.20

³⁶⁸ Mr D Pearson, Auditor-General, Victorian Auditor-General's Office, letter to the Committee, received 15 July 2009, p.2

³⁶⁹ Professor P Dawkins, Department of Education and Early Childhood Development, letter to the Committee, received 28 July 2009, pp.1, 4

The Department provided the Committee with a list of its performance indicators for the PSD, listed below.

Table 10: Performance indicators for the PSD

| Performance indicators for the PSD | |
|---|--|
| Student Learning | |
| 1. | Proportion of students who have an Individualised Learning Plan (ILP). |
| 2. | Proportion of students demonstrating progression against the learning-related goals identified in their ILP. |
| 3. | Proportion of students demonstrating progression against independence-related goals in their ILP. |
| Student Engagement and wellbeing | |
| 4. | Unapproved absences as a proportion of total school days in a calendar year. |
| 5. | Proportion of students satisfied with their school experience. |
| 6. | Proportion of students demonstrating progression against engagement and participation related goals in their ILP. |
| Student pathways and transition | |
| 7. | Proportion of parents who are satisfied with the information and support provided when their child: <ul style="list-style-type: none"> (a) Makes the transition from early childhood services to primary school – measured within six months of transition (b) Makes the transition from primary to secondary school – measured within six months of transition. |
| 8. | Unapproved absences as a proportion of total school days in a calendar year for Prep and Year 7. |
| 9. | Proportion of all PSD students in Year 10 engaged with the Managed Individual Pathways program and with transition from school incorporated into their ILPs. |
| 10. | Proportion of PSD students engaged in further education, employment, transition-to-work programs or planned activity groups – six months post completion of secondary education (by destination). |

The Committee considers that the Department has made significant progress in having performance indicators for the PSD endorsed. The performance indicators will collect a range of data to allow DEECD to determine the effectiveness of the program. The Committee looks forward to future assessment and reporting against the indicators. While not possible for all students, the Committee considers another possible indicator for measuring transition would be to measure how many students no longer require the assistance of the PSD.

Recommendation 23:

The Department of Education and Early Childhood Development consider including a performance indicator that measures how many students successfully transition out of and no longer require the support of the Program for Students with Disabilities.

2.2.2 Measuring and collecting data to assess performance indicators

As discussed above, performance indicators are important and provide the Department with information as to how programs are performing. However, to allow the Department to make such an assessment, there needs to be adequate data collected to allow for performance to be assessed.

The Auditor-General reported that often performance information data for students with disabilities tends to be restricted to program inputs and processes.³⁷⁰ The Auditor-General found that while DEECD collects performance data routinely on other students, students with disabilities participating in the PSD program were not singled out. The Auditor-General commented that the Department should strengthen its development of a performance and improvement culture by identifying, collecting and reporting on performance information for the PSD.³⁷¹ The Auditor-General recommended that DEECD manage and collect performance data so that outcomes for PSD funded students can be identified for students in mainstream and special schools, across the whole program.³⁷²

The Department reported to the Committee that the process of collecting the data is challenging, as much of the data is currently not collected, or will need to be disaggregated from student data already collected. The Department has reported that they have commenced undertaking a range of actions to collect data against the performance indicators for the PSD. These actions include:³⁷³

- undertaking surveys of students through the Student Attitudes to School Survey and planning a survey on parent satisfaction at the end of 2009;
- adding questions to the Supplementary School Census to collect data regarding the number of students with ILPs, progress against ILPs and the number of students in Year 10 who are participating in the Managed Individual Pathway Program; and
- identifying the number of unplanned absences via the CASES 21 management system.

While some information in the performance indicators will be relatively straightforward for the Department to collect, the Committee notes that DEECD will face many challenges in collecting all the data for the performance indicators above.

The Committee considers that the templates used to produce ILPs could be used to collect some information, particularly whether students are making progress against the objectives in the plan (performance indicators 2, 3 and 6) and possibly student and parent satisfaction.

The Committee reviewed the templates used in administering the PSD, in particular for developing ILPs. There are five templates used for producing an ILP:

- Template 1 – Understanding the student;
- Template 2 – Goal setting;
- Template 3 – Program planning;
- Template 4 – Implementation; and
- Template 5 – Evaluation.

³⁷⁰ Victorian Auditor-General's Office, *Program for Students with Disabilities: Program Accountability*, 2007, p.36

³⁷¹ *ibid.*, p.42

³⁷² *ibid.*, p.42

³⁷³ Professor P Dawkins, Department of Education and Early Childhood Development, letter to the Committee, received 28 July 2009, p.2

The Committee considers that given the new framework being implemented, the Department should review the structure and information collected by ILPs to ensure they assist DEECD in reporting on its suite of performance indicators and that the templates used to produce ILPs link together to ensure that they better support student learning and development outcomes.

2.2.3 Measuring whole-of-program achievements

The Auditor-General acknowledged that in the medium to long term, DEECD has the potential to strengthen the accountability arrangements for the PSD through its current actions. The Department is investing in leading edge research that measures the capabilities of students with disabilities and the support they require as well as developing tools and material to support students with disabilities.³⁷⁵

The Auditor-General recommended that the Department continue to improve its program accountability for the PSD so that within two years, it is able to report on the achievements of the PSD on a whole-of-program level.³⁷⁷

148

The Department informed the Committee:³⁷⁸

The Department continues to improve program accountability and processes for the Program for Students with Disabilities. The work undertaken to date to implement recommendations 4.1, 4.2 and 4.3 will see the Department well placed to begin to report on overall program accountability early in 2010.

The Committee notes that while the Department has not met the specific timeframe specified by the Auditor-General, it has undertaken a large body of work to date. The Committee looks forward to reviewing the outcomes of the PSD in 2010.

2.3 Conclusion

The Committee found that DEECD now has a clear objective and performance indicators for the PSD, in line with the Auditor-General's recommendation. The Committee considers the performance indicators could also measure how many students transition out of the program, either due to no longer having a need or those that choose to leave.

The Department is currently putting in place data collection to report against the objectives. The Committee considers that there may be scope for using the ILPs to collect some data. In regards to ILPs, the Committee also considers that there is scope for the Department to improve the forms and make them more user friendly as well as ensure they better link together. The Committee noted that the Department expects to be able to measure program achievements in early 2010 and looks forward to reviewing the program outcomes.

³⁷⁸

Professor P Dawkins, Department of Education and Early Childhood Development, letter to the Committee, received 28 July 2009, p.3

APPENDIX 1: LIST OF WITNESSES AT PUBLIC HEARINGS

| Date and time | Witnesses | Audit |
|--------------------------------|---|---|
| Wednesday 29 April 2009 | | |
| 9.30am to 11.30am | Victorian Auditor-General's Office Mr D. Pearson, Auditor-General Mr A. Greaves, Assistant Auditor-General Mr P. O'Connor, Director Ms M. Parrett, Director Ms A. Smith, Director, Ms C. Sandercock, Manager | <ul style="list-style-type: none"> • <i>Funding and Delivery of Two Freeway Upgrade Projects</i> • <i>Improving our Schools: Monitoring and Support</i> |
| 1.00pm to 2.30pm | Department of Education and Early Childhood Development Prof. P. Dawkins, Secretary Mr D. Fraser, Deputy Secretary Ms J. Petch, General Manager Dr. S. Glover, General Manager | <ul style="list-style-type: none"> • <i>Improving our Schools: Monitoring and Support</i> |
| 2.30pm to 3.30pm | Department of Treasury and Finance Mr J. Fitzgerald, Deputy Secretary Mr J. Loos, Assistant Director Ms N. Opie, Senior Project Manager | <ul style="list-style-type: none"> • <i>Funding and Delivery of Two Freeway Upgrade Projects</i> |
| 3.30pm to 5.00pm | Department of Transport and VicRoads Mr J. Betts, Secretary Mr G. Liddle, Chief Executive Officer Mr J. Rogan, Executive Director Mr J. Cunningham, Director | <ul style="list-style-type: none"> • <i>Funding and Delivery of Two Freeway Upgrade Projects</i> |

APPENDIX 2: ACRONYMS AND ABBREVIATIONS

| | |
|-----------------------|--|
| 2003 Blueprint | Blueprint for Government Schools (2003) |
| 2008 Blueprint | Blueprint for Education and Early Childhood Development |
| AIM | Achievement Improvement Monitor |
| AVS | Agriculture Victoria Services Proprietary Limited |
| COAG | Council of Australian Governments |
| CSIRO | Australian Commonwealth Scientific and Research Organisation |
| DEECD | Department of Education and Early Childhood Development |
| DOT | Department of Transport |
| DPI | Department of Primary Industries |
| DTF | Department of Treasury and Finance |
| EDR | Extended Diagnostic Review |
| ICT | Information and communication technology |
| ILP | Individual Learning Plan |
| Investment Conference | Investment and Evaluation Conference |
| KPIs | Key Performance Indicators |
| MITM | Melbourne Integrated Transport Model |
| NAPLAN | National Assessment Program – Literacy and Numeracy |
| OECD | Organisation for Economic Co-operation and Development |
| PISA | Programme for International Student Assessment |
| PMF | Project Management Framework |
| PMO | Program Management Office |
| PLT | Project Leadership Team |
| PSD | Program for Students with Disabilities |
| RD&E | Research Development and Education |
| RFP | Request for Proposal |
| SEO | Senior Education Officer |
| SIF | (Science Investment Framework) |

| | |
|-------|---|
| SSSO | Student Support Services Officer |
| TCI | Tullamarine-Calder Interchange |
| TIMSS | Trends in Mathematics and Science Study |
| TSI | Targeted School Improvement |
| VELS | Victorian Essential Learning Standards |
| VCE | Victorian Certificate of Education |
| VGPB | Victorian Government Purchasing Board |
| VLC | Veitch Lister Consulting |