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Audit Report No.3 2007–08
Performance Audit

Australian Technical Colleges Programme

Department of Education, Science and Training

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of Australia 2007

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Canberra ACT
19 July 2007

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Education, Science and Training in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Australian Technical Colleges Programme*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely



Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ANAO	Australian National Audit Office
ASbA	Australian School-based Apprenticeship
ATC	Australian Technical College
The Act	<i>Australian Technical Colleges (Flexibility in Achieving Australia's Skills Needs) Act 2005</i>
DEST	Department of Education, Science and Training
PAMC	Proposal and Assessment Management Committee
PBS	Portfolio Budget Statement
RFP	Request for Proposal
TAFE	Technical and Further Education (institution)
VET	Vocational Education and Training

Glossary

Australian School-based Apprenticeships	Enable school students to commence a vocational and technical qualification while completing their school studies.
Certificate I	Focuses on basic employment related skills. For example, with a Certificate I qualification, employment can be as a dry cleaner, factory hand, or florist.
Certificate II	Focuses on the ability to carry out a specific range of routine tasks with some complex or non-routine activities. With a Certificate II qualification, employment may be gained as a bank officer, cleaner or farmer.
Certificate III	Focuses on relevant theoretical knowledge and the ability to perform a defined range of skills. With a Certificate III qualification, employment can be as an electrician, motor mechanic, plumber, metal fabricator or commercial chef.
Certificate IV	Focuses on a broad knowledge base incorporating theoretical concepts and the skills needed for some technician-level and management occupations. With a Certificate IV qualification, employment can be gained as an accounts clerk, an architectural drafter or a fitness instructor.
Curriculum	The specifications for a course or subject (module) which describe all the learning experiences a student undergoes, generally including objectives, content, intended learning outcomes, teaching methodology, and recommended or prescribed assessment tasks.

Registered Training Organisation	An organisation registered by a State or Territory recognition authority to deliver training and/or conduct assessments and issue nationally recognised qualifications in accordance with the Australian Recognition Framework. Registered training organisations include TAFE colleges and institutes, adult and community education providers, private providers, community organisations, schools, higher education institutions, commercial and enterprise training providers, industry bodies and other organisations meeting the registration requirements.
Technical and Further Education (institution)	A publicly funded post-secondary organisation which provides a range of technical and vocational education and training courses and other programs: for example, entry and bridging courses, language and literacy courses, adult basic education courses, Senior Secondary Certificate of Education courses, personal enrichment courses, and small business courses. Each State and Territory has its own TAFE system.
Vocational Education and Training	Post-compulsory education and training, excluding degree and higher level programmes offered by higher education institutions, which provide occupational or work-related knowledge and skills.

Summary and Recommendations

Summary

Australian Technical Colleges

1. The Australian Technical Colleges programme was an Australian Government election commitment in October 2004. The programme involved the establishment of 24 colleges in 24 regions across Australia. Specific details of the programme were announced after the election, with the Government expecting some of the colleges to accept students in 2006, and all of the colleges to be opened by 2008. Five colleges opened in 2006.
2. In July 2005 the Government decided to establish an additional Australian Technical College. The decision to establish an additional college in the Adelaide region was determined on the basis that two suitable proposals were received for different areas within Adelaide, the region's size and population, and the distance between the major industrial areas. Also, in the 2007–08 Budget, the Government decided to establish three more colleges, one in the Western Corridor of Southern Brisbane, one in Greater Penrith and one in Northern Perth, including the City of Swan. This will take the number of colleges to 28. Of the 28 colleges 19 will be in regional areas.
3. The Australian Technical Colleges programme is part of a broader Australian Government strategy to address skill needs in regional and metropolitan areas. The Government's policy is aimed at promoting pride and excellence in the teaching and acquisition of trade skills at the secondary school level. It also aims to ensure that Vocational Education and Training (VET),¹ including commencing an Australian School-based Apprenticeship (ASbA),² is a valued and well-recognised choice available to young people.
4. Parliament assented to the *Australian Technical Colleges (Flexibility in Achieving Australia's Skills Needs) Act 2005* (the Act) on 19 October 2005, providing the legal basis for financial assistance to colleges.
5. The approach to funding Australian Technical Colleges is different to the Government's traditional approach to funding of education and training,

¹ VET is post-compulsory education and training, excluding degree and higher level programmes offered by higher education institutions, which provide occupational or work-related knowledge and skills. National Centre for Vocational Education Research, *A glossary of Australian Vocational Educational and Training terms*, 2000, available at <www.ncver.edu.au/research/core/cp9812.pdf>.

² Australian School-based Apprenticeships enable school students to commence a vocational and technical qualification while completing their school studies. <www.australianapprenticeships.gov.au/student/school-based.asp>.

whereby funds are provided to the States and Territories for distribution to education providers. The new approach involves the Government directly funding new schools for education and skills training, in partnership with industry, training and community organisations. Consequently, the Department of Education, Science and Training (DEST) has a more prominent role with these new secondary colleges than it does with most other schools that are funded by the Australian Government.

6. DEST's *2006–07 Portfolio Budget Statements* stated that the Australian Technical Colleges are:

a partnership between education, training, industry and community organisations in the region and cater for students in Years 11 and 12. Students enter into a School-Based New Apprenticeship³ in a trade at Certificate III level, which leads to a nationally recognised qualification, in areas of identified skills needs across regional and metropolitan Australia in industries such as metal and engineering, automotive, building and construction, electrotechnology and commercial cookery. They study academic subjects, leading to a Year 12 Certificate and also gain IT, employability and business skills enabling them to be competitive in the world of business.⁴

Australian Technical Colleges' model

7. The Australian Technical Colleges are consortia, established as not-for-profit organisations, which have entered into Funding Agreements with the Commonwealth to establish and operate colleges, for a term of up to five years from 2005 to 2009. The consortia are mostly companies, but they also include the State of Victoria, and Trustees of the Roman Catholic Church.

8. The colleges will be registered schools in the State or Territory in which they operate, providing tuition at the Years 11 and 12 levels. Students in the colleges will also commence an ASbA at the Certificate III level.⁵ It is the responsibility of the college and the students to identify ASbA opportunities.

9. Each college is required under the Funding Agreement to have a governing body, which is chaired by a local business representative and includes representation from local business, community, and education

³ School-based New Apprenticeships became Australian School-based Apprenticeships on July 1, 2006. <www.dest.gov.au/Ministers/Media/Hardgrave/2006/06/H001190606.asp>.

⁴ Portfolio Budget Statements 2006–07, Department of Education, Science and Training, Budget Related Paper No. 1.5, Canberra, 2006, p. 42.

⁵ With a Certificate III qualification, employment can be as an electrician, motor mechanic, plumber, metal fabricator or commercial chef.

groups. The governing body's membership must reflect the trades and industries in which the college will train students, and it should include persons with experience and expertise in financial and operational management and in education and training. The governing body is responsible for and sets the college's priorities and performance measures, in accordance with the key performance indicators set by DEST in the Funding Agreement with each college.

10. A typical Funding Agreement:

- provides funding by way of grants based on the application of the individual college, not by the use of a formula based on student numbers;
- permits the college to purchase assets subject to those assets having either been specified in the Funding Agreement or otherwise approved by DEST. The college owns the assets;
- states that assets acquired by the college are only for the purposes of the Funding Agreement; and
- contains provisions for the college to repay to DEST the undepreciated value of assets purchased with the grant when, for example, the agreement ends or is terminated.

11. DEST's role in implementing and administering the programme consists of:

- managing the development of the programme; and
- overseeing its delivery through:
 - working closely with each college;
 - making grant payments;
 - monitoring Funding Agreement terms and conditions for each college;
 - engaging with other governments;
 - reviewing and reporting on the programme's impact; and
 - advising on government policy.

Australian Technical Colleges' regions

12. The 24 regions for the Australian Technical Colleges were announced in the Government's October 2004 election commitment. Government selected the regions for the Australian Technical Colleges having regard to skills shortages, high rates of youth unemployment and a significant industry base.⁶ Three additional regions were announced by Government in the 2007–08 Budget. Table 1 lists the Australian Technical College regions as at May 2007.

Table 1

Australian Technical Colleges' regions

States and Territories	Australian Technical Colleges' regions
New South Wales	Hunter, Illawarra, Queanbeyan, Port Macquarie, Lismore/Ballina, Dubbo, Gosford, Western Sydney, and Penrith.
Victoria	Geelong, Warrnambool, Eastern Melbourne, Sunshine, Bairnsdale/Sale, and Bendigo.
Queensland	Townsville, Gladstone, North Brisbane, Southern Brisbane, and the Gold Coast.
Western Australia	Perth South, Northern Perth, and the Pilbara.
South Australia	Adelaide (North and South) and Whyalla/Port Augusta.
Tasmania	Northern Tasmania.
Northern Territory	Darwin.

Source: DEST.⁷

Vocational education and training

13. The role of Australian Technical Colleges fits within the broader context of VET. VET provides Australians with the skills needed to enter the workforce for the first time, to re-enter the workforce, to retrain for a new job and to improve skills for an existing job. State and Territory governments have primary responsibility for VET. In 2007–08, the Commonwealth will allocate approximately \$2.8 billion for the VET sector which is estimated to have 1.7 million students in 2007.⁸

⁶ Department of Education, Science and Training, *Australian Technical Colleges: A Discussion Paper*, Canberra, 2005, p. 1.

⁷ Department of Education, Science and Training, *Annual Report 2004–05*, p. 31, available at <www.dest.gov.au> and Education, Science and Training, 2007, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, available at <www.dest.gov.au/portfolio_department/dest_information/publications_resources/resources/budget_information/>.

⁸ Education, Science and Training, 2007, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, available at <www.dest.gov.au/portfolio_department/dest_information/publications_resources/resources/budget_information/>.

14. State and Territory governments are, in the main, responsible for education and training through providing and administering schools, Technical and Further Education institutions (TAFEs), and training services. Funding for VET is shared between the Commonwealth and State and Territory governments.⁹

15. VET is offered by a range of organisations including TAFEs and other Registered Training Organisations. TAFEs are the largest providers of government funded VET in Australia.¹⁰

Implementation of the programme

16. In November 2004, DEST advertised the programme in the press and invited expressions of interest. In March 2005 DEST sought submissions to establish and operate the new colleges, receiving 73 proposals. A majority of the applicants proposed the establishment of new entities.

17. DEST conducted a two stage process in selecting the colleges:

- from May to June 2005 DEST assessed the 73 proposals it received against pre-determined selection criteria, in order to advise Government of suitable applicants. The Government, on the recommendation of the Minister, selected successful applicants. On 15 July 2005, the Minister announced the first 12 successful applicants to establish colleges; and
- DEST and the successful applicants then negotiated the details of the Funding Agreements, including the business plans, before the Minister signed Funding Agreements.

18. The first four colleges opened about six months after the announcement of the successful applicants in July 2005. DEST had limited time to plan and implement the programme in order to have the first Australian Technical Colleges accepting students in 2006. Achieving this schedule required the introduction and passage of the legislation, as well as adoption of a process to engage groups, with industry support, to establish each college. DEST advised the ANAO that it generally takes three to four years to establish a new school, while these colleges were established within six to 18 months.

⁹ National Centre for Vocational Education Research, *Students and Courses 2005 Summary*, July 2006, available at <www.ncver.edu.au/statistics/vet/ann05/sum05/sum05.pdf>.

¹⁰ Australian Education International, *Country Education Profiles Australia 2006*, p. 55, available at <aei.dest.gov.au>.

19. By February 2007:

- the Government had announced 24 of the first 25 colleges (three government and 21 non-government);¹¹
- 21 Funding Agreements and three Interim Funding Agreements were signed, with estimated individual college budgets varying from \$8.4 million to \$24.8 million for the period to 2009;
- 20 colleges had opened with another to open later in 2007; and
- the enrolment target for 2007 is 2000 students.

Audit approach

20. The audit objective was to form an opinion on the effectiveness of DEST's planning, assessment, and Funding Agreements management for the Australian Technical Colleges programme. At the time of the audit fieldwork (prior to the 2007–08 Budget) the Government had announced the establishment of 21 of the then target of 25 colleges. After fieldwork was completed the Government announced its intention to fund an additional three colleges in three new regions.

21. The criteria for this audit were designed to test whether DEST's management of the programme complied with its plans, procedures and guidelines, with the Act, and better practices for grants administration. For these purposes, the ANAO focused on DEST's:

- planning for the implementation of the programme;
- assessment of proposals to establish and operate the colleges; and
- management of the Funding Agreements.

Audit conclusion

22. DEST was tasked in November 2004 with the establishment of a new educational system with 24 technical colleges, now 28 colleges, to train secondary school students in selected trades. Total funding for the programme from all sources, from 2005 to 2009, is estimated to be in excess of \$585 million, with 8400 students to be enrolled when all schools are fully operational.

¹¹ The remaining college has not yet been selected. These figures exclude the three additional colleges announced in the 2007–08 Budget.

23. The policy provided DEST with little time to plan for the establishment of the colleges. The new schools had to be established in far less time than is usual for new schools, which can take three to four years of preparation before acceptance of their first students. This limited time made more difficult DEST's tasks of selecting the best educational and financial models to achieve the programme's objectives.

24. The ANAO conducted the audit in the early stages of DEST's implementation of the programme. The processes for administering the programme are evolving, and DEST has managed several tasks simultaneously, including planning, assessment and negotiation.

25. The ANAO concluded that DEST adequately planned the implementation of the programme. In addition, DEST consistently assessed the proposals to establish and operate the colleges to achieve the programme's objectives. The department advised the Minister on the ratings of proposals for each region.

26. In administering the programme, experience has shown some of the risks associated with managing grants may have been higher than originally envisaged. Some of the consortia selected by Government to establish a college had limited experience working with DEST and in managing Commonwealth grant funding. Considering this programme's new features, DEST would have benefited from development of a strategy to identify and work closely with those colleges most at risk of implementing their financial and educational models. That said, DEST managed the programme's implementation within a demanding timetable as was shown by four colleges opening at the beginning of 2006, approximately six months after the Government approved their funding, a further college opened later in that year, and 15 additional colleges opened by May 2007. As with all new programmes, close monitoring of risks to the achievement of the programme's objectives will be required. In this context, DEST has indicated that it has measures in place to guide the colleges and to monitor progress towards achieving the programme's objectives.

Key findings

DEST's planning for implementing the programme (Chapter 2)

27. DEST's planning for implementing the programme was structured and included the development of an Implementation Plan, risk assessments, procedures and guidelines, performance information, and assessment documentation. DEST also formed a Steering Committee, comprising senior

personnel from across the department, to oversee the implementation and management of the programme.

28. DEST's risk assessments for the programme were detailed and contained many risks and controls focussing on the implementation and management of the programme. However, the ANAO identified that the risk assessments contained few risks and controls focussing on DEST's financial management and administration of the programme, including consideration of the colleges' ability to administer funding for capital projects. While it may not have been possible to identify all of these issues when the programme commenced, DEST would benefit from a more focussed identification and review of risks relating to colleges' governance including financial management. Also, the risk assessments gave little attention to the response of State and Territory governments to the new colleges. In one region, the programme had to address significant issues because of the coexistence of a new college with existing State government secondary schools. In May 2007, DEST was negotiating this matter with the relevant State government authority.

29. The ANAO identified some parts of DEST's planning that could have been improved. For example, the development of:

- a strategy to address the interests of State and Territory governments, and to assist the department in its relations with those governments;
- an approach for the colleges to share better practice and approaches to training; and
- more specific internal and external performance indicators to recognise and report on the Commonwealth's significant outlays on the programme.

DEST's assessment of proposals (Chapter 3)

30. To implement the programme nationally, DEST requested proposals to establish and operate the Australian Technical Colleges. DEST received 73 proposals, from which the ANAO reviewed DEST's assessment of 18 proposals from seven regions.

31. Based on DEST's assessment of those proposals, the ANAO found that DEST had a sound basis for considering proposals. DEST has largely followed the assessment process as outlined in its *Assessment and Probity Plan* and DEST assessed the proposals in the sample consistently. However, DEST could

improve future assessments for this or other new programmes: for instance, through presenting the criteria in a descending order of importance. Also, DEST could have documented and defined the assessment rating scale, providing assessors with a common source of information for rating proposals.

32. DEST engaged a consultant to assist in assessing applicants' proposed business plans. The consultant indicated that a majority of initial business plans and proposed budgets required further work. DEST informed the Government that although the first successful applicants could be announced in 2005, more work would be required on all proposals before DEST could finalise Funding Agreements. Also, in November 2006, DEST engaged a consultant to assist in assessing the costs of capital works in the new colleges.

33. For the first 24 regions, six regions had one proposal each and five regions had two proposals each. Estimated funding for these 11 regions is \$185 million. Each of the other 13 regions received at least three or more proposals.

34. For the 11 regions that received one or two proposals, DEST recommended a successful applicant. In these regions, DEST had limited choice between educational and financial management models. Given more time, an option for DEST would have been to return to the market to develop more industry and community interest in the new programme.

35. As at 28 February 2007, one successful applicant from the assessment process was unsuccessful in negotiations with the department. In other words, 20 of the first 21 proposals that were nominated as successful applicants from the assessment process were successful in negotiations with DEST and subsequently signed Funding Agreements with the Commonwealth.

Managing funding agreements (Chapter 4)

36. Funding, from all sources, for the programme, from 2005 to 2009, is estimated to be in excess of \$585 million for 8400 secondary students. This includes budgeted departmental funding of approximately \$20 million to manage the programme.

37. DEST developed comprehensive Funding Agreements for the programme. Funding Agreements were detailed, creating specific requirements for DEST and the colleges. The ANAO identified some areas of DEST's management of the Funding Agreements that could be improved. For example:

- subsequent development of Purposes Agreements¹² to protect funded assets where an Australian Technical College spends grant money on, for example, capital improvements to a building owned by a third party;
- development of operational funding guidelines to assist the colleges to separate operational from capital expenditure;
- documenting actions when addressing actual and potential conflicts of interest in colleges; and
- identifying those colleges most at risk of having difficulty with their financial and educational models and which may affect the achievement of the programme's objectives.

38. DEST has increased its monitoring of the colleges' compliance with the Funding Agreements. For instance, DEST is commissioning probity audits into some companies that operate colleges, and it is employing a firm to strengthen compliance monitoring.

Recommendations

39. ANAO has made three recommendations to assist DEST improve its administration of the Australian Technical Colleges and other grant programmes.

DEST's response

40. DEST is appreciative of the ANAO's audit perspective of the administration of the Australian Technical Colleges Programme, and its advice has been timely for the on-going development and implementation of the programme.

41. The Australian Government is funding 28 Australian Technical Colleges in 27 regions across Australia in areas where there are skills needs, a high youth population and a strong industry base. These Colleges are dedicated technical schools, providing choice and specialisation to students with vocational skills in Years 11 and 12. They are designed with industry input to properly prepare young people for a career in the trades.

¹² A Purposes Agreement is additional to the Funding Agreement. A Purposes Agreement, for example, is where the Commonwealth's grant funding is provided to a college for the purpose of constructing a building where the land is owned by a third party. Under a Purposes Agreement, DEST has a continuing interest in the building constructed with Commonwealth moneys.

42. The Australian Technical Colleges Programme was an election commitment in October 2004, and the *Australian Technical Colleges (Flexibility in Achieving Australia's Skills Needs) Act 2005* received assent in October 2005. It was the Government's objective to open the Colleges as quickly as possible. As the ANAO observes, DEST adequately planned for the implementation of the programme and consistently assessed the proposals to establish and operate the colleges to achieve the programme's objectives.

43. DEST managed the programme's implementation within a demanding timetable, and five Colleges opened in 2006, within four months of the legislation's assent. This demonstrated an extraordinary effort on the part of the Boards and staff of the initial five Colleges, industry and community representatives in the regions servicing the Colleges, and DEST staff. The ANAO's opinion that DEST established the Colleges in far less time than is usual for new schools is an acknowledgement of the efforts of the Department to achieve the Government's objectives. This outcome was achieved within seven months for the first four Colleges. In comparison, new schools take on average three to four years to establish.

44. In the ANAO's view, DEST's planning and implementation also included undertaking detailed risks assessments, developing a sound basis for assessing proposals, and developing comprehensive Funding Agreements. It was always the intention of the Australian Technical College Programme to support a diverse range of educational delivery models which would provide alternative training paths which meet the needs of local communities. Some of these models are quite innovative, and DEST has worked closely with the colleges to develop capacity both within the College and partnering organisations throughout the implementation stages. As the Programme has evolved over the past two years, DEST has continuously improved its administrative processes.

45. DEST has implemented or will implement the ANAO's Recommendations.

1. DEST has implemented a strategy concomitantly with the ANAO's audit to create networks between the Colleges to ensure the delivery of a high quality, integrated curriculum. DEST is also ensuring that the Colleges access relevant knowledge and expertise of the schooling sector.

2. DEST has developed a balanced set of performance indicators for the Australian Technical Colleges and included them in the 2007–08 Portfolio Budget Statement. Also, the Australian Technical Colleges Programme will be evaluated in 2008 in accordance with existing Department of Finance and Administration Review Guidelines.
3. DEST considers it timely to develop a compliance monitoring framework for the Programme as part of the normal programme management activities in the second year of the initiative. The strategy, which is being implemented, will assist DEST in its responsibility for monitoring the Colleges' contractual compliance and financial viability, and will provide valuable feedback for Colleges, particularly in relation to risk management, governance and management of potential and actual conflict of interest.

46. The ANAO has estimated the total 'other' sources of funding available to Australian Technical Colleges over the period 2005–09 (Table 4.1). DEST notes that these data are based on early estimates provided by Colleges in their business plans and cannot be validated at such an early stage of implementation. The data presented in the report could be misconstrued to represent new or additional funding, however if students were not attending the colleges most would be at other schools which would attract similar levels of funding via state and Commonwealth recurrent grants and student fees.

47. The data in Table 4.1 are also used to derive the 'estimated total funding from all sources' in Table 4.2, thus both tables have potential to misrepresent the funding situation.¹³ Furthermore, the current appropriation provides significant amounts of funding for capital and other establishment costs which will decrease in future years. It should be noted that per capita funding comparisons with established schools cannot be made during this establishment phase.

¹³ ANAO comment: The data in Tables 4.1. and 4.2 should be read in the context of the information presented in Chapter 4.

Recommendations

Recommendation No.1
Para 2.18 The ANAO recommends that DEST develop and implement an approach for the Australian Technical Colleges to share better practice and approaches to training.

DEST's Response Agreed. DEST has implemented a strategy concomitantly with the ANAO's audit to create networks between the Colleges to ensure the delivery of a high quality, integrated curriculum. DEST is also ensuring that the Colleges access relevant knowledge and expertise of the schooling sector.

Recommendation No.2
Para 2.55 The ANAO recommends that DEST:

- (a) develop Portfolio Budget Statement performance indicators for the Australian Technical Colleges programme; and
- (b) include in its 2008–09 Budget review of the Australian Technical Colleges programme an evaluation of the programme's progress against its objectives including of its cost effectiveness.

DEST's Response Agreed. DEST has developed a balanced set of performance indicators for the Australian Technical Colleges and included them in the 2007–08 Portfolio Budget Statement. Also, the Australian Technical Colleges Programme will be evaluated in 2008 in accordance with existing Department of Finance and Administration Review Guidelines.

**Recommendation
No.3**

Para 4.39

The ANAO recommends that DEST:

- (a) develop and implement operational funding guidelines to assist the colleges to separate operational from capital funding;
- (b) develop and implement a risk based approach to identify those colleges that require additional assistance; and
- (c) document all decisions dealing with potential and actual conflicts of interest in the colleges.

DEST's Response

Agreed. DEST considers it timely to develop a compliance monitoring framework for the Programme as part of the normal programme management activities in the second year of the initiative. This will assist DEST in its responsibility for monitoring the Colleges' contractual compliance and financial viability, and will provide valuable feedback for Colleges, particularly in relation to risk management, governance and management of potential and actual conflict of interest.

Audit Findings and Conclusions

1. Introduction

This Chapter provides the background to the audit. It includes information on the Australian Technical Colleges programme and it outlines the audit objective and criteria, methodology, and the structure of the report.

Australian Technical Colleges programme

1.1 The Australian Technical Colleges programme was an Australian Government election commitment in October 2004. At that time, the Government announced that it would fund 24 new technical colleges, in 24 regions, for secondary school students at a cost of \$289 million over four years.

1.2 The programme was announced immediately after the election. In November 2004, the Government stated that it would fund the new colleges at a cost of \$343.6 million over five years from 2005 to 2009. In July 2005, the Government decided to establish an additional Australian Technical College, increasing the number of colleges to 25. The decision to establish an additional college in the Adelaide region was determined on the basis that two suitable proposals were received for different areas within Adelaide, the region's size and population, and the distance between the major industrial areas.

1.3 In March 2007, the Government amended the Australian Technical Colleges legislation¹⁴ to fund the colleges at a cost of \$456.2 million. The Department of Education, Science and Training (DEST) would also receive departmental funding of approximately \$16.2 million to manage the programme from 2005 to 2009.¹⁵ Subsequently, in the 2007–08 Budget, the Government decided to establish three more colleges, in Northern Perth, including the City of Swan, the Western Corridor of Southern Brisbane, and Greater Penrith, taking the number of colleges to 28. The 2007–08 Budget provided additional programme funding of \$17.1 million and departmental funding of \$3.8 million for the three additional colleges for the 2007–08 and 2008–09 financial years, and \$62.7 million for the additional three colleges from 2009–10 to 2011–12.¹⁶

¹⁴ *Australian Technical Colleges (Flexibility in Achieving Australia's Skills Needs) Act 2005.*

¹⁵ Provided by DEST 4 June 2007.

¹⁶ Minister for Vocational and Further Education, 'Three New Australian Technical Colleges Announced', 8 May 2007, available at <www.dest.gov.au/ministers/robb/budget07/bud03_07.htm>.

1.4 The Government will fund the programme, under the specific programme legislation, from 2005 to 2009, at an approximate cost of \$473 million. By 2009, DEST expects that the colleges will have 8400 secondary school students.

1.5 The Australian Technical Colleges programme is part of a broader Australian Government strategy to address skill needs in regional and metropolitan areas. The Government's policy is aimed at promoting pride and excellence in the teaching and acquisition of trade skills at the secondary school level. It also aims to ensure that Vocational Education and Training (VET),¹⁷ including commencing an Australian School-based Apprenticeship (ASbA),¹⁸ is a valued and well recognised choice available to young people.

1.6 The Government's objective for the programme is to address the skills shortage in the Australian economy through attracting and training young people in the traditional trades.¹⁹

1.7 The approach to funding Australian Technical Colleges is different to the Australian Government's usual approach to funding of education and training, whereby funds are provided to the States and Territories for distribution to education providers. This new approach involves the Government directly funding new schools for education and skills training, in partnership with industry, training and community organisations.

1.8 The colleges are established and operated by not-for-profit organisations comprising representatives from, for example, local businesses, industry representatives, schools, training organisations, and universities. The consortia are mostly companies, but they also include the State of Victoria, and Trustees of the Roman Catholic Church. The consortia have entered into Funding Agreements with the Commonwealth to establish and operate the colleges, for a term of up to five years from 2005 to 2009.

1.9 Establishing the colleges involves the Government providing capital and operational funding. The funding will be used, for example, to purchase

¹⁷ VET is post-compulsory education and training, excluding degree and higher level programmes offered by higher education institutions, which provide occupational or work-related knowledge and skills. National Centre for Vocational Education Research, *A glossary of Australian Vocational Educational and Training terms*, 2000, available at <www.ncver.edu.au/research/core/cp9812.pdf>.

¹⁸ Australian School-based Apprenticeships enable school students to commence a vocational and technical qualification while completing their school studies, available at <www.australianapprenticeships.gov.au/student/school-based.asp>.

¹⁹ Provided by DEST 4 June 2007.

land, construct buildings, refurbish existing buildings, purchase specialised equipment, and for administration and teaching.

1.10 Australian Technical Colleges are different to other schools and Registered Training Organisations, for example:

- Australian Technical Colleges must be endorsed and led by industry and managed by principals appointed by the college's governing body;
- teaching and other staff must be offered Australian Workplace Agreements;
- students in the Australian Technical Colleges will commence a Certificate III²⁰ ASbA and will undertake academic studies and trade related vocational courses, as well as developing employability and entrepreneurial skills;²¹ and
- the curriculum can run for 47 weeks annually, and teachers can work a 38 hour week which includes 28 hours of tuition. This is in comparison to some government schools where the curriculum can run for 40 weeks annually and teachers can work a 36 hour and 45 minute week which includes 19 hours of tuition.

1.11 DEST's *2006–07 Portfolio Budget Statements* stated that the Australian Technical Colleges are:

a partnership between education, training, industry and community organisations in the region and cater for students in Years 11 and 12. Students enter into a School-Based New Apprenticeship²² in a trade at Certificate III level, which leads to a nationally recognised qualification, in areas of identified skills needs across regional and metropolitan Australia in industries such as metal and engineering, automotive, building and construction, electrotechnology and commercial cookery. They study academic subjects,

²⁰ Certificate III covers relevant theoretical knowledge and the ability to perform a defined range of skills. (Refer to Australian Education International, *Country Education Profiles Australia 2006*, p. 99, available at <aei.dest.gov.au>.) With an Australian School-based Apprenticeship a Certificate III qualification, employment can be as an electrician, motor mechanic, plumber, metal fabricator or commercial chef, <www.aqf.edu.au/learn_employ.htm#options>.

²¹ Department of Education, Science and Training, *Australian Technical Colleges: A Discussion Paper*, Canberra, 2005, p. 6.

²² School-based New Apprenticeships became Australian School-based Apprenticeships on July 1, 2006, available at <www.dest.gov.au/Ministers/Media/Hardgrave/2006/06/H001190606.asp>.

leading to a Year 12 Certificate and also gain IT, employability and business skills enabling them to be competitive in the world of business.²³

1.12 Parliament assented to the *Australian Technical Colleges (Flexibility in Achieving Australia's Skills Needs) Act 2005* (the Act) on 19 October 2005, providing the legal basis for financial assistance to colleges.

1.13 DEST defines the objectives of the Australian Technical Colleges programme as to:

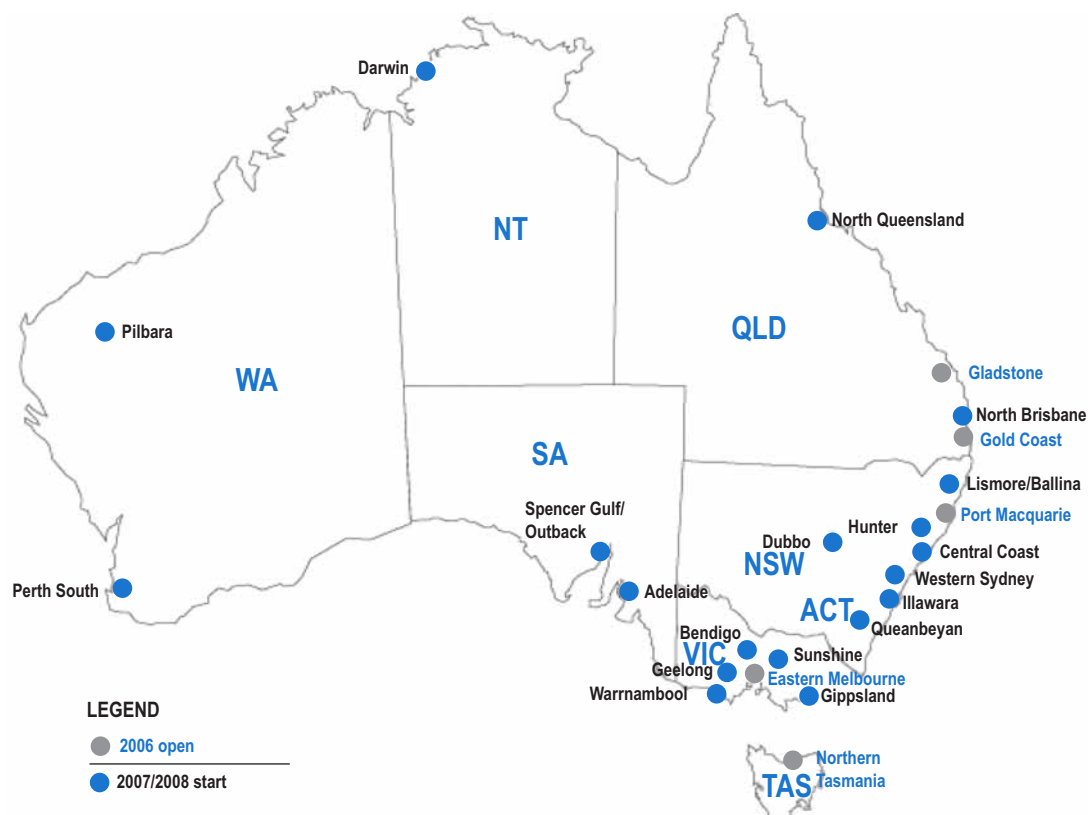
- raise the prestige of trades by providing centres of excellence in trade training;
- provide young people with opportunities to obtain a nationally recognised trade qualification as well as their senior secondary school certificate; and
- provide a pathway to assist industry meet its trade skills needs.

Australian Technical Colleges' regions

1.14 The 24 regions for the Australian Technical Colleges were announced in the Government's October 2004 election commitment. Government selected the regions for the Australian Technical Colleges having regard to skills shortages, high rates of youth unemployment and a significant industry base.²⁴ Three additional regions were announced by Government in the 2007–08 Budget. Figure 1.1 shows the Australian Technical Colleges regions and the year in which the colleges have or are expected to commence operation.

²³ Portfolio Budget Statements 2006–07, Department of Education, Science and Training, Budget Related Paper No. 1.5, Canberra, 2006, p. 42.

²⁴ Department of Education, Science and Training, *Australian Technical Colleges: A Discussion Paper*, Canberra, 2005, p. 1.

Figure 1.1**Location of 24 Australian Technical Colleges regions, April 2007**

Source: Australian Technical Colleges website www.australiantechnicalcolleges.gov.au.

Note 1: Appendix 1 lists when the successful applicants were announced for each region and the date of the signing of the relevant Funding Agreement.

Note 2: The 2007–08 Budget announced it will establish three new Australian Technical Colleges regions, the Western Corridor of Southern Brisbane, Greater Penrith and Northern Perth, including the City of Swan. These are not included in this figure.

Australian Technical Colleges / DEST roles

1.15 Each college will be administered by a Board that will comprise representatives from the local community, including business and industry, parents, and education and training providers. Each Board will be chaired by a local business representative, and is responsible for managing the day-to-day operations of the college, which includes managing grant payments for large capital works.

1.16 DEST's role in implementing and administering the programme consists of:

- managing the development of the programme; and
- overseeing its delivery through:
 - working closely with each Australian Technical College;
 - making grant payments to each college;
 - monitoring Funding Agreement terms and conditions for each college;
 - engaging with other governments;
 - reviewing and reporting on the programme's impact; and
 - advising on government policy.

1.17 The Australian Technical Colleges programme is in its early stages and it involves DEST working with some organisations that have little experience in dealing with the department. At this early stage, both the department and the Australian Technical Colleges are learning as the process evolves, with the roles and responsibilities of each party becoming clearer.

Vocational education and training

1.18 The role of Australian Technical Colleges fits within the broader context of VET. VET provides Australians with the skills needed to enter the workforce for the first time, to re-enter the workforce, to retrain for a new job and to improve skills for an existing job. Under the Australian Constitution, State and Territory Governments have primary responsibility for VET. In 2007–08, the Commonwealth will allocate approximately \$2.8 billion for the VET sector which is estimated to have 1.7 million students in 2007.²⁵

1.19 The State and Territory governments are, in the main, responsible for education and training through providing and administering schools, Technical and Further Education institutions (TAFEs), and training services. Funding for VET is shared between the Commonwealth Government and State and Territory governments.²⁶

²⁵ Education, Science and Training, 2007, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, available at www.dest.gov.au/portfolio_department/dest_information/publications_resources/resources/budget_information/.

²⁶ National Centre for Vocational Education Research, *Students and Courses 2005 Summary*, July 2006, available at www.ncver.edu.au/statistics/vet/ann05/sum05/sum05.pdf.

1.20 VET is offered by a range of organisations including TAFEs and other Registered Training Organisations. TAFEs are the largest providers of government funded VET in Australia.²⁷

1.21 VET in Schools programmes, including ASbAs, enable students to study regular secondary school topics while gaining credit for a VET qualification. Most VET in Schools programmes are at the Certificate I and II level.²⁸ They are delivered within the school or through a TAFE or other Registered Training Organisation, and by local employers and businesses.²⁹ As advised in paragraph 1.11, students enrolled in the Australian Technical Colleges will enter into an ASbA at Certificate III level.³⁰

1.22 Nationally, in a range of organisations:

- the number of students participating in VET in Schools programmes increased from 153 600 in 2000 to 211 900 in 2004;³¹
- students enrolled in Certificate III qualifications increased by 91 800 between 2000 and 2005 to 437 700;³²
- students enrolled in Certificate IV³³ have fluctuated from 172 400 in 2000 to 179 100 in 2005, with a peak of 198 300 enrolments in 2003;³⁴

²⁷ Australian Education International, *Country Education Profiles Australia 2006*, p. 55, available at <aei.dest.gov.au>.

²⁸ Certificate I focuses on basic employment related skills. Certificate II focuses on the ability to carry out a specific range of routine tasks with some complex or non-routine activities. Australian Education International, *Country Education Profiles Australia 2006*, p. 99, available at <aei.dest.gov.au>. With a Certificate I qualification, employment can be as a dry cleaner, factory hand, or florist. With a Certificate II qualification employment may be gained as a bank officer, cleaner or farmer. <www.aqf.edu.au/learn_employ.htm#options>.

²⁹ Australian Education International, *Country Education Profiles Australia 2006*, p. 16, available at <aei.dest.gov.au>.

³⁰ With an Australian School-based Apprenticeship Certificate III qualification, employment can be as an electrician, motor mechanic, plumber, metal fabricator or commercial chef.

³¹ Department of Education, Science and Training, *Annual Report 2005–06*, Canberra p. 60, available at <www.dest.gov.au>.

³² National Centre for Vocational Education Research, *Students and Courses 2005*, Table 19, available at < www.ncver.edu.au/publications/1701.html>.

³³ Certificate IV is aimed at providing a broad knowledge base incorporating theoretical concepts and the skills needed for some technician-level and management occupations. Australian Education International, *Country Education Profiles Australia 2006*, p. 99, available at <aei.dest.gov.au>. With a Certificate IV qualification employment can be gained as an accounts clerk, an architecture drafter or a fitness instructor. < www.aqf.edu.au/learn_employ.htm#options>.

³⁴ National Centre for Vocational Education Research, *Students and Courses 2005*, Table 19, available at < www.ncver.edu.au/publications/1701.html>.

- there were 264 000 apprenticeship and traineeship commencements in Certificates I to IV in the 12 months ending September 2006;³⁵ and
- 16 110 students commenced an ASbA in the 12 months to June 2006, of which 5120 were at the Certificate III level, including 1400 in the traditional trades offered by the Australian Technical Colleges.
 - The largest number of ASbA commencements in the 12 months to June 2006 was 6760 in Queensland, of which 3050 were at the Certificate III level, including 1270 in the traditional trades offered by the Australian Technical Colleges.³⁶

Implementation of the programme

1.23 The Australian Government committed to the implementation of the Australian Technical Colleges over five years, from 2005 to 2009.³⁷ Five colleges opened in 2006. Achieving this goal was dependent on the introduction and passage of legislation to establish the colleges.

1.24 In November 2004, DEST advertised the programme in the press and invited expressions of interest. In March 2005, DEST sought submissions to establish and operate the new colleges, receiving 73 proposals.

1.25 From May to June 2005 DEST assessed the 73 proposals it received against pre-determined selection criteria. On 15 July 2005, the Minister announced the first 12 Australian Technical Colleges to be established, with four of these Australian Technical Colleges opening in early 2006.³⁸ Following this announcement, successful applicants³⁹ from the assessment process were required to negotiate Funding Agreements with the department.

³⁵ National Centre for Vocational Education Research, *Australian vocational education and training statistics: Apprentices and trainees—September quarter 2006, Summary*, available at <www.ncver.edu.au/statistic/publications/1743.html>.

³⁶ Provided by DEST.

³⁷ *A Stronger Economy, A Stronger Australia: The Howard Government Election 2004 Policy Australian Technical Colleges*, October 2004, Canberra, available at <www.liberal.org.au>.

³⁸ Australian Technical Colleges in Eastern Melbourne, Gladstone, Gold Coast, Northern Tasmania and Port Macquarie opened in 2006.

³⁹ The Request for Proposal (RFP) documentation and DEST's Assessment and Probity Plan advised that the assessment process will lead to the Department advising Government on all applications by region with the Government deciding on successful applicants. However, DEST informed the ANAO that the RFP process did not lead to the identification of successful applicants with which the Australian Government would sign Funding Agreements. The RFP process identified suitable proponents with which to engage in negotiations.

1.26 From when DEST called for expressions of interest to the opening of the first four Australian Technical Colleges took approximately 16 months. DEST had limited time to plan and implement the programme, in order to have the first colleges accepting students in 2006. Achieving this schedule required the introduction and passage of the Act, as well as adoption of a process to engage groups, with industry support, to establish each college. DEST advised the ANAO that it generally takes three to four years to establish a new school, while Australian Technical Colleges have been established within six to 18 months.

1.27 By 28 February 2007:

- the Government had announced 24 of the first 25 colleges (three government and 21 non-government);⁴⁰
- 21 Funding Agreements and three Interim Funding Agreements were signed, with estimated individual college budgets varying from \$8.4 million to \$24.8 million for the period to 2009;
- 20 colleges had opened with another to open later in 2007; and
- the enrolment target for 2007 is 2000 students.

Audit approach

Audit objective and criteria

1.28 The audit objective was to form an opinion on the effectiveness of DEST's planning, assessment, and Funding Agreements management for the Australian Technical Colleges programme.

1.29 The criteria for this audit tested whether DEST's management of the programme complied with its plans, procedures and guidelines, with the Act, and with better practices for grants administration. For these purposes, the ANAO focused on DEST's:

- planning for the implementation of the programme;
- assessment of proposals to establish and operate the colleges; and
- management of the Funding Agreements.

1.30 The ANAO conducted the audit because the programme:

- involves the Government directly funding a new educational system;

⁴⁰ The remaining college has not yet been selected. These figures exclude the three additional colleges announced in the 2007–08 Budget.

- involves DEST working with Australian Technical Colleges Boards which have varied levels of experience of working with the Australian Government;
- provides large amounts of funding for operational and capital works; and
- was implemented in a limited timeframe.

Audit methodology

1.31 The audit focused on DEST's planning, assessment of proposals, and management of Funding Agreements, as these activities are important elements in establishing a grant programme.

1.32 In order to form an audit opinion, the audit team:

- interviewed DEST staff;
- reviewed documents, files and publications;
- interviewed stakeholders, including officers in State government departments and members of Australian Technical Colleges;
- examined DEST's assessment of a sample of 18 applications from seven regions for consistency with DEST's *Assessment and Probity Plan*;
- visited five Australian Technical Colleges – Eastern Melbourne, Gladstone, Gold Coast, North Brisbane and Northern Tasmania; and
- examined and analysed DEST Australian Technical Colleges data.

1.33 The establishment and operation of this new programme will evolve and change, and DEST's role in administering the programme will develop. The ANAO took these factors into account in conducting the audit.

1.34 At the time of the audit fieldwork (prior to the 2007–08 Budget) the Government had announced the establishment of 21 of the then target of 25 colleges. After fieldwork was completed, the Government announced its intention to fund an additional three colleges in three new regions.

1.35 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of \$380 000.

Structure of this report

1.36 The remainder of this report has three chapters:

- Chapter 2 examines DEST's planning for the implementation of the Australian Technical Colleges programme;
- Chapter 3 reviews DEST's assessment of Australian Technical Colleges proposals; and
- Chapter 4 reviews funding for the programme, Australian Technical Colleges' legal status and ownership of assets, and DEST's management of the Funding Agreements.

2. DEST's planning for implementing the programme

This Chapter examines DEST's planning for the implementation of the Australian Technical Colleges programme.

Introduction

2.1 The ANAO's Better Practice Guide on the *Administration of Grants*, advises that:

Planning sets out the necessary steps and processes, identifies what resources are needed and how they will be used. It also determines relevant milestones and targets and establishes a mechanism to enable the grant administrator to assess and report the extent to which individual projects and the program overall are meeting their objectives.⁴¹

2.2 An essential part of implementing a new programme is the development and implementation of a detailed plan.

2.3 In this Chapter, the ANAO examines some elements of DEST's planning, that included its development and implementation of:

- an Implementation Plan—*The Establishment of 24 Australian Technical Colleges in 2006, 2007 and 2008 – Implementation Plan*;
- governance arrangements, including an Australian Technical Colleges Steering Committee⁴² chaired by a Deputy Secretary of the Department;
- risk assessments;
- procedures, instructions, guidelines and performance information; and
- information for potential applicants for funds to establish colleges, and associated assessment documentation.

⁴¹ ANAO *Better Practice Guide—Administration of Grants*, May 2002, p. 5, Canberra, available at <www.anao.gov.au>.

⁴² The DEST Australian Technical Colleges Steering Committee's role is to consider college issues and the impact across the Department.

Implementation plan

2.4 The *Implementation Plan* advised on the programme's scope, work allocation, funding, risk management, stakeholder engagement, resources management strategy, contracting and procurement, and monitoring strategy.

2.5 The *Implementation Plan* was based on the Department of Prime Minister and Cabinet's *Guide to Preparing Implementation Plans*.⁴³ DEST reports quarterly on the programme's performance to the Department of Prime Minister and Cabinet. The report includes the results for each quarter, and major milestones for the next quarter, and it provides general comments on the programme and outlines any issues. DEST's reports advised that the programme was progressing well. The Department of Prime Minister and Cabinet accepted the reports.

2.6 The *Implementation Plan* contained strategies with supporting activities to implement the programme. The majority of activities listed in the plan were implemented.

⁴³ Department of Prime Minister and Cabinet, *Guide to Preparing Implementation Plans*, available at <www.pmc.gov.au/implementation/implementation_guide.cfm>.

Roles and responsibilities

2.7 The *Implementation Plan* established the programme management structure, as presented in Table 2.1.

Table 2.1

Australian Technical Colleges management structure

Governance role	Responsibility	Accountable
Australian Government	Minister for Vocational and Technical Education.	Prime Minister, Parliament.
Sponsor	DEST Group Manager, Schools Resourcing Group (currently DEST Group Manager, National Training Directions Group).	Secretary, DEST.
DEST Australian Technical Colleges Steering Committee	Chaired by the Deputy Secretary of DEST. Includes Group Managers of Schools; Vocational Education and Training; Procurement, Assurance and Legals; Strategic Analysis and Evaluation; and Indigenous and Transitions.	Secretary, DEST.
Probity	Probity Advisor.	DEST Australian Technical Colleges Steering Committee.
Leader	Branch Manager, Australian Technical Colleges Branch.	Group Manager, Schools Resourcing Group (currently Group Manager, National Training Directions Group) and DEST Australian Technical Colleges Steering Committee.
Australian Technical Colleges Managers	Team Leaders of the Australian Technical Colleges Branch.	Australian Technical Colleges Branch Manager.
Implementation	Cabinet Implementation Unit, Department of Prime Minister and Cabinet.	Secretary, Prime Minister and Cabinet.

Source: DEST.

2.8 DEST established a separate Branch in November 2004 to implement and administer the programme.

2.9 In the early stages, DEST formed an Australian Technical Colleges Steering Committee, comprising senior personnel from across the department. This committee considers all aspects of the implementation of the programme including risk assessments and management, financial status, legislation, communications, and contract management. The committee meets regularly.

2.10 The ANAO noted that DEST established and implemented a clear programme management structure.

Stakeholder engagement

2.11 DEST conducted an analysis of stakeholder's interests as part of the *Implementation Plan*. Stakeholders' interests analysed included those of State governments, business and industry, education and training providers, peak representative groups for the education sector, TAFE Directors Australia, education unions, and local community and business within the regions.

2.12 DEST's *Implementation Plan* advised that stakeholder engagement during the implementation phase was managed through the Minister's Office. The Minister conducted community consultations in the 24 regions between January and April 2005. Some other key elements of stakeholder engagement included:

- advertising the programme in the press in November 2004, inviting Expressions of Interest for the programme;
- the release of a Discussion Paper⁴⁴ on 13 January 2005; and
- a hotline, Australian Technical Colleges website and an Australian Technical Colleges e-mailbox for queries.

2.13 The *Implementation Plan* advised that DEST would develop a Stakeholder Engagement strategy following its receipt of proposals. In September 2005, DEST developed a *Communication Strategy* for the programme. The objective of this strategy was:

1. to increase awareness of the ATC initiative and its expected outcomes among all target audiences; and
2. to promote pride and excellence in trade skills and training for young people.

2.14 The September 2005 *Communications Strategy* listed external audiences for DEST's consultation, how this would be done, and key messages. The strategy addressed the interests of a number of stakeholders but contained little information on how DEST would communicate with State and Territory governments. DEST regularly discussed the programme at forums such as the Ministerial Councils and Senior Officials meetings of both schools and the VET

⁴⁴ Department of Education, Science and Training, *Australian Technical Colleges A Discussion Paper*, Canberra, 2005, available at <www.australiantechnicalcolleges.gov.au/archived_docs/>.

sectors, and at meetings with individual State and Territory Governments. The ANAO observed that DEST's September 2005 Communication Strategy did not contain a formal strategy for dealing with the interests of State and Territory governments on an ongoing basis. Rather, DEST consulted with State and Territories through existing fora such as the Ministerial Council on Education, Employment, Training and Youth Affairs, the Ministerial Council for Vocational and Technical Education, the National Senior Officials Committee and the Australian Education Systems Officials Committee. Such a formal strategy would have assisted the department in its relations with State and Territory governments as they are key stakeholders in implementing the programme, and have experience in providing secondary schooling.

2.15 Also, the ANAO noted that DEST's risk assessments on the programme contained few risks relating to its relationship with the State and Territory governments. As with the Communications Strategy, it would have been beneficial to give more attention to this matter.

Curriculum development

2.16 The ANAO found each college is developing its own curriculum/training programme for the same small number of trades, which takes into account the needs of the region's local industry requirements. The practice of each college developing its own training curriculum is time consuming and costly. DEST holds an annual forum for college staff to improve communication between the colleges. This forum discusses common issues and practices.

2.17 The ANAO considers it would be beneficial for DEST to provide stronger encouragement to colleges to share their approaches to training. Such a strategy will reduce operating costs and lead to richer, shared curricula for the small number of trades on which each college is focusing.

Recommendation No.1

2.18 The ANAO recommends that DEST develop and implement an approach for the Australian Technical Colleges to share better practice and approaches to training.

DEST's response

2.19 DEST agrees with this recommendation. DEST has implemented a strategy concomitantly with the ANAO's audit to create networks between Colleges to ensure the delivery of a high quality, integrated curriculum. DEST

is also ensuring that the Colleges access relevant knowledge and expertise of the schooling sector.

Risk management planning

2.20 A key component of implementing a new programme is the development and implementation of a risk management plan. DEST conducted risk assessments for the Australian Technical Colleges programme.

2.21 The risk assessments covered a multitude of risks and how the department intended to address them. DEST implemented a majority of the measures listed in its first two risk assessments. However, the *Implementation Plan* advised that for the Expressions of Interest, Request for Proposal, and assessment phases, monthly reviews of unacceptable risks and a quarterly review of all risks would be conducted. Also, DEST conducted an internal audit. The latter recommended DEST's programme area further review and consider its risk assessments to include more in-depth coverage of risks such as shared accountabilities, data quality and validity, and fraud risk.

2.22 DEST advised it reviews issues relating to the colleges through regular reports to the Steering Committee that cover off major risks and key issues, and frequently reviews the risks and controls within the risks assessments.

2.23 This new programme mostly involves new companies receiving millions of dollars to manage large projects in short timeframes. Regularly reviewing the risks and controls identified in the risk assessments from the early stage of implementation would have assisted DEST in managing the uncertainties of the programme.

2.24 The programme's risk assessment's contained risks and controls on financial management and administration. A sample of financial risks identified and associated measures from DEST's risk assessments are in Table 2.2.

Table 2.2**A sample of financial risks and associated measures**

Australian Technical Colleges financial risks	Measures
Failure of Australian Technical Colleges to develop adequate financial management practices or procedures leading to DEST receiving inaccurate financial reports.	DEST is to establish and provide simple and clear reporting tools for Australian Technical Colleges to complete to allow DEST to monitor each college's financial expenditure. DEST will provide individual support to each Australian Technical College in completing the financial reports when required. Detailed instructions will be provided with each report to assist Australian Technical Colleges.
Budget is insufficient for establishing and operating 25 suitable Australian Technical Colleges.	DEST can approach Department of Finance and Administration for more funds if necessary.
Financial expenditure is inaccurately monitored by the Department due to inadequate Departmental systems to monitor commitment of expenditure or reconcile expenditure or lack of financial knowledge of key Staff.	Key staff receive training to improve financial skills as required. Clear systems established to monitor financial expenditure.
Capital works not managed effectively or not completed in a time for school commencement causing concern for parents, students and staff of school with no facilities to learn their trade and embarrassment for the Minister.	Colleges are required to follow the capital bid guidelines which outline requirements for tendering and quotes. Mechanisms are put in place to monitor project development e.g. establishment of a Steering Committee which will enable early intervention for projects falling behind.
Australian Technical College builds up excessive cash reserves, leading to compromised accountability and Australian Technical Colleges programme integrity.	DEST monitors Australian Technical Colleges closely through Financial Status Reports and payments of scheduled funds. DEST withholds further payments to Australian Technical Colleges to counteract buildup of funds.

Source: DEST.

2.25 The risk assessments did not adequately address the detailed financial risks relating to the colleges' ability to effectively administer significant amounts of funding for capital projects. However, DEST did consult with industry guides and state-based Block Grant Authorities, and it established benchmarks for capital projects. A way of improving DEST's risk management would be to develop and implement stronger risk controls relating to its administration of funding to implement and operate the colleges. For example, some consortia had little experience in dealing with the Commonwealth and its requirements for administering Government grant funds, including for capital works.

2.26 Also and as mentioned earlier, the risk management plans gave little attention to the responses of State and Territory governments to the new colleges. For example in one region, the college's initial educational delivery model involved students being enrolled in both existing schools and the college. The local state schools advised that if the college became a registered school, as required in its Funding Agreement with DEST, it would reduce student enrolments in state schools in that region. The local state schools indicated to DEST that they would not continue to cooperate with the college after it became registered as a school. This led to uncertainty about the operational model, and lengthy negotiations with the state government authority. At the time of writing this report, DEST was continuing its negotiations with the relevant state government authority on this matter.

2.27 The department's risk assessments canvassed the possibility of the colleges failing. However, they did not specifically address the possibility of colleges' educational delivery models having difficulties, and there was limited attention to colleges' approach to governance. While it may have not been possible to identify all issues when the programme commenced, DEST would benefit from including the above risks in its risks assessments, and regularly reviewing them. Of note is that, as issues have arisen, DEST has worked closely with colleges and state authorities to address them.

Programme administrative procedures and guidelines

2.28 The development of clear, consistent and well-documented procedures and guidelines is important in implementing a new programme.

2.29 Programme procedures and guidelines should include information necessary to assist staff. They should refer to the administrative requirements of the programme including the financial management arrangements, as well as any requirements for monitoring and reporting. The ANAO acknowledges that, in implementing and administering a new programme, there is an element of learning from experience as the programme develops, and that procedures and guidelines will develop and change.

2.30 As part of the planning process, DEST developed financial procedures, instructions, and guidelines to assist its staff in managing payments to the colleges. The principal document for advising DEST staff on administering the programme was DEST's Australian Technical Colleges *Administrative Guidelines 2006–2009*. This document established procedures for managing the

programme. Other programme documentation developed to assist in the management of the colleges is shown in Table 2.3.

Table 2.3

Australian Technical Colleges programme documentation

Document	Description of document purpose
<i>Draft Financial Management Procedures</i>	Provides procedures for DEST staff to manage Australian Technical Colleges' payments.
<i>Australian Technical Colleges Capital Bid Guidelines</i>	Provides Australian Technical Colleges with advice on preparation of their five year capital plan to support their claim for capital funding.
<i>Business Plan Guidelines</i>	A guide to preparing the Business Plan.
<i>Quarterly Financial Status Report Instructions</i>	Provides Australian Technical Colleges with advice on how to complete the Quarterly Financial Status Report.
<i>3 Way Business Model Instructions</i>	Instructions designed to guide applicants in completing their funding model.
<i>Annual Operating Plan</i>	Contains information on the activities the Australian Technical College intends to undertake in the first year of operation.
Funding Agreement	Agreement between the Australian Government and the Australian Technical Colleges.

Source: DEST.

2.31 Most of these procedures, instructions and guidelines were well written and provided DEST and the colleges with a clear understanding of the programme's requirements. However, the ANAO found in some instances that documents were still drafts, with some inconsistencies between documents, and that procedures for the operational payments⁴⁵ to colleges had not been developed. This reflected the early stages of this new programme and how it was being implemented within tight schedules. DEST advised the ANAO that its legal group had reviewed and cleared the documents and that the guidelines were the subject of ongoing development. Inconsistencies and incomplete documentation may have increased the risk that such procedures were not followed.

Performance measurement

2.32 Guidance provided by the Department of Finance and Administration, the ANAO, the Senate Finance and Public Administration Legislation Committee and the Joint Committee of Public Accounts and Audit, indicates

⁴⁵ Operational payments are payments made to the colleges on a quarterly basis to cover operating expenditure, such as administration and marketing costs.

the features of desirable performance reporting.⁴⁶ Their advice is that performance reporting should involve clear and precise indicators that are drawn from policies and plans for the agency.

2.33 The ANAO reviewed DEST's performance information from the DEST Portfolio Budget Statements 2006–07 and Annual Report 2005–06, Funding Agreement, and DEST's internal performance measures.

External performance reporting

2.34 DEST reports externally on its performance through its Annual Report and Portfolio Budget Statements (PBS).

DEST Annual Report 2005–06

2.35 DEST's 2005–06 Annual Report contained no performance measures on the Australian Technical Colleges programme. However, the Annual Report stated that:

Through the introduction of the colleges a number of key goals have been achieved, including:

- promoting pride and excellence in trade skills training for young people
- providing skills and education in a flexible learning environment to build a solid basis for secure and rewarding careers
- adopting a new industry-led approach to providing education and training in partnership with local communities
- establishing an industry-led governing council for each college that sets strategic direction and performance objectives and selects the principal
- providing trade training relevant to industry that leads to nationally recognised qualifications through Australian school-based apprenticeships, as well as academic and vocational education relevant to trade careers that leads to a Year 12 Certificate.⁴⁷

2.36 DEST advised that it was not necessary for the 2005–06 Annual Report to include performance information for the programme. The performance

⁴⁶ ANAO and Finance, *Better Practice in Annual Performance Reporting*, p. 7, Canberra, 2004, available at <www.anao.gov.au>.

⁴⁷ Department of Education, Science and Training, *Annual Report 2005–06*, Canberra, p. 34, available at <www.dest.gov.au>.

information for school education in the 2005–06 Annual Report covered the 2005 calendar year. At that stage, no colleges were operating.

Portfolio Budget Statements 2006–07

2.37 DEST's 2006–07 PBS advised that the department will continue to manage the establishment and monitoring of 25 colleges. It also informed readers that the Commonwealth committed \$343.6 million⁴⁸ from 2005 to 2009 to fund the establishment and operation of the colleges as a new approach to attract young Australians to a career in the trades.

2.38 The ANAO examined the performance information in the PBS and found one performance indicator specific to the programme, which states:

Funding Agreements are signed with 25 Australian Technical Colleges as proponents are agreed.⁴⁹

2.39 DEST advised that the reason why the 2006–07 PBS contained one performance indicator was that only five Australian Technical Colleges were scheduled to commence when the 2006–07 Budget documentation was being developed early in the 2006 calendar year. As such, the main identifiable performance indicator for the programme over the next financial year was the signing of the remaining Funding Agreements. DEST also advised the ANAO that Australian Technical College student numbers were included in the other performance information relating to Outcome 1,⁵⁰ which covered schools and other providers.

Portfolio Budget Statements 2007–08

2.40 DEST's 2007–08 PBS advised that the Budget will provide additional funding of \$74.7 million over five years for the establishment and operation of three additional colleges. This is in addition to the \$456.2 million over 2005–2009 provided through the Act. All 28 colleges will be operational by the beginning of 2009, with 21 operating in 2007.

2.41 The 2007–08 PBS had one outcome effectiveness indicator. This was 'trends in full-time student enrolments and number of Australian School–

⁴⁸ The Act initially appropriated \$343.6 million over five years from 2005 to 2009. The Act was amended in March 2007, with additional funding of \$112.6 million appropriated.

⁴⁹ Education, Science and Training, 2006, *Portfolio Budget Statements 2006–07*, Budget Related Paper No. 1.5, Canberra, p. 56, available at <www.dest.gov.au/portfolio_department/dest_information/publications_resources/resources/budget_information/2006/pbs.htm>.

⁵⁰ Outcome 1: Individuals achieve high quality foundation skills and learning from schools and other providers.

Based Apprenticeships at Australian Technical Colleges'. In addition, it contained two performance indicators specific to the programme, which state:

- number of Australian Technical Colleges; and
- number of student enrolments.

2.42 DEST did not report 2006 estimated or actual student enrolments.

Internal performance measures

2.43 DEST reported internally on its performance through information provided by the colleges in compliance with its requirements and through performances measures in its business plans.

Funding Agreement performance measures

2.44 DEST's Funding Agreement with each Australian Technical College contains several performance indicators. Examples included:

- the number of students enrolled at the ATCs is consistent with the number estimated in the Business Plan;
- the number of students placed in a School-Based New Apprenticeship is consistent with the number estimated in the Business Plan;
- the proportion of students who commence Year 11 or Year 12 at the ATC who complete a senior secondary certificate or equivalent at the ATC is consistent with the proportion of students who commence Year 11 or Year 12 and complete a senior secondary certificate or equivalent at other schools in the region and State/Territory;
- 95 per cent of students achieve positive post-school outcomes;
- 90 per cent of industry and business representatives surveyed are satisfied with the ATC; and
- 90 per cent of students surveyed are satisfied with the ATC.

2.45 Table 2.4 shows student numbers enrolled at the first five operating Australian Technical Colleges.⁵¹

⁵¹ The first five operating Australian Technical Colleges were Eastern Melbourne, Gladstone, Gold Coast, Northern Tasmania and Port Macquarie.

Table 2.4**Students enrolled at the five operating Australian Technical Colleges**

Operating Colleges	Estimated Student Numbers for 2006	Actual Student Numbers October 2006		2009 Estimated Total Number
		Students	ASbAs	
Eastern Melbourne	75	16	16	315
Gladstone	30	29	13	135
Gold Coast	45	39	25	150
Northern Tasmania	50	25	- ¹	323
Port Macquarie ²	260	196	20	405
Total	460	305	74	1328

Source: DEST, October 2006.

Note 1: Australian Technical College Northern Tasmania was not yet required to report on Australian School-based Apprenticeships (ASbAs) as Australian Technical Colleges have six months to organise ASbAs for students.

Note 2: ASbAs were not available in all trades offered by the Australian Technical Colleges in NSW in 2006.

2.46 Table 2.4 shows that the first five operating Australian Technical Colleges overestimated the number of students to be enrolled in 2006. The ANAO noted that three of the colleges signed Funding Agreements in December 2005, and one college opened in August 2006. Signing Funding Agreements close to the opening date and not commencing at the start of the school year is likely to adversely impact on the number of enrolments. DEST advised that the variance in the estimates compared with the actual number of students for 2006 was within an acceptable range for most colleges given the nature of the programme, and that during the period, DEST continued to work with the colleges to lift enrolment numbers.

Business plan performance measures

2.47 The DEST 2005–06 Schools Groups Business Plan listed key performance indicators for the Australian Technical Colleges programme. It also had a section to be completed biannually for reporting on the achievement of the targets. The Australian Technical Colleges Branch Business Plan 2006–07 listed numerous key performance indicators that were linked to the programme.

2.48 While many performance indicators were activities rather than measures, they will help Australian Technical College managers in administering the programme. Yet performance information could be improved, for example, by inclusion of more precise targets.

2.49 Measurable performance indicators that focused on programme outcomes as well as inputs and outputs will improve DEST's ability to measure and report on the programme's performance.

2.50 In February 2007, the ANAO tabled a report on the application of the outcomes and outputs framework.⁵² The framework provides the basis of the Government's approach to budgeting and reporting for public sector agencies, and the means by which the Parliament appropriates funds for agencies. The ANAO included DEST in the cross-portfolio audit that led to the report.

2.51 The report concluded that the extent to which the framework had been integrated into agencies' operations also varied. The audit found that outcomes and outputs were not always linked to, or reflected in, agencies' strategic planning and performance management processes. To address these matters, the ANAO recommended that agencies review their output, outcomes and performance indicators. The latter part of the recommendation is relevant for this programme.

Programme review

2.52 Review and evaluation of the performance of a new programme is an important part of programme management. Such reviews and evaluations typically assess programme performance, including progress against objectives and cost effectiveness, and may lead to improvements in programme design or administration.

2.53 ANAO's Better Practice Guide on the *Administration of Grants*, advises on the evaluation of grant programmes, and states:

Evaluation should encompass assessment of financial performance, the utilisation of inputs and disposition of outputs. In addition, good evaluation assesses economic, environmental and social outcomes. Also with the purpose of an evaluation being whether resourcing should remain at current levels, be increased, reduced or discontinued.

⁵² ANAO Audit Report No.23 2006–07, *Application of the Outcomes and Outputs Framework*, Canberra, available at <www.anao.gov.au>.

2.54 DEST's Implementation Plan states that it is expected that the programme would be reviewed in 2008–09. DEST's internal review would consider the appropriateness, effectiveness, and efficiency of the programme. A review of the programme at this time would be beneficial given:

- it is a new programme for DEST involving the establishment of a new educational system;
- the programme's large expenditure;
- the short period DEST had to implement the programme; and
- it involves mostly new companies, some with little experience with DEST, receiving significant levels of funding to manage large projects in short timeframes.

Recommendation No.2

2.55 The ANAO recommends that DEST:

- (a) develop Portfolio Budget Statement performance indicators for the Australian Technical Colleges programme; and
- (b) include in its 2008–09 Budget review of the Australian Technical Colleges programme an evaluation of the programme's progress against its objectives including of its cost effectiveness.

DEST's response

2.56 DEST Agrees with this recommendation.

- (a) DEST has developed a balanced set of performance indicators for the Australian Technical Colleges and included them in the 2007–08 Portfolio Budget Statement.
- (b) The Australian Technical Colleges Programme will be evaluated in 2008 in accordance with existing Department of Finance and Administration Review Guidelines.

Planning for the assessment process

2.57 DEST developed an Assessment Plan, Request for Proposal document including selection criteria,⁵³ and an Assessment Guide for proposal assessment teams. This part examines how DEST planned to assess proposals for establishing colleges, and whether DEST developed a sound approach to assess proposals consistently.

Assessment plan

2.58 DEST's *Assessment and Probity Plan* outlined the assessment process and the procedures for managing the proposal documentation.

2.59 DEST sought agreement to the *Assessment and Probity Plan* from the DEST Australian Technical Colleges Steering Committee, representatives of the Audit and Investigations Branch and the Procurement, Assurance and Legal Group.⁵⁴

2.60 The *Assessment and Probity Plan* outlined a clear and logical process for conducting the assessment of the proposals. Procedures were clarified in the *Assessment and Probity Plan*, and there was sufficient detail to enable the assessment process to be conducted in a consistent manner.

Assessment forms

2.61 DEST developed a range of assessment forms including for:

- assessing applicant's responses to the selection criteria;
- assessment summaries;
- the overall assessment result; and
- the supplementary assessment process.

2.62 These forms were logically linked to the selection criteria. The forms provided a sound basis for assuring a consistent approach to the assessment of proposals and for documenting decisions. DEST used the forms during its assessments.

⁵³ The selection criteria are outlined in Department of Education Science and Training, *Request for Proposal for the Establishment and Operation of 24 Australian Technical Colleges in 2006, 2007 and 2008*, Canberra, pp. 9–12, available at <www.australiantechnicalcolleges.gov.au>.

⁵⁴ The Chair of the DEST Australian Technical Colleges Steering Committee approved the plan on 17 May 2005.

Selection criteria

2.63 The selection criteria were in two parts. Part one criteria reflected the core requirements of an Australian Technical College, while part two criteria provided the qualitative criteria. Part one had eight criteria and part two had seven. Applicants were provided with a copy of the selection criteria. The applicants' responses to the selection criteria formed the basis for DEST's assessment of the proposals.

2.64 Selection criteria were consistent with the legislation and programme objectives and were clearly documented. The majority of the selection criteria addressed the educational and employment requirements of an Australian Technical College, with only one criterion addressing financial management. DEST advised that although there were no specific criteria addressing project management capability, inherent in the selection criteria was the requirement to demonstrate project management skills. For example, criterion one of part two selection criteria required proponents to demonstrate that they could attract staff, develop strategies to ensure independent operation and develop effective relationships with local business. Further, criteria two of part two selection criteria also required the demonstration of project management skills involved in 'attracting and retaining students'.

2.65 Of note is that the success of the colleges' educational goals relies on the companies and other consortia having sound financial and project management. This new programme involves DEST providing significant amounts of funding for major capital works to consortia, in some cases, with little experience of working with the department.

Information to assist in assessing the proposals

2.66 DEST developed an *Assessment Guide* to assist in evaluating responses to the criteria. The *Assessment Guide* provided staff with information on what was required in applicants' responses to satisfy the criteria.

2.67 The Guide also referenced additional information available to assessors on the selection criteria, including:

- industrial relations legislation and Australian Workplace Agreements;
- non-government school registration requirements;
- skill shortages in trades, such as construction;
- vocational education and training statistics, including student numbers;

- regional descriptions for each Australian Technical College region, including age profiles and secondary student numbers;
- apprenticeship statistics, including the number of commencements for each region (December 2004); and
- TAFEs and higher education campuses in the regions.

2.68 Applicants were required to provide through their business plans information on the effective use of funds and resources for capital works. The information listed above did not include information to assist in assessing capital budgets in the applicants' business plans

2.69 DEST would have benefited by providing assessors with information on capital costs for the construction of new buildings and or refurbishment of existing buildings. This would have assisted DEST in assessing the capital budgets in applicants' business plans. In that way, the assessment teams could have considered the proposed capital works alongside each consortium's educational delivery or operational models.

Conclusion

2.70 DEST had a very short period to plan the implementation of this new programme. As a consequence DEST managed several tasks simultaneously, with policies and procedures developed as the programme progressed.

2.71 DEST's planning for implementing the programme included the development of an Implementation Plan, risk assessments, procedures and guidelines, performance information, and assessment documentation. DEST also formed a Steering Committee, comprising senior personnel from across the Department, to oversee implementation and management.

2.72 DEST's risk assessments for the programme were detailed and contained many risks and controls focussing on the implementation and management of the programme. However, the ANAO identified that the risk assessments contained few risks and controls focussing on DEST's financial management and administration of the programme, including consideration of the colleges' ability to administer funding for capital projects. While it may have not been possible to identify all of these issues when the programme commenced, DEST would benefit from a more focussed identification and review of risks relating to college's financial management.

2.73 The ANAO identified some parts of DEST's planning that could have been improved. For example, the development of:

- a strategy to address the interests of State and Territory governments, and to assist the department in its relations with those governments;
- an approach for the colleges to share better practice and approaches to training; and
- more specific internal and external performance indicators to recognise and report on the Commonwealth's significant outlays on the programme.

3. DEST's assessment of proposals

This Chapter reviews the proposal assessment process for a sample of applications. In particular, it looks at whether DEST assessed proposals consistently and clearly documented its decisions.

Request for proposals

3.1 On 30 March 2005 DEST placed advertisements in the press inviting submissions to establish the colleges, with a closing date of 20 May 2005.

3.2 Applicants were provided with a Request for Proposal (RFP) document that included the selection criteria, a description of the selection process, and details of other information required. Applicants were also provided with an application form and a financial viability questionnaire. Applicants had approximately seven weeks to prepare and submit detailed proposals that included business plans and responses to the selection criteria.

3.3 Seventy three proposals were received, with four of these received after the closing date. All 73 proposals were assessed.⁵⁵

3.4 Proposals were developed mostly by consortia, with a nominated lead applicant for each proposal. Consortia included representatives from, for example:

- government and non-government schools;
- Registered Training Organisations;
- local councils; and
- industry bodies and local businesses.

3.5 The ANAO reviewed the assessment of 18 proposals from seven regions⁵⁶ and examined whether DEST assessed proposals in a consistent manner, including documenting assessment decisions. This Chapter focuses on the:

- conformance process prior to assessment;
- assessments of proposals; and

⁵⁵ DEST accepted the late proposals as the applicants had informed DEST that their proposals would be couriered prior to the closing date or because there were postal delays outside the applicants' control.

⁵⁶ The regions were Gladstone, Gold Coast, Eastern Melbourne, Northern Tasmania, Perth South, Port Macquarie, and Whyalla/Port Augusta.

- selection of the successful applicants, including the supplementary assessment process.

Conformance

3.6 Before being assessed, proposals were checked to ensure they conformed with DEST's requirements and there was sufficient information and supporting documentation to enable DEST to assess them. The RFP document outlined the required information and other conditions applying to the proposals.

3.7 Proposals were compared against a conformance checklist. Proposals that passed conformance progressed to assessment. Proposals that did not pass conformance were reviewed by the Proposal Assessment Management Committee (PAMC).⁵⁷

3.8 Of the sample of 18 proposals that ANAO examined, 11 proposals did not initially pass conformance. Nine of the 11 were passed by the PAMC subject to receipt of further information from the applicants. After review by the PAMC and the DEST Australian Technical Colleges Steering Committee, two proposals were deemed to have not passed conformance and were not assessed further.

3.9 The ANAO found that all proposals in the sample were checked for conformance. Decisions were documented by the conformance teams and the PAMC.

Assessment process

3.10 To manage the assessments, DEST established an assessment and decision-making structure. This comprised assessment and assessment review teams, and the PAMC's supervision of the whole process. The department's Steering Committee had the final approval on the ratings of the proposals. Table 3.1 outlines the assessment process and the associated activities.

⁵⁷ The Proposal Assessment Management Committee consisted of the Australian Technical Colleges Branch Manager and three Branch Directors.

Table 3.1**Assessment process**

Stage	Assessment activity
1	Selection criteria part one assessment.
2	Selection criteria part two assessments (for proposals that met selection criteria part one).
3	Business plan assessment (for proposals that met selection criteria part one).
4	Financial viability assessment for proposals that met selection criteria part one that are not State or systemic non-government schools. ⁵⁸
5	Assessment teams conduct an overall assessment of all proposals.

Source: Adapted from DEST's *Assessment and Probity Plan*.

Note: Proposals that passed part one progressed to stages 2, 3 and 4. Stage 5 was conducted once all the other stages had been completed.

3.11 In addition, assessment review teams reviewed the assessments of proposals to ensure consistency.

3.12 DEST used this process to determine the suitability of each proposal, in terms of the applicant's capability and capacity to establish and operate a college. For each region nominated for an Australian Technical College, the assessment process recommended to Government either:

- a single suitable and preferred proposal;
- a need to negotiate to combine two proposals into a single, strong proposal;
- a need to negotiate to strengthen a single proposal; or
- a lack of any suitable proposal for a region.

3.13 The ANAO examined the assessment process for the sample of 18 proposals to determine whether DEST:

- had followed the assessment process outlined in its *Assessment and Probity Plan*;
- the process was applied consistently across the sample; and
- assessment decisions were documented.

⁵⁸ A 'systemic school' means a non-government school that:

(a) is included in an approved school system; and

(b) is in the list of non-government schools as being included in an approved school system.

Schools Assistance (Learning together–Achievement through choice and opportunity) Act 2004 – Section 4.

Selection criteria assessment

3.14 The ANAO Better Practice Guide on the *Administration of Grants* states that in order to achieve the objectives of a programme, it is essential that all proposals are consistently considered against the selection criteria.⁵⁹ The selection criteria and basis for recommendations and decisions for assessment must also be documented.⁶⁰

3.15 DEST's assessment of the responses to the selection criteria was conducted in two stages. Part one addressed the essential elements of an Australian Technical College, such as becoming a school, and part two formed the basis for assessing the quality of proposals including the relevant experience of the applicants. Proposals that did not satisfy the requirements of part one of the selection criteria did not progress to part two.

3.16 Parts one and two were also reviewed by assessment review teams. The assessment and assessment review results were checked by the PAMC.

3.17 The ANAO examined DEST's assessments of parts one and two of the selection criteria and the assessment review process for the proposals in the sample.

Part one and two selection criteria assessments

3.18 The assessment teams evaluated each proposal, including the business plan and any other supporting information, against the selection criteria.

3.19 The assessment teams were provided with a folder which included the RFP documentation, an Assessment Guide to assist in assessing responses to the selection criteria, a copy of the question and answers from the Australian Technical Colleges website and an assessment form for each proposal. Assessment Teams were also provided with information addressing the selection criteria.

3.20 Procedures for the assessment of the responses to the selection criteria were documented in the *Assessment and Probity Plan*.

3.21 Sixteen proposals in the sample were assessed against selection criteria—part one. One proposal did not pass part one and was not assessed further.

⁵⁹ ANAO *Better Practice Guide—Administration of Grants*, p. 45.

⁶⁰ ANAO *Better Practice Guide—Administration of Grants*, p. 22.

3.22 The ANAO found that, for its sample, the assessment of the responses to the selection criteria was conducted in a consistent manner. The assessment forms developed by DEST were used and each form in the sample had comments against the criteria, including points where the Assessment Team needed further information from the applicant.

Assessment review

3.23 As part of the RFP assessment process, assessment results were reviewed by assessment review teams to ensure consistency before being reviewed by the PAMC. The assessment review teams comprised staff who had not been involved in the initial assessments. The ANAO found that all assessments in the sample had undergone an assessment review. The decisions of the assessment review teams were documented.

3.24 The ANAO noted that the assessment review process was more comprehensive than the process outlined in the *Assessment and Probity Plan*. For instance, instead of reviewing a sample of proposals, all proposal assessments were reviewed, which strengthened the assessment process.

3.25 The PAMC made the final decision if the Assessment Team and the Assessment Review Team differed in their opinions. The PAMC, once satisfied with the integrity of the results, provided these to the Steering Committee for final clearance.

3.26 DEST advised the ANAO that assessment review teams' results were provided to the PAMC. The PAMC considered those results and determined if a proposal would progress further. All proposals were considered by the PAMC.

3.27 There were three proposals in the sample where the assessment and review teams did not agree on the rating for part two of the selection criteria. Although the PAMC meeting minutes stated that assessments were completed for those proposals, there was not a clearly documented decision by the PAMC on the ratings of these proposals.

3.28 The ANAO considers that DEST developed and implemented sound quality control methods for the assessment process. Notwithstanding, DEST should document clearly all its final decisions.

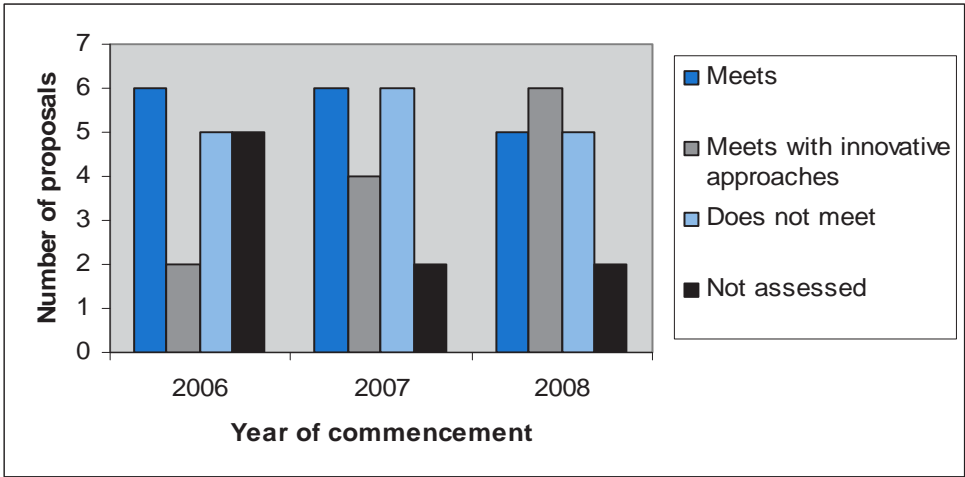
Assessment rating scale

3.29 The ANAO’s Better Practice Guide on the *Administration of Grants* states that a rating process should discriminate between proposals of varying merit.⁶¹

3.30 For part one of the selection criteria, DEST rated criteria as ‘meets’, ‘meets with innovative approaches’,⁶² and ‘does not meet’. Part two criteria were rated as ‘highly suitable’, ‘suitable’, and ‘unsuitable’. The same scales were used to rate the proposals for the three years for commencement in 2006, 2007 or 2008.

3.31 Figures 3.1 and 3.2 illustrate the results of DEST’s ratings for the sample for parts one and two of the selection criteria for the nominated years to open the colleges. Two proposals in the sample failed conformance and were not assessed against the selection criteria for part one or part two. One proposal did not pass part one and was not assessed for part two. Some proposals in the sample were also not assessed for 2006 as they were proposing to commence in 2007.

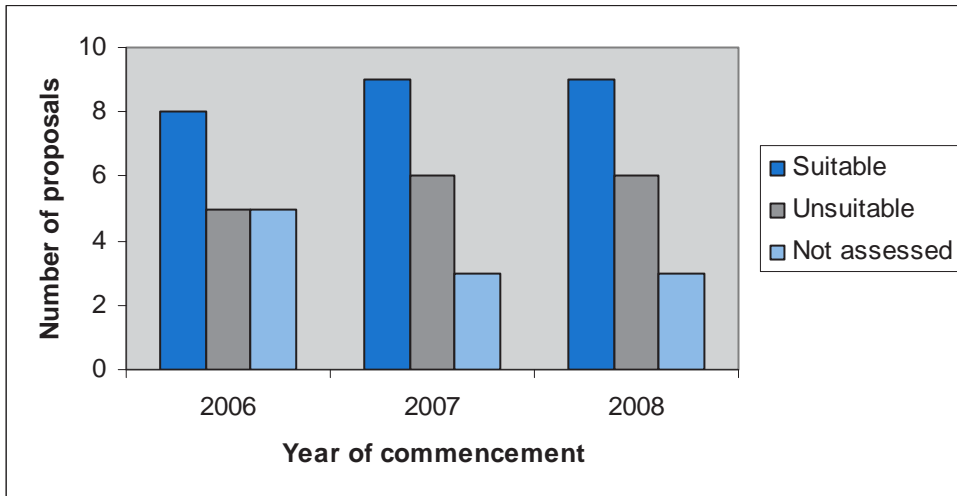
Figure 3.1
Selection criteria–part one results for the sample of 18 proposals



Source: ANAO analysis.

⁶¹ ANAO *Better Practice Guide–Administration of Grants*, May 2002, p. 42, Canberra, available at <www.anao.gov.au>.

⁶² DEST advised an innovative approach was one that outlined an approach beyond the intention of the criterion.

Figure 3.2**Selection criteria—part two results for the sample of 18 proposals**

Source: ANAO analysis.

Note: No proposals in the sample received a rating of highly suitable for the commencement years.

3.32 DEST documentation did not include an explanation of how the ratings should be used. In particular, DEST did not have any documentation explaining how the scales should be used to come to a result for part one and part two for the three years to open the colleges. The ANAO noted that the *Assessment and Probity Plan* referenced the ratings but did not outline what they meant or how to apply them.

3.33 Documenting and defining the ratings used in the assessment process would provide assessors with a common source of information on the rating scale and assist in ensuring that ratings are applied consistently.

3.34 The ANAO suggests that DEST, when conducting future assessment processes, define and document its rating scales. This would assist assessment teams in understanding what the rating scales mean and how to use them.

Assessment of financial information

3.35 As part of the selection criteria, DEST assessed whether applicants demonstrated in their business plans a strong basis for their financial bids, and were likely to be financially viable. DEST also employed a consultant to assess the financial information in business plans, including estimates of the costs of capital works in the new colleges.

3.36 DEST informed the ANAO that applicants were not expected to produce detailed financial modelling or firm estimates in their proposals. However, DEST advised applicants in its RFP that they must prepare detailed and comprehensive business plans.⁶³

3.37 DEST advised the ANAO that applicants who were successful in the assessment process needed to develop more detailed estimates of capital and operational costs during the negotiation phase before Funding Agreements could be signed.

3.38 However, as stated in paragraph 2.64, the majority of the selection criteria addressed the educational and employment requirements of an Australian Technical College, with only one criterion relating to financial information. The ANAO observed that some proposals had large capital works planned but had little supporting financial information. For example, a few proposals had their request for capital funding on one line in a table with no supporting data.

3.39 DEST advised the ANAO that:

- the consultant's report indicated concerns with the budgets in most proposals; and
- all successful applicants were required to submit a revised business plan, including a detailed budget, before a Funding Agreement could be signed.

3.40 The RFP advised that successful applicants may be required to provide a revised and more detailed business plan prior to signing a Funding Agreement. It also advised that the plan could not differ substantially in focus or intent from the original proposal.⁶⁴

3.41 DEST could improve future assessments for this or other new programmes: for instance, through presenting the criteria in a descending order of importance.

3.42 The ANAO also found some inconsistencies between the opinion of the external consultant and DEST's evaluation of capital funding requirements.

⁶³ Department of Education, Science and Training, *Request for Proposal for the Establishment and Operation of 24 Australian Technical Colleges in 2006, 2007 and 2008*, Canberra, p. 13, available at <www.australiantechnicalcolleges.gov.au>.

⁶⁴ Department of Education, Science and Training, *Request for Proposal for the Establishment and Operation of 24 Australian Technical Colleges in 2006, 2007 and 2008*, Canberra, p. 13, available at <www.australiantechnicalcolleges.gov.au>.

For example, for one proposal in the sample, the assessment team concluded that the operational and capital budgets were detailed and presented a plausible account of how funds would be spent. The consultant stated the amount of capital funding requested was high with inadequate supporting information.

3.43 The ANAO noted that within its sample of proposals examined, the consultant's report indicated concerns with the budgets in most proposals. Due to the limited financial information in the proposals, concerns identified by the consultant in relation to individual proposals were not resolved prior to making a recommendation to Government. However, DEST advised the ANAO that, consistent with DEST's information to potential applicants, all successful applicants were required to submit a revised business plan, including a detailed budget, before a Funding Agreement could be entered into.

3.44 In November 2006, DEST engaged a consultant to assist in assessing the costs of capital works in the new colleges.

Business plan assessment

3.45 As mentioned earlier, DEST required applicants to submit a proposal containing a detailed and comprehensive business plan.⁶⁵ Proposals that met part one of the selection criteria had their business plans assessed by an external consultant.

3.46 The consultant evaluated whether applicants' business plans were comprehensive, consistent with the application form, coherent and feasible, and prepared reports on these matters for DEST. The business plan assessment report also made recommendations on whether the business plan supported the relevant consortium's nominated years for first accepting students. The consultant assessed 15 business plans from the ANAO's sample of 18 proposals.

⁶⁵ The business plan outlined a timetable and plan for the establishment and operation of an Australian Technical College. The business plan also included operational financial plans.

3.47 The recommendations made by the consultant were supported by reasons or areas requiring clarification. For example:

- the applicant's operating plan⁶⁶ required further work;
- the timeline had limited detail and needed to be supported by a detailed project plan;
- financial information was poorly presented; and
- little supporting evidence was provided for capital funding requests.

3.48 The ANAO observed for its sample that the consultant indicated a majority of applicants' initial business plans and proposed budgets required further work. However, as stated in paragraph 3.43, concerns identified by the consultant in relation to individual proposals were not resolved by DEST prior to making a recommendation to Government because of the limited financial information in the proposals. DEST assessed the proposals in order to identify the capacity of the proponents to develop operating models. DEST recommended to Government that successful applicants could be announced, but further work would be required on all proposals before DEST could finalise Funding Agreements.

3.49 Following the assessment process, the consultant developed forms and detailed financial instructions to assist successful applicants to finalise business plans and budgets for the negotiation process. Approximately half of the successful applicants as at 28 February 2007 were provided with interim funding to revise their business plans and budgets. They then resubmitted revised business plans and budgets to DEST for negotiations. The consultant assessed the successful applicants' revised business plans and budgets. DEST considered the consultant's revised assessment of the business plans in the final analysis of proposals.

Conflict of interest

3.50 DEST defined conflict of interest as:

when an Applicant, a person or organisation associated with the Applicant, is in a position to benefit directly or indirectly from the Proposal. A conflict of interest can also arise when an Applicant's integrity, objectivity or fairness in

⁶⁶ The operating plan was part of the business plan and contained information about the applicant's intended activities for the first year of operation.

performing the services is at risk due to a personal interest or conflicting business arrangements.⁶⁷

3.51 DEST advised applicants that they:

must identify, in their Business Plan, any potential or actual conflicts of interest that they believe will or may arise from the Proposal or in their responsibilities to the Australian Government and other parties in the course of establishing and managing Australian Technical Colleges.

Applicants must specify how the actual or potential conflict of interest will be addressed and monitored to ensure that it does not conflict with the outcomes desired for this funding process.⁶⁸

3.52 Identification of a conflict of interest or a perceived conflict of interest did not automatically exclude an applicant from consideration. However, DEST reserved the right to evaluate the impact of any conflict of interest and proposed plans to manage conflicts of interest before a final decision was made.

3.53 While conflict of interest was not specifically covered by the selection criteria, the ANAO noted that it was considered during assessments. For example, the ANAO found that DEST in assessing part one of the selection criteria, identified in one proposal in the sample an area where the applicant had not acknowledged a potential conflict of interest in its business plan. The potential conflict of interest was noted by the PAMC.

Financial viability assessment

3.54 Proponents⁶⁹ in the sample who had passed part one of the selection criteria and were not from government or non-government systemic schools were assessed for financial viability. Of the sample of 18 proposals, 11 proponents were assessed for financial viability. The ANAO found that financial viability checks were conducted for all proponents in the sample that met DEST's requirements. The results of the financial viability assessment were taken into consideration in the overall assessment summary.

⁶⁷ Department of Education, Science and Training, *Request for Proposal for the Establishment and Operation of 24 Australian Technical Colleges in 2006, 2007 and 2008*, Canberra, p. 16, available at <www.australiantechnicalcolleges.gov.au>.

⁶⁸ Department of Education, Science and Training, *Request for Proposal for the Establishment and Operation of 24 Australian Technical Colleges in 2006, 2007 and 2008*, Canberra, p. 16, available at <www.australiantechnicalcolleges.gov.au>.

⁶⁹ DEST only assessed the nominated lead proponent in the proposal, not all parties to the proposal.

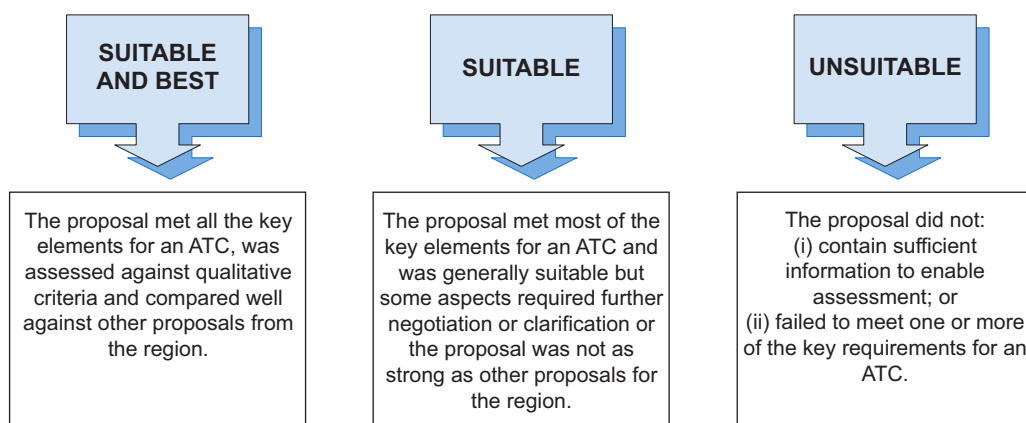
Selection of successful applicants

3.55 Assessment teams conducted an overall assessment of all proposals taking into account the results of the conformance check, selection criteria assessment, business plan assessment and, if conducted, financial viability assessment. The overall assessment was reviewed by the PAMC and Steering Committee.

3.56 On completion of the assessment process, applicants were categorised as 'suitable and best', 'suitable', and 'unsuitable' by the DEST Australian Technical Colleges Steering Committee. Figure 3.3 describes the categories used by DEST.

Figure 3.3

Final assessment categories



Source: ANAO.

3.57 The results of DEST's categorisation of the proposals for the 24 regions were:

- 12 proposals covering 11 regions⁷⁰ were rated as the only suitable and best proposal for their nominated region;
- three regions had two proposals rated as suitable and best;
- five regions had proposals rated as suitable but none was ranked as suitable and best; and

⁷⁰ From the results and DEST's advice, the Australian Government decided to establish two Australian Technical Colleges in the Adelaide region, increasing the number of planned Australian Technical Colleges to 25.

- proposals from five regions were rated as unsuitable with no suitable and best proposals.

3.58 The department assessed the proposals and advised the Minister on the ratings of proposals for each region. The selection of successful applicants was a decision of the Government. On 15 July 2005, the Minister announced the first 12 successful applicants to establish colleges. Applicants from regions where two proposals were rated as 'suitable and best' were asked by DEST to combine their proposals to provide a single, strong proposal for the region.

3.59 As stated in paragraph 2.12, DEST conducted a range of activities to generate interest from the regions to establish the colleges. Notwithstanding, of the first 24 regions, six regions received only one proposal and five received two proposals. Estimated funding for these 11 regions is \$185 million. Each of the other 13 regions received at least three or more proposals.

3.60 For these 11 regions, DEST recommended a successful applicant where there was or were only one or two proposals. In those locations, DEST had limited choice between educational and financial management models. Given more time in these circumstances, an option for DEST may have been to return to the market to develop more industry and community interest in the new programme.

3.61 DEST advised that it had provided information and held discussions in the regions a number of times, and that going back to the regions where only one proposal was received might not have provided a different result. In addition, DEST believed that the number of interested and suitable applicants in certain regions, given the voluntary not-for-profit nature of the organisation, was likely to be limited. DEST advised interested proponents would have been identified through the extensive advertising activities undertaken. Instead, DEST worked closely with the applicants that were selected.

3.62 Table 3.2 lists the Australian Technical College regions in the ANAO sample, the number of proposals received for each region, and their rating following conclusion of the assessment process.

Table 3.2**Australian Technical College regions, numbers of proposals received and ratings**

Australian Technical College regions	Number of proposals received	Suitable and Best	Suitable	Unsuitable
Eastern Melbourne	6	1	1	4
Gladstone	1	1	-	-
Gold Coast	4	1	1	2
Northern Tasmania	2	2	-	-
Perth South	3	-	1	2
Port Macquarie	1	1	-	-
Whyalla/Port Augusta	1	1 ¹	-	-

Source: ANAO.

Note 1: Whyalla/Port Augusta did not submit a full proposal by the RFP closing date. Subsequently DEST invited the applicant to submit a full proposal which was assessed as suitable and best.

3.63 In the ANAO's sample, two regions had one proposal rated as suitable and best and one proposal rated as suitable. In future for this or similar programmes, in regions where two proposals of similar quality were received, it would be beneficial for DEST to consider nominating two proposals for the Government to select to progress to the negotiation stage. Then, DEST could provide interim funding to both applicants to assist in further developing their business plans. This would enable DEST to compare two well-developed educational and financial models, providing greater assurance that the most suitable proposal for a region would be selected.

3.64 As at 28 February 2007, one successful applicant from the assessment process was unsuccessful in negotiations with the department. In other words, 20 of the first 21 proposals that were nominated as successful applicants from the assessment process were successful in negotiations with DEST and subsequently signed Funding Agreements with the Commonwealth.

Supplementary assessment

3.65 Applicants from the ten regions where there were proposals categorised as 'suitable' or 'unsuitable' in the initial assessment with no 'suitable and best' proposal for the region, were given the opportunity to provide additional information. DEST sought information from the highest rated applicant/s in the region. The additional information was intended to

clarify or address areas of the proposal that did not provide enough information to support the applicant establishing an Australian Technical College.

3.66 DEST developed a *Supplementary Assessment Plan* in August 2005, after the initial assessments were completed.

3.67 One proposal within ANAO's sample went through the supplementary assessment process. The applicant was asked to provide further information on the criteria that it had not met in the initial assessment. DEST reassessed the selection criteria that the proposal had not adequately addressed.

3.68 The ANAO found that DEST clearly documented its decisions for the supplementary assessment process for the proposals in ANAO's sample.

Conclusion

3.69 DEST established a sound basis for assessing proposals. DEST largely followed the assessment process as outlined in its *Assessment and Probity Plan*, and the proposals in the sample were assessed consistently.

3.70 However, the ANAO identified areas in which DEST could improve future assessments for this or other new programmes: for instance, through presenting the criteria in a descending order of importance. Also, DEST could have documented and defined the assessment rating scale, providing assessors with a common source of information for rating proposals.

3.71 DEST engaged a consultant to assist in assessing applicants' proposed business plans that included reviewing the costs of capital works in the new colleges. The consultant indicated that a majority of initial business plans and proposed budgets required further work. DEST informed the Government that although successful applicants could be announced, further work would be required on all proposals before DEST could finalise Funding Agreements. Also, in November 2006, DEST engaged a consultant to assist in assessing the costs of capital works in the new colleges.

3.72 In future for this or similar programmes, in regions where two proposals of similar quality were received, it would be beneficial for DEST to consider nominating two proposals for the Government to select to progress to the negotiation stage. Then, DEST could provide seed funding to both applicants to assist in further developing their business plans. This would enable DEST to compare two well-developed educational and financial models, therefore ensuring the most suitable proposal for a region would be selected.

4. Managing funding agreements

This Chapter reviews the programme's funding, Australian Technical Colleges' legal status and ownership of assets, and DEST's management of the Funding Agreements.

Australian Technical Colleges funding

4.1 As explained earlier, in its 2004 election commitment, the Australian Government committed \$289.1 million, over four years from 2004–05,⁷¹ for the establishment and operation of 24 colleges. The funding took into account that the colleges may be in government and non-government schools, and may use existing and new buildings.

4.2 DEST reviewed the election commitment funding to determine the required funds to implement and operate the colleges. The review was conducted and completed within two months of the election commitment, with the revised cost of establishing and operating the colleges estimated at \$354.3 million, an increase of \$65.2 million.⁷² The main reasons for the increase in funding were:

- the programme increased from four to five years;
- more colleges were expected to be established as non-government schools; and
- a revision of capital funding estimates.

4.3 DEST provided documentation showing the analysis of the expected costs for the programme. Its documentation was of information prepared in July 2004 and November 2004. The documentation was limited in light of the significance and size of the programme, and the additional assumptions considered in determining the funding to implement the programme.

4.4 The ANAO noted that the underlying assumptions, in November 2004, for the change in funding were identified and communicated to Government, including that additional funding would be required if the final outcome of implementing the colleges varied from the model being used to determine costs.⁷³

⁷¹ *A Stronger Economy, A Stronger Australia: The Howard Government Election 2004 Policy Australian Technical Colleges*, p. 8, October 2004, Canberra, available at <www.liberal.org.au>.

⁷² Provided by DEST 4 June 2007.

⁷³ Appendix 2 has DEST's advice on costs for the programme.

4.5 As outlined in paragraph 1.4, the Government will fund the programme, under the specific programme legislation, from 2005 to 2009, at an approximate cost of \$473 million.

4.6 In addition to funding provided under the Australian Technical Colleges Act, colleges may also attract funding from State and Commonwealth recurrent funding programmes for schools, student contributions, donations and industry sources. Indicative amounts are shown in Table 4.1 for 21 of the 25 colleges.⁷⁴

Table 4.1

Indicative other funding for 21 colleges to 31 December 2009

Funding Type	Funding defined	Estimated funding
Other government: Commonwealth, State and Territory	Funding provided by the Commonwealth and the States and Territories to government and non-government schools to help with recurrent costs of school education	\$76 700 000
Student	Funding from student fees	\$6 500 000
Donations	Contributions, including in kind support provided by external parties, including industry, and individuals	\$8 360 000
Other	Funding received from other sources, such as interest earned	\$200 000
Total		\$91 760 000

Source: DEST.

4.7 DEST advised:

It should be noted that the 'Other government: Commonwealth, State and Territory' is the total of estimates by each college of other government funding. It includes both Commonwealth and State/Territory recurrent funding and User Choice funding. The General Recurrent component of this figure is not new funding, as most students enrolled in Australian Technical Colleges would have attracted this funding at their previous school. The figure for 'Other government' is unable to be validated as it is impacted by a number of variable external factors at the individual college level. These factors include:

- I. Colleges estimated Socio-Economic Status scores based on expected enrolments.
- II. General recurrent funding is per capita based and actual funding is based on student numbers.

⁷⁴ Provided by DEST 4 June 2007.

- III. The expectation that all States and Territories would provide User Choice funding. This has not proven to be the case in all jurisdictions.

The total figure in this Table is also unable to be validated due to the variable nature of the factors outlined above and the unpredictable nature of school fees and donations.

It is particularly important that this is noted as the total figure from Table 4.1 is used in table 4.2 to provide an estimation of the total funding available to Australian Technical Colleges from 2005–2009.

4.8 The General Recurrent component of 'other Commonwealth, State and Territory' funding type would not all be additional revenue provided by the Australian Technical Colleges programme. If students were not attending an Australian Technical College, they would in most or all cases have been attending another government or non-government secondary school and would be attracting recurrent funding to those schools.

4.9 Examples of other Commonwealth funding Australian Technical Colleges can apply for include:

- general recurrent grant funding;⁷⁵
- capital grants under the *Capital Grants Programme*;⁷⁶
- grants from the *Investing in Our Schools Programme*;⁷⁷
- establishment grants for newly commencing schools;⁷⁸ and
- financial assistance for non-government schools in emergency situations through the *Short Term Emergency Assistance Programme*.⁷⁹

⁷⁵ General recurrent grant funding is funding from the Commonwealth to the State and Territory governments to help government and non-government schools with recurrent costs of school education so that they can offer students educational programmes directed towards the achievement of the Australian Government's priorities for schooling, *Australian Government Programme for Schools Quadrennial Administrative Guidelines 2005–2008, 2006 Update*.

⁷⁶ The *Capital Grants Programme* is Australian Government capital grants for government schools that are supplementary to funds provided by State and Territory school authorities and non-government school authorities, which have the primary responsibility for providing, maintaining and improving their school facilities.

⁷⁷ The *Investing in Our Schools Programme* is providing \$700 million to government schools and \$300 million to non-government schools to fund projects identified by school communities. Grants are available to help repair, replace or install new items critical to a school's needs.

⁷⁸ The establishment grants are available for newly commencing schools, excluding schools which are not in receipt of Australian Government general recurrent grants and new schools formed as a result of the amalgamation or separation of existing funded schools.

⁷⁹ The *Short Term Emergency Assistance Programme*, finances non-government schools in emergency situations. The programmes funds are available to assist systemic and non-systemic schools in the event of unexpected circumstances causing severe temporary financial difficulty.

Total estimated Australian Technical Colleges programme funding

4.10 Table 4.2 shows that the estimated total funding, from all sources, the programme will receive from 2005 to 2009 to be in excess of \$585 million.

Table 4.2

Australian Technical Colleges funding, 2005 to 2009

Australian Technical Colleges funding sources	Funding
<i>The Australian Technical Colleges (Flexibility in Achieving Australia's Skills Needs) Act 2005</i> ⁸⁰	\$473 325 000
DEST Departmental ⁸¹	\$20 000 000
Other Commonwealth, State and Territory government, industry and private funding ⁸²	\$91 760 000
Total	\$585 085 000 ⁸³

Source: DEST.

Australian Technical Colleges' legal status and ownership of assets

Legal status

4.11 The colleges are, for example:

- companies limited by guarantee and incorporated—most colleges are companies;
- the State of Victoria, represented by the Department of Education and Training; and
- Trustees of the Roman Catholic Church for the Diocese of Lismore.

4.12 Each college is required to have a governing body, which is chaired by a local business representative and includes representation from local business, community and education groups. The governing body's membership must reflect the trades and industries in which the Australian Technical College will

⁸⁰ Includes administered funding for 28 colleges including the three additional colleges announced in the 2007–08 Budget to 2009.

⁸¹ Departmental funding is for DEST to administer the programme from 2004–05 to 2008–09, and includes departmental funding announced in the 2007–08 Budget to 2009.

⁸² Represents indicative funding for 21 of the 28 Australian Technical Colleges, as per Table 4.1.

⁸³ This figure comprises the administered and departmental totals for 28 colleges through to 2009, and estimated funding from other sources for 21 colleges through to 2009. It would be expected that this figure will increase as the funding from other sources is identified for each of the remaining seven colleges which will commence in 2008 and 2009. This increase could not be quantified.

train students, and it should include persons with experience and expertise in financial and operational management and in education and training. The governing body is responsible for and sets the college's priorities and performance measures.

4.13 Each college is required to provide DEST with a copy of its constitution, and must inform DEST whenever there is a change in the constitution or in the structure, management or operations which could reasonably be expected to affect the college's eligibility for a grant.

Ownership of assets

4.14 A typical Funding Agreement:

- permits the college to purchase assets⁸⁴ subject to those assets having either been specified in the Funding Agreement or otherwise approved by DEST. The college owns the assets; and
- states that assets acquired by the college are only for the purposes of the Funding Agreement.

4.15 The Funding Agreement states:

- that if an Australian Technical College acquires assets from the grant funding provided by the Commonwealth, the college may be required to repay to the Commonwealth the undepreciated value of the asset if:
 - the college ceases to use an asset for the purpose of the Australian Technical College;
 - the college sells or disposes of the asset during the Agreement; or
 - upon the end or earlier termination of the Agreement.
- that the Commonwealth can direct the college on how to manage its assets when the Agreement ends; and
- the asset provisions in the agreement survive completion of the Agreement.

⁸⁴ DEST defines assets as tangible property purchased or leased with college funds valued in excess of \$10 000. In January 2006, DEST waived the requirement of providing evidence of value for money for the acquisition of assets or services under \$100 000, if the college had procurement procedures that DEST had approved.

4.16 Such clauses are aimed at ensuring that the benefits of the funding remain within the Australian Technical Colleges programme. The ANAO noted that there are different kinds of arrangements for the purchase or lease of land and buildings. Table 4.3 summarises these arrangements.

Table 4.3

Different arrangements for purchase or lease of land and buildings

Category	Arrangements
The Australian Technical College owns land and existing buildings on the land. Australian Technical Colleges funding may be used for minor or major capital improvements (e.g. fixed furnishings).	Construction activity is funded through the grant to the college. The Australian Technical College legal entity owns both the land and buildings.
The Australian Technical College owns vacant land and will build on that land using Australian Technical College funding.	As above.
A third party owns land and a third party will construct (and finance) a purpose built building(s) to accommodate the Australian Technical College.	The Australian Technical College leases or otherwise occupies those premises without having to finance capital works.
A third party owns land and the Australian Technical College finances (from Australian Technical College funding) the erection of purpose built buildings to accommodate the Australian Technical College.	The Australian Technical College leases or otherwise occupies those premises with the improvements funded wholly or partly by the Commonwealth.
The Australian Technical College leases premises owned by a third party and the Australian Technical College (using college) will undertake minor or major capital improvements (e.g. fixed furnishings).	The college enters into a lease with the third party. A Purposes Agreement ⁸⁵ may be required depending on the nature of the capital improvements, lease term, and lease costs.
The Australian Technical College occupies premises owned by a third party and may (using college funding) undertake minor capital improvements to that land (e.g. fixed furnishings).	No lease between the third party and the college. The land owner, the Australian Technical College and the Commonwealth enter into a 3 way Purposes Agreement.

Source: DEST, March 2007.

4.17 DEST advised that the Australian Technical Colleges are obliged under the Funding Agreement (if requested by DEST) to enter into a Purposes Agreement with the Commonwealth. The department further advised that the decision about whether a Purposes Agreement is required is based on its assessment of the circumstances of the college. A Purposes Agreement would

⁸⁵ A Purposes Agreement is additional to the Funding Agreement. A Purposes Agreement, for example, is where the Commonwealth's grant funding is provided to a college for the purpose of constructing a building where the land is owned by a third party. Under a Purposes Agreement, DEST has a continuing interest in the building constructed with Commonwealth moneys.

be used where a third party owns land and or buildings that an Australian Technical College spends grant money on, for example, capital improvements or to lease the land or buildings. The aim of the Purposes Agreement is to protect the Commonwealth's investment in the college.

4.18 The ANAO found that one college had leased premises for eight years from 2006. In this case it was beneficial for the college to enter into a longer lease agreement to ensure value for money through its investment in the property. As the Funding Agreement expires in 2009, the college will bear the risks related to the balance of the lease if funding does not continue.

4.19 The college spent approximately \$6 million refurbishing the leased property. However, no Purposes Agreement was signed. DEST advised the reason for it not entering into a Purposes Agreement may have been based upon a risk based approach, given that the landowner was a well resourced and established organisation with which the Commonwealth had a number of Funding Agreements. However, this reason was not documented. Failure to have a Purposes Agreement increases the risk to the Commonwealth that if this college ceases to operate on or before completion of the Funding Agreement, the Commonwealth will have limited right of access to the assets it has funded.

4.20 DEST has now reviewed the need for a Purposes Agreement for the Australian Technical College, and concluded it would have been better to implement such an agreement. DEST is currently negotiating a Purposes Agreement.

DEST's administration of the Australian Technical Colleges funding agreements

4.21 DEST developed a specific Funding Agreement for this new programme. Each Funding Agreement between the Commonwealth and the consortia sets out:

- obligations under the agreement;
- the arrangements necessary for funding; and
- terms and conditions on operational and capital funding, with the amount and timing for payments detailed in Schedule 4 of each Funding Agreement.

4.22 The ANAO observed that the Funding Agreements were comprehensive and detailed, creating specific requirements for DEST and the

colleges. For example, the Funding Agreements state that when procuring assets⁸⁶ or services the colleges are required to demonstrate value for money by:

- obtaining competitive quotes or conducting a tender; or
- other factors, such as local market factors, if genuine benefits and cost effectiveness could be demonstrated in selecting a supplier.

4.23 Also, the Funding Agreement states – before DEST makes a payment – that a college must provide a written statement on how value for money will be achieved and any relationship or interest the college has with the preferred supplier or subcontractor.

4.24 DEST monitors the terms and conditions of the Funding Agreements of the colleges, mainly by:

- reviewing colleges quarterly Financial Status Reports, and audited financial statements provided by the Australian Technical Colleges;
- regularly revising their report, *Progress on Australian Technical Colleges*, which for example, provides information on costs, students enrolled, governance, and expenditure of funds;
- regular liaison and negotiation on operational and contractual matters;
- regular Steering Committee meetings with colleges;
- site visits; and
- more recently through probity audits and compliance monitoring by external consultants.

Australian Technical Colleges procurement of assets and services

4.25 The ANAO visited five colleges, and examined in detail, two of the college's financial compliance with the Funding Agreement terms and conditions in purchasing assets and services. The ANAO also examined how DEST was monitoring Funding Agreement requirements.

4.26 DEST advised the ANAO that, for the two colleges examined in detail, the colleges were:

⁸⁶ Asset means any item of tangible property, purchased, leased, created or otherwise brought into existence either wholly or in part with the use of the funds, which has a value of over \$10 000 inclusive of GST, but does not include college material. In January 2006, DEST waived the requirement of providing evidence of value for money for the acquisition of assets or services under \$100 000, if the college had procurement procedures that DEST had approved.

- required to open with minimal planning time in order to meet the very tight establishment time; and
- had to rent and refurbish premises for one or two years while permanent buildings were designed or identified as no existing buildings would satisfy the educational requirements of the colleges.

4.27 The following case studies outline examples of the two colleges' purchase of assets and services. The case studies show that some colleges did not meet the requirements of the Funding Agreements in all respects. DEST advised the ANAO:

that it was not aware of some purchasing activities undertaken by some colleges which may not have met the requirements of the funding agreement. Once DEST was aware, appropriate action was taken to address the issue.

College purchase of assets and services

4.28 Figure 4.1 provides a case study of one college's purchase of assets and services in its initial stage.

Figure 4.1**Case study—company purchase of assets and services**

The company leased premises to establish an interim college to enable it to accept students in August 2006. The premises were leased from a college Board member on a one year lease with an option for a further one year. The rental was \$75 000 per annum plus \$25 000 per annum for maintenance of the grounds.

The college improved the property's car park at a cost of \$77 000. It also refurbished the accommodation at a cost of approximately \$64 000.

The property owner commissioned a commercial rental appraisal, provided by a local real estate agent for the accommodation. The rental opinion advised that:

We are of the opinion that the property with approximately 45 car parking spaces could realise a commercial rental of around \$75 000 per annum.

Although the rental appraisal provided by the local real estate agent for the premises included the car parking spaces, the cost of improving the car park was met by the college.

The college commissioned a market rental valuation, conducted by a qualified valuer and completed four months after the lease was signed, for the extension of the lease for a further one year. The valuation considered that the college was paying above market rent. The valuer indicated there was little directly comparable rental evidence, especially for school buildings or public facilities. Notwithstanding, the valuer stated in conclusion that:

Clearly there is a major discrepancy between the existing rental levels and what we believe to be a fair market rental value for these premises.

DEST advised the ANAO it was made aware of the refurbishments and improvements to the car park. DEST considered them acceptable expenses which were a requirement for school registration, Council approval for occupancy and necessary to open the college within a short timeframe. DEST also advised that 'a significant part of the refurbishment included the purchase of assets that will be taken to the permanent site when it is completed'.

The college did not notify DEST in writing that the premises were owned by a college Board member. As this represented a potential conflict of interest, the Funding Agreement required such notice to be given. DEST advised the ANAO that it was aware of the leasing details for this college, and considered them to be acceptable.

The Funding Agreement terms and conditions also required a separation of operational and capital funding. However, the capital cost of upgrading the car park and refurbishing the accommodation was partly paid for with operational funding rather than with capital funding as required.

4.29 DEST advised that the company operating the college notified the department of the above leasing and refurbishment decisions. However, DEST did not document its response and decisions on this matter. DEST interpreted the college's actions to enter into a one year lease and refurbishment of the premises for the college as consistent with the Funding Agreement. DEST advised that:

In this case the imperative to establish the College quickly determined the need to procure items urgently. The process followed by the College enabled the college to procure the required equipment immediately and to meet the very tight establishment timeframes.

It is perfectly reasonable that a college refurbishes rented accommodation under a one year lease. These colleges have been required to open a school with minimal planning time and have decided to rent premises for one or two years while permanent buildings are designed or identified.

The colleges are highly specialised – in fact no colleges of this nature existed in Australia prior to the Government's policy decision. It is inevitable that no existing buildings would satisfy the educational requirements of the colleges, thus refurbishment has been necessary in all such instances. This approach has been endorsed by DEST and reflects the Government's objective to open the colleges as quickly as possible.

4.30 The ANAO noted that some of the college companies had limited experience in dealing with DEST and managing Commonwealth grant funding. These colleges would benefit from additional DEST guidance on the requirements of the Funding Agreements including the use of grant funding.

College management of potential conflicts of interest in procuring assets or services

4.31 Identifying, reporting and addressing potential conflicts of interest are important elements of the Funding Agreement in procuring assets and or services.

4.32 DEST advised applicants that they must identify, in their Business Plans, any conflicts of interest that they believe will or may arise when establishing and managing colleges.

4.33 Each Funding Agreement states that colleges must advise DEST in writing if, during the term of the Agreement, a conflict of interest arises, or is likely to arise. Also, that the colleges must notify DEST of the steps they propose to resolve the conflicts of interest.

4.34 The ANAO noted that DEST was advised of some potential conflicts of interest for the five colleges operating when the ANAO conducted fieldwork, and that the department addressed them. DEST's decisions were not always documented.

4.35 Figure 4.2 provides a case study of potential conflicts of interest in one college.

Figure 4.2

Case study—potential conflicts of interest

For this college, the ANAO identified related party transactions as potential conflicts of interest that should have been addressed by the college. Examples included:

- leasing premises owned by a company that a board member works for;
- employing staff from a company that a board member works for;
- leasing a vehicle from a company that a board member works for; and
- a board member seeking core Australian Technical College business for their company.

The ANAO noted that no competitive quotes were obtained for the services provided, and no formal contracts were made between the provider and the college. Also, no rental valuation was conducted at the time of the lease being agreed.

The ANAO found that the college did not notify DEST in writing of any of the above potential conflicts of interest, and DEST did not identify them through its monitoring which included site visits at the time of conducting the audit fieldwork.

After the ANAO visited the college the abovementioned potential conflicts of interest were followed up by DEST. Subsequently, DEST commissioned a probity audit, which advised that no company obtained any undue or unreasonable gain from the above mentioned potential conflict of interest.

4.36 Potential conflicts of interest identified in Figure 4.2 reflected examples of colleges not complying with Funding Agreements. The ANAO noted that programme risk assessments contained one risk that identified failure to identify and manage conflicts of interest within the college resulting in possible termination of the Funding Agreement. This risk was rated as significant, likely to occur, and with a moderate consequence if the risk occurred. In light of this case study and other instances of potential conflicts of interest, DEST is improving its controls. An external consultant recently conducted probity audits on a number of the colleges. The probity audits have made a number of recommendations that DEST is acting upon to improve colleges' compliance with Funding Agreements. For example, one draft probity report recommended that the college ensures it has documented policies and procedures in place to deal with any conflicts of interest that may arise. The policy should be consistent with the college constitution, and the company secretary should ensure the policy is followed and, where

appropriate, reflected in the board minutes. The report recommended that DEST review this college's policies to ensure they are adequate.

4.37 Also, following the field work phase of the audit, the ANAO noted that DEST was engaging a consultant to conduct a contractual compliance and financial viability assessment of the colleges to assist staff in monitoring the terms and conditions of the agreements. This will assist DEST better to monitor the terms and conditions of the Funding Agreements.

4.38 The ANAO also considers it would be beneficial for DEST to identify those colleges most at risk of having difficulty with their financial and educational models. Such an approach would assist DEST in determining risks to the achievement of the programme's objectives and the colleges' contribution to these.

Recommendation No.3

4.39 The ANAO recommends that DEST:

- (a) develop and implement operational funding guidelines to assist the colleges to separate operational from capital funding;
- (b) develop and implement a risk based approach to identify those colleges that require additional assistance; and
- (c) document all decisions dealing with potential and actual conflicts of interest in the colleges.

DEST's response

4.40 DEST agrees with this recommendation. DEST considers it timely to develop a compliance monitoring framework for the Programme as part of the normal programme managements activities in the second year of the initiative. The strategy, which is being implemented, will assist DEST in its responsibility for monitoring the Colleges' contractual compliance and financial viability, and will provide valuable feedback for Colleges, particularly in relation to risk management, governance and management of potential and actual conflict of interest.

Conclusion

4.41 Funding, from all sources, for the programme, from 2005 to 2009, is estimated to be in excess of \$585 million for 8400 secondary students. This includes budgeted departmental funding of approximately \$20 million to manage the programme.

4.42 The ANAO recognises there are significant challenges in estimating the funding requirements for the new programme. It involved operational and capital funding for the construction of new buildings and or refurbishment of existing buildings in 24 regions throughout Australia. DEST conducted its analysis drawing on information and experience of schools funding for operational and capital works. Notwithstanding, for a programme of this significance, the ANAO found the initial supporting documentation was limited in light of the significance of the programme's funding requirements.

4.43 DEST developed comprehensive Funding Agreements for the programme. Funding Agreements were detailed, creating specific requirements for DEST and the colleges.

4.44 The ANAO identified some areas of DEST's Funding Agreements management that could be improved. For example:

- subsequent development of Purposes Agreements to protect funded assets where an Australian Technical College spends grant money on, for example, capital improvements to a building owned by a third party;
- DEST's development of operational funding guidelines to assist the colleges to separate operational from capital expenditure;
- documenting its actions when addressing actual and potential conflicts of interest in colleges; and
- identifying those colleges most at risk of having difficulty with their financial and educational models and which may affect the achievement of the programme's objectives.

4.45 As colleges have expanded, and in the second year of the programme, DEST has increased its monitoring of the colleges' compliance with the Funding Agreements. For instance, DEST is commissioning probity audits into some companies that operate colleges, and is employing a firm to strengthen its compliance monitoring.



Ian McPhee
Auditor-General

Canberra ACT
19 July 2007

Appendices

Appendix 1: Australian Technical Colleges announcement and signing of funding agreements

Australian Technical College	Announcement	Funding Agreement signed
Port Macquarie	15 July 2005	14 November 2005
North Queensland (Townsville)	15 July 2005	9 December 2005
Gold Coast	15 July 2005	7 December 2005
Eastern Melbourne	15 July 2005	20 December 2005
Gladstone	15 July 2005	21 December 2005
Adelaide South	15 July 2005	14 March 2006
Bendigo	15 July 2005	10 April 2006
Gippsland (Bairnsdale/Sale)	15 July 2005	19 April 2006
Geelong	15 July 2005	8 June 2006
Northern Adelaide	15 July 2005	26 June 2006
Illawarra	15 July 2005	3 August 2006
Darwin	15 July 2005	26 September 2006
North Brisbane	13 August 2005	10 February 2006
Hunter	23 August 2005	15 May 2006
Northern Tasmania	9 September 2005	30 January 2006
Perth South	12 September 2005	1 May 2006
Western Sydney	16 September 2005	23 January 2007
Port Augusta/Whyalla	14 October 2005	25 September 2006
Sunshine	25 October 2005	5 July 2006
Warrnambool	17 February 2006	5 October 2006
Central Coast (Gosford)	24 February 2006	TBA ²
Pilbara	31 May 2006	18 January 2007
Dubbo	21 August 2006	TBA
Queanbeyan	1 November 2006	TBA
Lismore/Ballina	TBA	TBA

Source: ANAO.

Note 1: Negotiations with the successful applicant announced for Western Sydney on 16 September 2005 have ceased. A new consortium was announced on 23 November 2006 and a one year funding agreement has been entered into.

Note 2: To be announced.

Appendix 2: DEST's advice on costs for the programme

Stage 1

The initial 2005–06 budget estimates of \$343 million over five years were based on the establishment of twenty four Australian Technical Colleges. Original costs were based on:

- 24 Australian Technical Colleges, with six to commence in 2006, ten in 2007 and eight in 2008;
- 50 per cent of the Australian Technical Colleges being government and 50 per cent non-government;
- 50 per cent of the Australian Technical Colleges established in existing buildings and 50 per cent in new buildings; and
- \$10m for new Australian Technical Colleges and \$8m for established Australian Technical Colleges, with expenditure spread 50 per cent, 25 per cent, 12.5 per cent and 12.5 per cent over the four year implementation period.

It must be noted that a total of twenty one colleges will be opened by the end of 2007, an increase of five from the original plan. There have been fewer Australian Technical Colleges established in existing schools and their ability to draw upon existing infrastructure has had a significant impact on the cost of the programme. It was however anticipated that the forward estimates for this completely new programme would need amending and refinement over a number estimate cycles to reflect the experience of the programme, given this was a new venture for the Australian Government.

Stage 2

The 2006–07 additional estimate figures reflect the necessity to bring forward further funding to Australian Technical Colleges to address other factors impacting on operational and capital costs. These include:

- Strong industry and community support for the Australian Technical Colleges programme has meant more colleges than originally anticipated will be opened earlier which has resulted in increased operating costs;
- Due to strong community acceptance, multi-campus facilities are being established by most Australian Technical Colleges. This has

significantly increased the capital funding requirements by the participating Australian Technical Colleges;

- Fewer Australian Technical Colleges have been established in existing schools. This has had a significant impact on the cost of the programme through increasing costs as the majority of colleges have not been able to rely on existing infrastructure; and
- Extensive industry engagement, increased marketing and promotion, curriculum redevelopment incorporating industry requirements, trade training costs and the necessity for some colleges to operate on interim models in the early years.

Stage 3

Following Government approval an Amendment Bill seeking additional funding of \$112 million was introduced to Parliament. The additional funding is required to address the following issues:

- The construction of multi-campus sites for colleges with strong community demand including some quite remote sites;
- Moving funding forward to Australian Technical Colleges opening earlier than anticipated is an interim measure that meets the immediate requirements of the Australian Technical Colleges. To sustain the required funding model additional funds are required above the original estimates; and
- Due to the reduction of colleges in existing schools, additional infrastructure costs have been incurred by the Australian Technical Colleges involved.

The Department of Finance and Administration agreed to these costings prior to approval.

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