AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

Managing the Amalgamation of the Greyhound and Harness Racing Regulatory Authority

The Legislative Assembly
Parliament House
SYDNEY NSW 2000

The Legislative Council
Parliament House
SYDNEY NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Managing the Amalgamation of the Greyhound and Harness Racing Regulatory Authority.**

Peter Achterstraat

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Auditor-General

Sydney
April 2008

State Library of New South Wales cataloguing-in publication data

New South Wales. Audit Office.

Managing the amalgamation of the Greyhound and Harness Racing Regulatory Authority / The Audit Office of New South Wales (Performance audit).

978-1921252-167

1. Greyhound and Harness Racing Regulatory Authority (N.S.W.) - Reorganization - Auditing. 2. Greyhound Racing Authority (N.S.W.) - Reorganization - Auditing. 3. Harness Racing Authority of New South Wales - Reorganization - Auditing. 4. Greyhound racing - New South Wales - Management - Auditing. 5. Harness racing - New South Wales - Management - Auditing. 6. Management audit - New South Wales. I. New South Wales. Audit Office. II. Title: Managing the amalgamation of the Greyhound and Harness Racing Regulatory Authority. III. Title: Auditor-General's report : managing the amalgamation of the Greyhound and Harness Racing Regulatory Authority. IV. Series: Performance audit (New South Wales. Audit Office).

352.28243909944
353.78243909944
798.09944

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Foreword

Amalgamations are not easy. They involve bringing together different cultures and ways of doing business. There are expectations that the activities being brought together will create efficiencies and savings. At the same time as managing the implementation of the amalgamation, normal services must be delivered and operational issues dealt with.

This requires the new governance team to come together quickly and to identify amalgamation and business-as-normal issues and their approach to them. Stakeholders' expectations are that the amalgamation is to be implemented quickly and that this will not disrupt the normal delivery of services. It is the responsibility of the governance team to plan how they are to implement the amalgamation and meet the objectives of their stakeholders.

In the unusual situation that the governance team considers that the stakeholders' objectives are unrealistic, they have a responsibility to promptly consult and if necessary provide an alternative approach. If they do not do so, it is reasonable to consider them to be bound by the stakeholders' original objectives.

This report examines the management of the amalgamation creating the Greyhound and Harness Racing Authority.

The report helped inform the development of the *Better Practice Guide: Implementing Successful Amalgamations* released by this Office last month.

Peter Achterstraat
Auditor-General

April 2008

Executive summary

The focus of our audit

The audit was conducted following a request from the Minister for Gaming and Racing. The request coincided with an audit of the amalgamations creating the Department of Primary Industries and the Department of Commerce. The Auditor-General agreed to apply the approach from that audit to this audit.

The Greyhound and Harness Racing Regulatory Authority (the Authority) was created in October 2004 to safeguard the integrity of the two racing industries. It achieves this through its stewards officiating at race meetings and by administering the registration of participants and the handicapping or grading of the dogs and horses. The Authority was a merger of the regulatory functions of the former Greyhound Racing Authority (GRA) and Harness Racing Authority (HRA) and was expected to achieve operating efficiencies. The foundation of the amalgamation was a feasibility study completed in August 2003. Its recommendations were accepted by government and they formed the basis of the amalgamation objectives. Earlier in February 2003, the commercial functions of the two former authorities were transferred to Harness Racing NSW (HRNSW) and Greyhound Racing NSW (GRNSW).

The primary objective of the amalgamation was to return savings to the two racing industries and maintain integrity. This occurs at a time when the industries are under commercial pressures as revenues are steady but costs are rising, competition for the gambling dollar is increasing and racing code participant levels are falling. The two industries also contribute the majority of the Authority's annual budget (in excess of $5 million). This puts the Authority under close scrutiny for monies saved through the efficiencies of amalgamation and spent on implementing the amalgamation.

It is important to state at the outset that when we refer to the Authority in this report, we mean those responsible for its governance, namely the Board and its executive. The Board is responsible for the Authority's activities to the Minister for Gaming and Racing. The Minister is advised on racing matters by the Office of Liquor, Gaming and Racing (OLGR) in the Department of Arts, Sport and Recreation. The Authority's revenue largely consists of contributions from the two racing industries. The Chief Executive Officer (CEO) is responsible for the day-to-day management of the Authority.

The audit's objective was to assess if the Authority is realising the intended benefits of amalgamation. We did this by asking if the amalgamation project was well planned, implemented according to plan and if anticipated outcomes and benefits were achieved.

Objectives for amalgamation

The main objectives for the amalgamation were to:

- achieve savings, mainly through reductions in staff numbers from 63 to 51
- implement an appropriate structure to achieve the target number of staff and related savings of $800,000 per annum
- sell a surplus building to fund the costs of the amalgamation, with any balance paid to the racing industries - costs of amalgamation included building refurbishment, new IT systems and possible voluntary redundancies
- implement new systems to improve administrative processes
- clarify the composition of cash reserves held on amalgamation and distribute any excess to the racing industries.

It was the Authority's task, from October 2004, to plan and implement the amalgamation objectives. These objectives were included in briefings to the Authority's new Board. Briefing papers were provided to the Board and subsequently to the CEO. Many changes, challenges and the opportunity for implementing rewarding solutions were expected within the first 12 months.

Audit opinion

The Authority has achieved staff reductions and salary related savings in line with targets. It has achieved salary savings in excess of $850,000 during 2007-08. This is better than the $800,000 per annum savings set as an amalgamation target. In September 2007 the Authority sold its surplus building and moved into its newly refurbished Bankstown building.

In implementing the amalgamation, there were inherited difficulties which affected the timely achievement of amalgamation objectives. These included the need to: deal with high levels of bad debts; continue disciplinary actions against two senior stewards; improve internal reporting; revise operating procedures; and address staff morale issues.

That said, the amalgamation was not project managed effectively. It has been slow to implement some of its key objectives against plans and the costs of the amalgamation have increased to the extent that it is unable to meet key objectives. Stakeholders are dissatisfied with the amalgamation outcomes. This dissatisfaction would have been mitigated with better communication. The Authority's approach to implementing the amalgamation varied from that originally proposed by government. But it did not record the changed approach in an amalgamation plan.

The racing industry bodies largely fund the Authority and had owned the two buildings transferred to the Authority. Both the government and the stakeholders expected that the racing industries would receive:

- a return from the proceeds of the sale of the surplus building, after the payment of amalgamation costs (these included building refurbishment, redundancies and a new IT system)
- annual savings of $800,000 based on staff reductions.

However, they received:

- a 'bill' for $267,000 being the excess of total refurbishment costs (including building, establishment and furniture and fittings costs) over the proceeds of the building sale
- no reduction in their contributions, with salary savings absorbing compulsory award increases for remaining staff and the funding of racing integrity initiatives
- a small ($133,000) contribution towards the new IT system.

The Authority has identified $400,000 in cash reserves as excess to its current needs. This sum is largely being applied to the building costs deficit, with the excess of $133,000 to help fund the new greyhound registration system. The excess comprises funding for capital replacement and past operating surpluses by prior greyhound racing authorities. The Authority's approach disadvantages the greyhound racing industry, as the harness racing industry is not asked to fund a portion of the building costs deficit. The Authority has advised that it is reviewing its approach and is advising the industries accordingly.

The Authority's structure is yet to be finalised and integration of activities completed. Outstanding amalgamation issues are the installation of a greyhound registration IT system to consolidate racing administration activities and revision of the structure to reduce the number of staff directly reporting to the CEO.

We consider that the Authority would have better managed the implementation if it had had a formal amalgamation plan to achieve objectives, including a timetable to achieve savings. This would have provided a sound platform on which to communicate with stakeholders on its targets and progress against them.

Key audit findings

Planning the amalgamation

The amalgamation objectives were based on studies carried out over a 14 month period before the amalgamation commenced. The Authority had discretion to plan and implement within the parameters of the guidance and direction provided.

Accountability against a plan

Whatever the course of action, we expected to see a plan against which the Authority would be accountable for in implementing the amalgamation. Without such a plan it risked not being clear in its goals, actions and progress. It also risked being held accountable by stakeholders against the expectations set prior to the amalgamation - those recommended by the feasibility study, accepted by government and set-out in the briefings to the new Board. During its early months of operation the Authority had the option of clarifying concerns about its amalgamation objectives and targets. The amalgamation feasibility study acknowledged that its recommended courses of action should be fine tuned to changed circumstances by a future amalgamated board.

The Authority believes many of the benchmarks to be unsound because of flawed methodology applied by the feasibility study. However, it was the Authority's responsibility to assess its amalgamation responsibilities at the outset, obtain clarification or alteration of them and to develop an amalgamation plan around the clarified or altered objectives. By not doing this their stakeholders' expectations remained based on the earlier plan. And in the absence of the Authority having done so, its performance is assessed against benchmarks set in the feasibility study.

The Authority did not develop a plan to manage the amalgamation. There was no formal response by the Authority to the amalgamation strategies recommended in the feasibility study and sanctioned by government. Although the Authority was established in October 2004, it was not until August 2005 that it developed its initial strategic plan. Progress against this initial Strategic Plan was not reported to the Board until June 2006.

The Authority's 2005-06 Strategic Plan was included in the Authority's 2005 Annual Report. It did not cover all amalgamation objectives or any reference to achieving savings in salary and accommodation costs, formalising a new structure or resolving the level of any excess cash reserves.

Implementing the amalgamation

The Authority's expectations were that many key amalgamation objectives would be implemented by 30 June 2006, twenty months after formation. Examples of targets included in the 2005-2006 Strategic Plan and their results are:

Actions	Targets	Results
Sell surplus building	30 June 2006	to auction on 15 June 2006 (later sold in September 2007)
Exchange contracts for refurbishment	15 February 2006	30 January 2007
Move to refurbished building	30 June 2006	6 September 2007

As stated above, the Authority believes that many amalgamation financial and timing benchmarks were unsound and provided for guidance only. It subsequently developed different views and significantly different strategies to implement the amalgamation.

The *Better Practice Guide: Implementing Successful Amalgamations* produced by the Audit Office (March 2008) provides guidance on interpreting and implementing directions from government. These lessons learned from the Audit Office's recent audit *Managing Department Amalgamations* (March 2008) are applicable to the situation the Authority found itself in.

Immediate challenges for the Authority

During the first months of amalgamation the Authority had to expend considerable effort to deal immediately with high levels of bad debts in harness racing, continue disciplinary actions against two senior stewards, improve internal reporting, revise operating procedures and address staff morale issues. The Authority also had to maintain its day-to-day operations. These included registration, handicapping and stewards officiating at race meetings.

Staff reductions

The Authority has achieved staff reductions and salary related savings in line with targets. Between October 2004 and July 2007, it reduced staff numbers from 63 to 51 and achieved annual salary reductions in excess of $850,000, compared to the amalgamation objective of $800,000 per annum. The savings reduced industry contributions by absorbing compulsory award increases to Authority staff. During the four years 2004-05 to 2007-08 the four per cent per annum salary increases are estimated to total $623,000. The Authority believes that award increases should have been factored into pre-amalgamation savings calculations and that the failure to do so caused stakeholders to have inflated expectations.

The process of natural attrition took three years. Forty five per cent of the total salary savings first occurred in 2004-05 and the balance was achieved over the remaining two years. The cost of natural attrition was approximately equal to the use of redundancies, as the majority of surplus staff, including many long term employees, left during the first two years. The Authority states that the process of natural attrition allowed it to make use of the departing officers between 2005 and 2007, and that they did not experience staff morale problems. However, the Authority's approach was slower than that expected by stakeholders.

Organisational structure

On amalgamation, the Authority had been provided with a consultant's report (the Spencer Report) including a suggested structure and a staff management program, incorporating the use of voluntary redundancies. The Authority chose not to pursue the approach supported by the feasibility study and government. The Authority did not develop a structure or staff program comparable to the detailed one provided. The new structure and new positions evolved incrementally as the Authority assessed its situation. For example, steward activities for the two racing industries were not integrated and continue to operate separately (in line with practices elsewhere in Australia). Positions for a Deputy CEO and HR Manager were created, although not included in the feasibility study report.

The Spencer report

We were advised that the Board did not at any stage adopt the Spencer Report. And that an important factor in this decision was the advice provided by a very senior executive of the Department of Gaming and Racing soon after the establishment of the Authority in October 2004 regarding the status of the Spencer Report. This advice to the Board was that the Spencer Report was a guide only and need not be followed rigidly.

The current structure has ten staff directly reporting to the CEO. We consider this to be too many to manage effectively. The integration of greyhound and harness racing administration activities will not be achieved until the greyhound registration system is installed. Integration is also impeded by staff being employed under separate awards, with differing employment conditions for greyhound and harness racing industry staff. The Authority states that not having an amalgamated award has not impeded workflows or the transferring of staff between the two areas.

We understand that the Authority is negotiating with GRNSW for funding of the new computerised registration system for its greyhound racing administration operations. This will lead to further integration with harness racing operations and should improve service and productivity.

Authority buildings

The amalgamation's implementation was affected by the later than expected sale of the Auburn building, the lower than expected sale price achieved for this building and the higher than estimated cost of refurbishing the Bankstown building.

The Authority sold its surplus building in September 2007. The original expectation was for the sale to occur by 30 June 2006. The sale price of $2.05 million was $350,000 less than the reserve set for auction, which was also the amount used in the business case to the Minister supporting the sale and the costs of refurbishing the remaining building. We consider the Authority should have raised the implications with government and stakeholders more regularly. The expectations of government and stakeholders were that the sale proceeds would cover the costs of amalgamation, including building refurbishment, redundancies and a new IT system, with any surplus being returned to the racing industry bodies who originally owned the Authority's two buildings.

Refurbishment costs

The refurbishment of the Bankstown building fell behind schedule as contracts for the refurbishment were approved a year later than anticipated. In addition, building refurbishment costs increased by $807,000 against business case estimates. As a result of these increases sale proceeds fell $267,000 short of the building costs, and there are no funds for other amalgamation costs or for a return to the racing industries. The business case had estimated a surplus of $853,000 would be available to do this.

Communication with stakeholders

The Authority's lack of formal amalgamation planning did not provide it with a reference point from which to inform stakeholders of its intentions and progress against them.

They did not include in their communication strategy managing relationships with its external stakeholders. The Authority's Communication Strategy of May 2006 did not contain any reference to maintaining regular communication with the Minister and the Office of Liquor Gaming and Racing (OLGR), two of its most important stakeholders. We consider that it would have been helpful to advise such stakeholders to revise their expectations about the sale price and the increasing costs of refurbishment. The Authority points out that it did inform OLGR and the industry bodies of its inability to sell the Auburn building in mid 2006 at the reserve price.

Cash reserves

At the commencement of the audit, the allocation of the potentially significant cash reserves for capital replacement or return to GRNSW was not resolved. The issue was identified by the feasibility study as requiring immediate action, but was not resolved before amalgamation. The 'cash reserves' comprise funded provisions for staff entitlements and capital replacement, and past operating surpluses of the GRA and its predecessors.

Applying surplus funds

During the audit the Authority undertook analysis of the likely surplus funds comprising funded accumulated depreciation and past operating surpluses by prior greyhound racing authorities. The Board resolved in October 2007 that there was $400,000 available. Of this an estimated amount of $256,000 (since revised to $267,000) was to fund the deficiency in amalgamation building costs and the remainder of $144,000 (revised to $133,000) to help fund the greyhound registration system. The system's anticipated price is $668,000 and the balance of $524,000 (now $535,000) is to be funded by GRNSW. The Authority states that GRNSW has included $680,000 in its 2008 budget for this project. The Audit Office notes that neither HRNSW nor GRNSW has been asked to fund the deficit in amalgamation costs and that it is to be solely borne from greyhound industry sourced funds. The Authority has advised that it is reviewing its decision on the funding of the building refurbishment deficit. A factor influencing its decision at the time was uncertainty in the industries caused by the outbreak of equine influenza.

Budgets and strategy

The Authority's budget submission to the Minister does not clearly indicate how it is linked to the services and results it delivers, and how it creates ongoing efficiencies. The Results and Services Plan (RSP) approach, applied across government, is designed to do this. An RSP will facilitate a more strategic discussion between the Authority, the Minister and racing industries about the agency's future funding needs.

The Authority's budget practices do not include three year forward estimates, which is a common practice across government. In addition, the Authority's budget does not include efficiency dividends at levels applied in State Budgets to agencies.

The Authority points out that historically it was not requested to provide either an RSP or three year forward estimates, but has no objection to doing so.

Recommendations

It is recommended that the Authority:

- identify strategies to deal with the remaining amalgamation issues, including resolving the following three recommendations (page 30)
- finalise the structure of the Authority to achieve full amalgamation and reduce the number of direct reports to the CEO (page 42)
- install the new greyhound registration system as soon as possible to gain productivity and service benefits (page 45)
- report the final costs and benefits of amalgamation against the Authority's amalgamation objectives (page 51)
- prepare a results and services plan (RSP) in support of its budget submissions (page 51)
- include three year forward estimates in its annual budget and RSP submissions (page 51)
- include efficiency dividends in budgets and estimates consistent with levels in State Budgets (page 51)
- revise the corporate plan in line with their RSP for improved external accountability (pages 28 and 51)
- commit to the implementation of a communication strategy to ensure that stakeholders are well informed of the Authority's performance against its corporate statements and plans (page 28).

Response from the Greyhound and Harness Racing Regulatory Authority

The Greyhound and Harness Racing Regulatory Authority ("the Authority") appreciates the effort of the authors of the Performance Audit Report: Managing the Amalgamation of the GHRRA *("the report") in seeking to understand the nature of the industry at the time around amalgamation and the role of the Authority within it. This is important as background to the factors that influenced the management of the amalgamation.*

The Authority notes that the report specifically seeks to audit the management of the amalgamation that formed the Authority and does not seek to explore the day-to-day regulatory operations of the Authority and its staff.

Industry stakeholders will also note that this report evaluates the management of the amalgamation in the context of the expectations set at the time, but does not attempt to validate the robustness of the basis of these expectations.

Nonetheless, as a general comment, the Authority notes that almost five years have passed since feasibility planning began and the related assumptions were made. Many of the challenges the greyhound and harness racing industries are confronted with in 2008 are very different to those in 2003.

The Authority is focused on the future of the industry and with this report now completed, the Authority considers there to be little benefit in retrospectively analysing the basis for assumptions that have long since dated. Such an analysis would contribute very little to the future of our industry.

This report is valuable to the Authority in that it provides the industry with more context around the factors influencing the management of the amalgamation. It also provides the Authority with additional direction as to best practice methodology in finalising the amalgamation and managing its operations in the future.

The report makes special mention of the importance of communication and planning. The Authority accepts it could have done better at communicating decisions around its plans and priorities related to the management of the amalgamation. In practice, faced with a plethora of challenges at amalgamation, the Authority placed the priorities of participants above those of the government on too many occasions. Even though those priorities were set for appropriate reasons and while the Authority never failed to respond to corrective advice or direction from any department throughout the amalgamation, the importance of pro-activity is an important take-out from this report. Pro-activity in planning and communication are two areas in which the Authority has already begun improving its practices.

Communication is also fundamental to the setting of expectations. The importance of clarity around the role all stakeholders play in working to a particular goal is clear; including government, commercial bodies and other industry participants. Far greater emphasis must be placed on ensuring that the expectations of all stakeholders are understood and managed, with anomalies identified well before they become systemic.

In providing a segue to the future, the Authority notes the Recommendations contained in this report. Pleasingly, progress has been made on many of these:

- *Dialogue is well progressed with relevant NSW Government agencies to finalise the organisation structure.*
- *Now that clarity exists as to the extent of the impact of equine influenza on the racing industry, the Authority will continue work with the industry to finalise any outstanding matters related to reconciling the costs of amalgamation.*
- *Since the report was written, the Authority has continued consultations with Greyhound Racing New South Wales (GRNSW) in relation to the new greyhound registration system. The recommended approach advocated here and in earlier reviews is strongly supported by the Authority. It is not supported by GRNSW at this time, but the matter will be revisited following the review of the Greyhound Racing Act, due for completion on 30 June 2008.*
- *The Authority has already made representations to the NSW Government with efficiency dividends it has identified that are additional to the industry budget. The identification of process and cost efficiencies is ongoing and is a feature of the FY08-09 Budget.*
- *The Recommendation related to linking the budget and the services the Authority delivers is noted. Similarly, the importance of forward estimates has already been discussed at Board level, independent of this report. The Results and Services Plan approach will be explored with the view to achieving this end.*

Thanks to the authors of this report for their patience and dedication in understanding the wide range of factors that influenced the management of the amalgamation. Their recommendations represent important guideposts for the future.

The Authority recognises the demands of the future in upholding racing integrity in an industry under pressure on multiple fronts. We look forward to working with all industry stakeholders in addressing these challenges.

(signed)

STEPHEN PRICE
Chairman

Dated: 20 March 2008

1 Introduction

At a glance

> The creation of the Authority resulted from concerns about the structure of racing industry bodies, costs of regulation and racing integrity.
>
> In 1996 and 2000 inquiries by the Independent Commission Against Corruption examined allegations of race fixing involving senior stewards of the Harness Racing Authority and Greyhound Racing Authority. The latter inquiry recommended splitting the commercial and regulatory functions of the two authorities. Two commercial authorities, Harness Racing NSW and Greyhound Racing NSW, were established by legislation in early 2003. The regulatory functions continued separately under existing legislation until October 2004 when the Authority was established. The ICAC report envisaged the amalgamated regulatory entity achieving 'economies of scale'.
>
> The Authority was set two principal objectives:
>
> 1. maintain the integrity of the racing industries
> 2. to achieve the amalgamation with savings.
>
> The 'guiding light' for the amalgamation was a feasibility study report, whose recommendations were accepted by government.

Background

In the 1990s greyhound and harness racing industry stakeholders had concerns about the structure of the industry governing bodies. The bodies did not provide for self determination in respect of 'commercial' decision making and the costs of regulation were excessive.

1.1 Inquiries into the racing industries

The Independent Commission Against Corruption's report of August 2000 was a further factor in driving the changes in the regulation of the greyhound and harness racing industries. *The Greyhound report - investigation into aspects of the greyhound racing industry* found that the Chief Steward had acted corruptly by helping fix races in collusion with certain owners and trainers. The report recommended that the Government should examine combining the regulatory roles of the racing supervisory bodies. The report noted that the amalgamated entity should be separate from commercial functions and provide benefits through economies of scale. An earlier ICAC investigation (reported in August 1996) had failed to support allegations of race fixing involving the then Chairman of Stewards for Harness Racing, and others.

1.2 Funding pressures within the racing industries

The greyhound and harness racing industries are facing pressures to remain competitive. Participation levels in general are declining - both in terms of licensed owners and trainers, and punters attending meetings and placing bets. And, the significant contributions to the industries based on TAB betting turnover have not increased relative to cost of living increases. The industries are focussed on maximising the use of funds to make their racing codes as attractive as possible (such as increasing prize monies and improving racing infrastructure), while maintaining confidence in the viability of racing.

Two thirds of the Authority's funding comes from contributions by the two industry bodies. (The balance is raised from fees for service.) Thus, the funding received by the Authority for its statutory regulatory activities reduces the amount available for the greyhound and harness racing industries' commercial activities. A dollar spent by the Authority is a dollar less for the industry. At the same time, the dollars spent by Authority help ensure the integrity of the industry, which underpins confidence in the two racing industries. Because of this, stakeholders are keenly interested in the financial prudence of the Authority.

Improving the efficiency and reducing costs of administration were drivers for the amalgamation of the two previous industry regulatory functions. The amalgamation was undertaken in this atmosphere, where amalgamation savings were to be passed back to the racing industries, while at the same time regulatory activities were to maintain the integrity of the two racing industries.

1.3 Re-organisation of the racing industries' commercial functions

In February 2003 the commercial functions of the Greyhound Racing Authority (GRA) and the Harness Racing Authority (HRA) were transferred to two new entities - Greyhound Racing NSW (GRNSW) and Harness Racing NSW (HRNSW). Their objectives were to develop viable, commercial racing industries with guaranteed funding from TAB Limited (now TAB Corp). The two new authorities, although created by statute, are independent of Government and not subject to Ministerial direction. The regulatory functions of GRA and the HRA continued to be performed by the remaining board members and staff for the next 20 months.

1.4 Creating an amalgamated regulatory authority

In August 2003 a feasibility study working party led by the then Department of Gaming and Racing reported to the Minister on the *Feasibility of the amalgamation of the Greyhound Racing Authority and the Harness Racing Authority* (the Authority). It recommended amalgamation in line with its findings. The feasibility study's report recognised that its recommendations might need reconsideration and fine tuning by the Authority in the course of amalgamation.

In October 2003 the Government agreed to legislation being prepared for an amalgamated regulatory board for the greyhound and harness racing industries. When Cabinet considered the drafting of the legislation it approved of the findings of the feasibility study. Second reading speeches in Parliament made it clear that the Government's decision was based on the feasibility study's report. Its recommendations were the basis of the amalgamation objectives set for the new Authority. Assent was given to the Greyhound and Harness Racing Administration Act on 15 June 2004.

Under the Act, the Authority consists of a Board of five members. The Authority is required to maintain the integrity of racing by:

- making rules for racing and enforcing them through supervision by stewards and drug testing
- grading greyhounds and handicapping harness racing horses
- licensing / registering bookmakers, trainers, drivers and racing animals (for which fees are charged)
- hearing appeals on disciplinary decisions.

The Board is responsible for the Authority's activities to the Minister for Gaming and Racing. The Minister is advised on racing matters by the Office of Liquor, Gaming and Racing (OLGR) in the Department of Arts, Sport and Recreation. Up until March 2006, this function was within the Office of Racing in the Department of Gaming and Racing. OLGR also co-ordinates the annual review of the Authority's budget submission. This includes the input from HRNSW, GRNSW and OLGR itself to the Minister who approves the budget. The Authority's revenue largely consists of contributions from the two racing industry bodies for the respective regularity activities undertaken. The Authority operates separate accounting systems for its greyhound and harness racing activities.

The Chief Executive Officer (CEO) is responsible for the day-to-day management of the Authority.

The Authority commenced operations on 1 October 2004.

The audit did not examine the Authority's racing integrity activities. Feedback we have received from stakeholders suggests that the Authority's integrity activities are operating satisfactorily.

1.5 Reviews of the Authority's performance

After almost three years of operation, on 4 June 2007, the Minister announced reviews of the Authority's performance, including this audit and a review by IAB Services of specific administrative and operational activities. The Minister's press release stated, in part:

> *The GHRRA was created in October 2004 with the intention of achieving savings to enable the commercial controlling bodies of greyhound and harness racing to inject more funds towards prize money.*
>
> *At the time independent consultants [for the feasibility study working party] determined that the merged entity had the potential to make significant savings ...*

1.6 About the audit

A performance audit of the Authority's implementation of amalgamation was requested by the Minister for Gaming and Racing in a letter of 15 May 2007 to the Auditor-General. The Minister mentioned matters later referenced in his press release (above). These included delays in achieving accommodation and staff savings and asset replacement strategies.

After due consideration of this request, the Auditor-General decided to conduct a performance audit in parallel with an existing performance audit of two departmental amalgamations. (That audit titled *Managing Departmental Amalgamations - Department of Commerce and Department of Primary Industries* was tabled on 5 March 2008.) The audit of the Authority's amalgamation adapted the approach of this earlier audit. A factor common to all three amalgamations is the government's desire for the amalgamations to reduce costs through a consolidation of structures and systems that deliver similar services.

The audit objective was to determine whether the Authority is realising the intended benefits of amalgamation. In doing this the audit addressed three specific questions or sub-objectives:

- Was amalgamation well planned?
- Was amalgamation implemented according to plan?
- Was the amalgamation evaluated to determine if anticipated outcomes and benefits were achieved?

A number of criteria were developed in support of the three questions to help assess the Authority's performance.

The audit examined the management of the amalgamation following the creation and operation of the Authority. Its scope did not include any detailed examination of pre-amalgamation planning.

In the following chapter we assess the Authority's overall performance in managing the planning, implementation and evaluation of amalgamation. In chapters three to six we examine the Authority's performance managing specific aspects of the amalgamation, namely:

- selling and refurbishing buildings
- revising organisational structure and staffing
- improving information technology systems
- savings, funding and budgets.

The appendix provides further details of the audit's approach.

1.7 Following best practice

A better practice guide titled *Achieving Successful Amalgamations* was produced in conjunction with the abovementioned audit *Managing Departmental Amalgamations*. The guide is based on that audit's two case studies and review of Australian and overseas literature on amalgamations. It provides extensive checklists to assist agencies implement amalgamations.

To help ensure that future amalgamations are implemented to high standards we repeat the recommendation made in the earlier audit report: that central agencies and agencies promote use of the *Better Practice Guide: Implementing Successful Amalgamations* by officers responsible for implementing amalgamations.

2 Overall planning, implementation and evaluation

At a glance

Overall, was the amalgamation well planned, implemented according to plan and did it achieve the anticipated outcomes and benefits?

We found that the Authority did not have an amalgamation plan in place to address the directions from government based on the amalgamation feasibility study. The absence of a plan saw the amalgamation and business-as-usual activities dealt with on a needs basis. The lack of a strategic and systematic approach by the Authority to planning the amalgamation contributed to government and racing stakeholders not being well informed of progress against amalgamation objectives and how they varied from the expectations of government.

While achieving many key objectives, albeit late, the result three years after the amalgamation is mixed. The Authority has recently sold its surplus building. However, there is a deficit of proceeds to fund the costs of amalgamation and other amalgamation costs or distribution to the racing industries. This occurred because of the lower than expected sale price achieved for its Auburn building and the higher than estimated cost of refurbishing the Bankstown building. Staff numbers have been reduced to target, but the Authority's structure is yet to be finalised. A new greyhound registration system is yet to be installed, to complement the existing harness racing system. The Authority has declared a surplus in cash reserves, including funded provisions, of $400,000. The Authority inherited the cash reserves from the greyhound racing industry. They comprised funds for capital replacement and past surpluses, and are surplus to the Authority's operational requirements. The surplus funds are to be applied to fund the building refurbishment deficit, with the balance of $133,000 to assist with the funding of a new greyhound registration system. The decision to use greyhound industry-sourced funds for the building deficit without contribution from the harness racing industry is inequitable. The Authority is reviewing its decision.

There were a number of extenuating circumstances outside the control of the Authority. These circumstances contributed to the implementation of amalgamation objectives being delayed. They included:

- the high market assessment of buildings used by the feasibility study - the subsequent lower sale proceeds reduced the level of funds to be applied to the costs of amalgamation
- the surplus building not selling at auction by the target date at the Authority's reserve price
- feasibility study assumptions (made over a year before amalgamation) remaining unchanged despite changes in circumstances
- the need to deal with high levels of bad debts in harness racing, continue disciplinary actions against two senior stewards, improve internal reporting, revise operating procedures and address staff morale issues.

This chapter looks into the overall planning, implementation and evaluation of the amalgamation. The following chapters examine, in more detail, the key aspects of buildings, staff and structure, information technology, and funding and budgets.

2.1 Two amalgamation planning phases

As indicated in Chapter 1, there were two planning phases. The first phase occurring pre-amalgamation, directed by government and the second phase occurring post -amalgamation, directed by the Authority. This audit focuses on the second phase. This approach is in line with that agreed by the Auditor-General following the request for audit by the Minister for Gaming and Racing who referenced concerns about delays in achieving savings and implementing other amalgamation strategies.

Prior to amalgamation, planning involved:

- a feasibility study making findings and recommendations for the amalgamation
- the broad acceptance of the feasibility study's recommendations by government
- briefings for the new Board based on the feasibility study and the government's directions.

Following creation of the Authority, amalgamation planning required:

- the Board's early assessment of their situation against the feasibility's study's suggestions
- the development by the Board of an approach to managing the amalgamation
- communication by the Board of their intentions and progress against their approach.

The new Authority was responsible for the planning and implementation of the amalgamation.

Whatever the course of action, we expected to see a plan against which the Authority would be accountable for in implementing the amalgamation. Without such a plan it risked not being clear in its goals, actions and progress. It also risked being held accountable by stakeholders against the expectations set prior to the amalgamation - those recommended by the feasibility study, accepted by government and set-out in the briefings to the new Board. During its early months of operation the Authority had the option of clarifying concerns about its amalgamation objectives and targets. The amalgamation feasibility study acknowledges that its recommended courses of action should be fine tuned to changed circumstances by a future amalgamated board.

The Authority believes many of the benchmarks to be unsound because of flawed methodology applied by the feasibility study. However, it was the Authority's responsibility to assess its amalgamation responsibilities at the outset, obtain clarification or alteration of them and to develop an amalgamation plan around the clarified or altered objectives. By not doing this their stakeholders' expectations remained based on the earlier plan. And in the absence of the Authority having done so, its performance is assessed against benchmarks set in the feasibility study.

2.2 Was the amalgamation well planned?

Our assessment

We found that the Authority did not have a formal amalgamation plan in place to address the directions from government to:

- co-locate staff to one building and sell the surplus building
- integrate its activities through a new staff structure and thereby reduce staff numbers
- review its IT systems and introduce new systems
- establish effective financial systems and accounting treatments.

Were the objectives and benefits of amalgamation clearly defined at the planning stage?

The Authority was made aware of amalgamation objectives and benefits, based on the amalgamation feasibility study and government directions. Board members were briefed on 30 September 2004, a day before the Authority commenced. The new CEO, who commenced on 25 October 2004, was provided with the briefing material the Board members had received. Details of the amalgamation objectives included:

- a staff restructure with a suggested 51 permanent staff, a reduction of 12
- the sale of a surplus building to fund amalgamation costs, with any surplus to be passed to the racing industries
- making savings, estimated to be $800,000 per annum, mainly in staff costs, to reduce the level of funding support from the two racing industry bodies
- many changes, challenges and solutions within the first 12 months.

The briefing material and second reading speeches indicated that the costs of IT enhancements, including a new system for greyhound registration, along with fit-out, relocation and establishment costs, were expected to be met from part of the proceeds of the sale of the surplus building.

Directions from government

Included with the briefings were copies of the second reading speech for the enabling legislation. The briefing papers included the Minister's message stating that ... 'The amalgamation presents the challenge of ensuring integrity and delivering savings through the more efficient use of resources.'

The second reading speeches supporting the Greyhound and Harness Racing Administration Bill were delivered in May 2003. Government members highlighted the following recommendations of the feasibility study:

- estimated annual savings of $800,000 through reduced staffing and accommodation costs, therefore decreasing racing industry contributions
- selling one of two buildings
- meeting amalgamation costs from the sale of the building, with any surplus funds to benefit the two industry bodies.

The Minister's second reading speech stated:

> *... the amalgamation is not to be at the expense of integrity and the regulation of the integrity of the industry*
>
> *... after start-up and transition costs are met, the savings will become available to the greyhound and harness racing industries to distribute as prize money, or for any other purpose that the independent commercial boards consider in the best interests of their respective industries*
>
> *... the proceeds of the sale of the building surplus building are to be used to be used to fund the costs of amalgamation. That will include the costs of a fit-out and the relocation of staff to the new jointly owned building. It will also involve other costs, such as setting up amalgamated financial and reporting mechanisms and also any staffing costs associated with redundancies and retraining*
>
> *... The balance from that will be notionally divided in equal portions to be distributed to the greyhound and harness racing industries.*

The Minister's message also included in the briefing material stated that '... the first six to 12 months of the new Board's existence will be filled with many changes, challenges and the opportunity for implementing rewarding solutions.'

Discretion for managing the amalgamation

Within these requirements, the planning and implementation of the amalgamation was at the discretion of the Authority. The feasibility study stated that its findings and recommendations provided guidance only.

> *... the feasibility report would in many respects be the initial thinking on a particular course of action but that a future amalgamated board or changed circumstances, may result in reconsideration or fine tuning of a proposed course of action.*
>
> *In other words, the [feasibility study] Working Party's findings should not be read as a concluded view that would bind a future amalgamated board.*

Briefing material provided to the Board included a draft plan for staff placement. It was based on a consultant's report (the 'Spencer report') commissioned during the feasibility study. It recommended a structure for a staff of 51. The draft plan for staff placement also included the option of a voluntary redundancy program. Accordingly, the Authority saw the consultant's report as guidance. However, if the Authority was not to follow the plan proposed around the feasibility study, we believe, it was obliged to develop a substitute plan and to communicate its proposed course of action.

Clarity of directions received from government

The Authority has advised the Audit Office that the directions and guidance provided to them on creation were not clear and, in some cases, not well founded. The Authority developed different views and significantly different strategies to implement the amalgamation.

The earlier referenced *Better Practice Guide - Implementing Successful Amalgamations* produced recently by the Audit Office (available March 2008) provides checklists of questions applicable to the situation the Authority found itself. They are designed to help those managing an amalgamation be more accountable.

In terms of amalgamation objectives the better practice guide asks:

- What are the strategic objectives provided by government?
    - Have targets for objectives and benefits been developed - for example, budget savings (including staff reductions) and service improvements?
    - Have target dates been set for achievement of objectives and benefits?
    - Is the direction of the amalgamation clear from initial consultation between amalgamating agencies and central agencies?
- Does the new department need to further develop strategies and targets to supplement the directions received from government?

In terms of taking action early the better practice guide asks:

- Is the senior executive of the new organisation driving the change and maintaining momentum from the start?
- Have key amalgamation issues and risks been assessed without delay?
- Can messages be communicated quickly outlining clearly the reasons for the amalgamation?
- Are the structures of the merging organisations compatible?
- Is there an accurate estimate of the costs of the amalgamation?

In terms of developing formal plans the better practice guide asks:

- Has a due diligence review, or equivalent, supported amalgamation planning?
- Is the management of key stakeholder and client concerns addressed in the plans?
- Do the plans include actions to attract and retain key skills and staff?
- Is there a plan for managing excess staff?
- Is funding of the costs of amalgamation agreed? (voluntary redundancies, office and information, communication and technology [ICT] modifications)
- Do plans include both managing amalgamation change issues and business as usual issues?
- Is a communication strategy in place?

In terms of implementing the amalgamation the better practice guide asks:

- Is implementation being pursued with clear purpose and accountability?
- Have the implementation goals, timeline and processes been made public?
- Is there a process for ongoing and regular communication with staff and stakeholders about progress with the benefits of the amalgamation?
- Are actions underway to consolidate awards?
- Is progress against plans regularly reviewed by the department's executive?

Were plans clearly defined at the planning stage?

The Authority did not develop a plan for implementing the amalgamation. Its initial priorities were on maintaining both business-as-usual activities in the newly merged Authority, such as stewarding and financial matters and on specific amalgamation issues, such as relocation, IT systems and personnel appointments. Some amalgamation objectives were included in the draft 2005-06 Strategic Plan initiated nine months after the Authority commenced.

Delay between feasibility study and amalgamation

The Authority commenced 16 months after the feasibility study's report was presented to the Minister of Gaming and Racing. The briefing material prepared by the Office of Racing was based on the feasibility study's report. The delay between initial planning and amalgamation warranted further analysis of amalgamation benefits and baselines by the Office of Racing (the predecessor to OLGR) and the Authority to test the recommended actions.

The amalgamation feasibility study had anticipated a surplus from the sale proceeds after the funding of amalgamation costs such as redundancies, fit-out costs and IT upgrades. It did not, however, quantify the costs and likely surplus. It recommended that an independent consultant be engaged prior to the amalgamation to calculate the costs. This was not done by GRA or the Office of Racing and was left to the Authority to determine.

Distractions from amalgamation planning

The Authority has advised that its heavy involvement in significant urgent operational problems at its commencement stopped it focussing on amalgamation objectives. The Authority faced significant business-as-usual issues, including the need to: deal with high levels of bad debts in harness racing; continue disciplinary actions against two senior stewards; improve internal reporting; revise operating procedures; and address staff morale issues.

The amount of accounts receivable transferred from HRA was approximately $500,000, and significant amounts were subsequently written off. Much of this outstanding debt related to licence and registration fees owed by owners and trainers, and reflected problems with policies and internal controls.

Strategic direction

The Authority did not include amalgamation issues in a formal plan for nearly 12 months when in August 2005 the Strategic Plan for 2005-06 was first drafted. The Strategic Plan was prepared with input from the Board and management. It included strategies for a range of operational and administrative objectives. It supported the amalgamation but did not include all amalgamation objectives. The Annual Report for 2004-05 said in support of the 2005-06 Strategic Plan that: 'Over the next twelve months the Authority will implement a range of strategies to ensure that the amalgamation delivers on the key objectives of the Government and improves service delivery to the key stakeholders of the Authority.' The Board had considered the draft Strategic Plan at its meeting in August 2005. The Authority advises that the Strategic Plan was approved at this meeting. This, however, is not referenced in the minutes.

The CEO's contract also required achievement of amalgamation objectives. For example, the contract required new premises be established for the merged entity at either Auburn, Bankstown or an independent location by 30 April 2006 (19 months after Authority commenced) and strategic and business plans to be in place by 31 October 2005.

Initial budget

The Authority's initial nine month budget was prepared by the two former agencies and the Department of Gaming and Racing. However, it did not include the four per cent salary increase applicable. It focused on maintaining business-as-usual. It assumed that most costs of amalgamation would be met from the proceeds of the sale of the Authority's surplus building.

The Authority advised that the failure to include an award increase in the initial budget and as an offset for later salary related savings is a fundamental flaw in pre-amalgamation planning as the Authority was obliged to pay the award increases.

Accountability for amalgamation activities

Responsibility for the direction and planning for the amalgamation was with the Board, the CEO and senior management. This was made clear in the briefings, employment contracts and strategic/corporate plans.

Were baseline measures captured at the commencement of the project?

Many baselines were measured and reported. These included staff numbers and budgets. However, progress against the amalgamation objectives and targets was not reported on systematically to stakeholders.

The feasibility study's report had provided a set of baseline measures. These included staff and savings targets, and analysis of building, IT and financial issues. They provided a starting point for the Authority to develop or confirm baselines from which to measure its performance.

Monthly reports to the Board from the CEO included comment on issues as required by current events, not as driven by an overall plan. For example, progress with the building sale, co-location and Bankstown refurbishment were reported.

2.3 Was amalgamation implemented according to plan?

Our assessment

As described above, there was no plan to direct the implementation of amalgamation objectives. This limited the Authority's systematic reporting of the amalgamation. Stakeholders, such as the Minister and the racing industry bodies, were not well aware of the extent to which the feasibility study strategies were altered and how the Authority was performing against its plan. In addition, significant business-as-usual issues during the first year distracted it from strategically managing the amalgamation.

Was the amalgamation plan's implementation monitored and reported, and was appropriate action taken?

The Board dealt with amalgamation matters routinely at its meetings. They received a monthly report from the CEO on key operational and administrative issues requiring their attention, including a financial report. The Minister received the monthly financial report. However, there was no periodic, specific reporting to the Board, Minister and OLGR on progress either against amalgamation objectives defined by the Authority or against the expectations of the amalgamation outlined in the briefing papers provided to the Board and CEO. Reporting to the Minister on amalgamation was generally on a needs basis, as events occurred and as actions were required. The Board did not receive reporting against the Strategic Plan until June 2006.

Significant business issues on amalgamation

Business-as-usual issues were similarly dealt with on a needs basis. The Authority faced a number of these issues on amalgamation in October 2004. They included:

- disciplinary action against two stewards - leading to their departure in early 2005
- recovering or writing-off the large level of debts relating to harness racing - affecting the liquidity of the Authority
- enhancing monthly financial and operational reporting, which the Authority states was virtually non existent
- establishing policies and procedures in several key areas
- dealing with staff productivity and morale issues
- managing staff and systems in two buildings eight kilometres apart.

The Authority advises that the benefits to stakeholders of these circumstances being controlled effectively were significant.

Communicating with external stakeholders

The Authority did not have an effective strategy for communicating with the Minister and OLGR.

Monitoring and reporting of achievements was achieved through annual reports and Ministerial submissions. Annual reports were tabled by the Authority in December 2005 and December 2006, and included the Strategic Plan and Corporate Plan respectively. They did not include comprehensive reporting on progress with the amalgamation against objectives.

The Strategic Plan for 2005-06 required a Communication Strategy in place by 31 March 2006. It was finalised 10 May 2006. It includes strategies to deal with internal and external stakeholders. The Strategy, however, omitted reference to maintaining regular communication with the Minister and OLGR, two of their most important stakeholders. Establishing and maintaining good relationships with stakeholders was raised in the briefing material as a critical issue for the Authority.

The Authority has stated that: 'The Minister and OLGR have made very few visits to the Authority since October 2004, whereas the Authority Executive has made many visits to OLGR for meetings requested and forwarded many emails to OLGR on progress against budget.'

The Authority has also cited difficulties communicating with OLGR, especially delays with the processing of annual budget proposals. And stated that: 'OLGR did not request further information from Authority in addition to its periodic reporting. The Authority understands that communication between the preceding bodies and the Office of Racing/OLGR had been ad hoc and spasmodic.'

Recommendation

It is recommended that the Authority commit to the implementation of a communication strategy to ensure that stakeholders are well informed of the Authority's performance against its corporate statements and plans.

Reporting progress

Reporting against the 2005-06 Strategic Plan did not commence until June 2006. This was 16 months after the amalgamation commenced and after many of the targets were to be achieved. The Strategic Plan included a number of amalgamation objectives, such as co-locating staff in one building and improving IT systems, but omitted objectives relating to savings targets, clarification of financial issues, and the new structure of the Authority and the integration of functions.

Reporting on continuing amalgamation tasks was not taken up in the Corporate Plan for 2006-09. A number of the yet to be finalised amalgamation objectives and benefits are not included in this Corporate Plan.

Recommendation

It is recommended that the Authority revise the corporate plan in line with a Results and Services Plan (RSP) for improved external accountability. (See Chapter 6, page 51 for more on RSPs.)

2.4 Did amalgamation achieve anticipated outcomes and benefits?

The implementation of the amalgamation has been a lengthy process commencing in October 2004 and continuing today. The main amalgamation objectives were achieved during 2007 while some objectives remain to be finalised, namely introducing a new greyhound registration system, changes to the organisational structure and integration of the industrial award.

No comprehensive evaluation of the amalgamation has occurred until now.

The Authority had not communicated effectively its views on outcomes against expectations and how, and why, it varied the earlier plans. Without a comprehensive plan of its own, the Authority was unable to use this as a basis for undertaking consultation with stakeholders.

Annual budget review

The most significant review of the implementation of the amalgamation has been the annual budget review. The process provides the two industry bodies and OLGR with the opportunity to inform the Minister of their views on the performance of the Authority. However, the process of review has not always been satisfactory.

The Authority wrote in a letter to the Director General on 2 June 2005 that savings reflected in the 2005-06 budget are mainly in salaries and that additional savings will be achieved when a 'unified merging is achieved' by 30 June 2006. The Authority's letter provided little substantiation of savings that the Director General had requested in his letter of 27 April 2005. The Minister had requested a statement including:

- amalgamation achievements and financial savings realised to-date
- an outline of project timing and predicted savings
- an estimated completion date for the integration of the two former entities.

Performance against amalgamation objectives

The Authority sold its surplus building in September 2007 and has applied the proceeds to refurbishment costs, largely the refurbishment of its Bankstown building. However, the sale proceeds were insufficient to fund refurbishment costs and there are no sale proceeds for other amalgamation costs or for a return to the racing industries. The refurbishment has significantly exceeded earlier estimates.

Staff numbers have reduced to target over three years. The resulting savings have been largely absorbed by increases in salaries, costs relating to integrity activities, such as confirmatory testing of all positive greyhound swabs and a third camera at TAB harness tracks, and increases greater than the CPI, including the increased Harness Racing Council levy. The Authority's requirements for industry funding have remained relatively constant in nominal dollar terms over the four years to 2007-08. The Authority's staffing is yet to achieve the most efficient and effective structure. The introduction of the greyhound registration system, permitting further integration in the area of racing administration, is delayed. The Authority states that this was primarily for reasons beyond the Authority's control such as the timing of business case review and funding approvals.

The matter of accumulated depreciation funding and past operating surpluses was resolved during the audit. The surplus comprised funding for capital replacement and past operating surpluses by previous greyhound racing industry agencies. The Board resolved $400,000 was excess to their operational needs and was to fund the building refurbishment deficit, with the balance of $144,000 to partially fund the new greyhound registration system. The greyhound racing industry is to fund the remaining registration system costs of $524,000. (These two figures have since been revised to $133,000 and $555,000 respectfully.) The Audit considers the use of greyhound industry sourced funds to meet the cost of the deficit without funding from the harness racing industry to be inequitable.

Examples of actions and targets included in the 2005-2006 Strategic Plan and their results are:

Actions	Targets	Results
Sell surplus building	30 June 2006	to auction on 15 June 2006 (later sold September 2007)
Exchange contracts for refurbishment	15 February 2006	30 January 2007
Move to refurbished building	30 June 2006	6 September 2007

Circumstances outside the control of the Authority that contributed to desired objectives not being achieved were: earlier plans being based on higher real estate assessments, the failure of the initial Auburn building sale to reach the reserve price, and the length of time between initial plans and actual amalgamation. Other such circumstances were the need to: deal with high levels of bad debts in harness racing; continue disciplinary actions against two senior stewards; improve internal reporting; revise operating procedures; and address staff morale issues. The Auburn building sold in September 2007 for $2.050 million. This was less than the $2.4 million reserve price initially set by the Authority and also used in the business case supporting the sale and related calculations of an estimated surplus of $853,000, after building costs, to fund other amalgamation costs. The $2.4 million estimate replaced the $2.6 million anticipated in the 2004 feasibility study.

The following chapters examine, in more detail, the key aspects of buildings, staff and structure, information technology, and funding and budgets.

Recommendation

It is recommended that the Authority identify strategies to deal with the outstanding amalgamation issues. These include finalising the structure of the Authority, installing a new greyhound registration system and reporting on the costs and benefits of amalgamation against the Authority's amalgamation objectives.

3 The Authority's buildings

At a glance

The Authority preferred the Bankstown building over the Auburn building favoured by the amalgamation feasibility study. A key factor for the Authority was the higher valuation of the Auburn building. The Auburn building did not sell at auction in June 2006 and was subsequently sold in September 2007 for $2.050 million. The sale price was $350,000 below the estimate of $2.4 million in the Authority's business case to the Minister supporting the sale and was also set as the reserve price for the auction. Building related costs have exceeded business case estimates provided to the Minister for the refurbishment of the Bankstown buildings. Final costs of $2.3 million are an increase of $807,000 over the business case estimate of $1.475 million. Amalgamation related building costs have exceeded the sale price of the Auburn building. A recent market valuation of the refurbished Bankstown building is $53,000 less than the total of the previous valuation and recent building costs. The Authority disputes this finding on the basis of the Audit Office's calculation of building costs. The Authority did not meet the target date for co-location of staff and the target date for the refurbishment of the preferred building.

3.1 Were plans clearly defined at the planning stage?

The Authority's 2005-06 Strategic Plan set clear targets to sell its excess building and to move staff to refurbished premises by 30 June 2006. Changes in property valuations and assessment of the preferred building for sale contributed to the plans becoming less clear and attainable.

Value of buildings and the costs of amalgamation

The sale price of the Authority's surplus building was important as the sale's net proceeds were to fund the costs of amalgamation. The value of the Bankstown building varied significantly from early estimates.

Initially, the feasibility study report in 2003 assessed each building at $2.6 million. They were not based on certified valuations but on potentially less accurate real estate agent assessments.

The feasibility study report also found the Bankstown building to be 'too small', and that the Auburn building offered 'newer and superior accommodation'. The Authority subsequently found the Bankstown building to be more appropriate. The Auburn building also had a substantially higher value and would provide a higher return to fund amalgamation costs.

The Bankstown building's certified valuation changed by $850,000 between August 2004 when it was valued at $2.1 million and October 2005 when it was valued at $1.25 million. The valuation of $2.1 million was obtained in support of the HRA financial statements for 30 June 2004. The valuation was not used by the Office of Racing during August - October 2004 to revise the briefing material to the new Board and CEO, or by the new Board when it took office.

The Authority states that a critical factor in its decision to sell the Auburn property was that in October 2005 it obtained a formal valuation of $1.25 million for its Bankstown building. This was substantially less than the real estate assessment relied upon by the feasibility study.

The two buildings transferred to the Authority on amalgamation were previously owned by the two racing industry bodies - the Bankstown building by HRA and the Auburn building by GRA. The expectations of the new commercial agencies, GRNSW and HRNSW, were that they would get a return when one of the buildings was sold.

3.2 Was the amalgamation plan's implementation monitored and reported, and was appropriate action taken?

The timetable to place the surplus building on the market was met. The Authority did meet the target dates for submitting the sale submission to the Minister (15 December 2005) and for putting the surplus building on the market for sale (31 March 2006). However, staff did not move to the refurbished building in Bankstown until September 2007, 15 months after the target of 30 June 2006. The Authority says that this was caused by the initial inability to sell the Auburn building at auction. The Authority had temporarily moved all staff into the Auburn building from January 2007 while the Bankstown building was being refurbished.

Selling the surplus building

The Minister approved the sale of Auburn building in early January 2006. The Auburn building was sent to auction on 15 June 2006, but did not sell. The Strategic Plan's target for the sale was 30 June 2006. The selling agent had believed a price of $2.6 million was possible. The reserve price was set at $2.4 million. The highest offer post-auction was $2.15 million. The Authority recently sold the building (in September 2007) for $2.050 million. Had the building not sold then the Authority intended to lease it out.

A consequence of the building not selling earlier was that the Authority could not fund the full costs of amalgamation as expected. Refurbishment costs, incurred since early 2007 and before the receipt of the net sale proceeds, were funded by a 'temporary loan' from the Authority's cash reserves.

Timing of refurbishment

The Authority had not acted on refurbishing the Bankstown building prior to putting the Auburn building to auction. The 2005-06 Strategic Plan required the execution of contracts for refurbishment by 16 February 2006. This would have allowed relocation to occur seamlessly following the expected sale of the surplus building in June 2006.

The Board approved the contract for the refurbishment at its meeting on 30 January 2007. Contributing to the delay was an extended post-auction process assessing the extent of refurbishment required. Had the Auburn building sold in June 2006, the Authority was to bear significant relocation and leasing costs until the Bankstown building was refurbished. This is estimated to be $200,000 by the Authority, but was not incurred.

There was also delay temporarily co-locating into one building to reduce operating costs. The co-location was not achieved until January 2007 when all were located in the Auburn building. The target was 30 April 2006. The opportunity cost to the Authority of the late move, and of operating two buildings, was between $60,000 and $75,000.

The Authority set the reserve price for the Auburn building's auction at $2.4 million in June 2006 on real estate agent advice. It had earlier used the same value in the business case to the Minister for Gaming and Racing seeking approval for its sale.

Costs of refurbishment

The refurbishment costs for the Bankstown building have increased significantly over estimates, and have exceeded the sale price of the Auburn building. The refurbishment costs include building costs, furniture and fittings and pre and post establishment costs.

The Authority has stated that it advertised for tenders for the refurbishment of the Bankstown premises and accepted the lowest tender.

The Minister for Gaming and Racing was provided with a business case for the sale of the Authority's Auburn building and the refurbishment of the Bankstown building on 16 January 2006. The business case was based on the Auburn building providing a greater cash return to the Authority because of its expected higher selling price over the Bankstown building. That part of the business case supporting the retaining and refurbishing the Bankstown building is now questionable because of the increases in the estimated costs.

Difference between business case estimates and actual results

	Business case January 2006	Actual November 2007	Difference
	$	$	$
Net proceeds from sale of Auburn building	2,328,000	2,015,000	-313,000
Less:			
Bankstown building contract cost	1,080,000	1,496,000	416,000
Architects, consultant's, other costs	0	152,000	152,000
Bankstown furniture and fittings	0	301,000	301,000
Redundancy	55,000	0	-55,000
Pre establishment costs	128,000	128,000	0
Post-establishment costs(largely building related & including relocation costs)	212,000	205,000	-7,000
	1,475,000	2,282,000	807,000
Net amount available for other amalgamation costs	853,000	(267,000)	

Source: Greyhound and Harness Racing Regulatory Authority.

As indicated above, Bankstown refurbishment costs exceeded the business case estimate by $807,000 (55 per cent) and the difference in net building proceeds were $313,000 less than estimated. The difference in sale prices prior to selling costs was $350,000 ($2.4 million less $2.05 million) or 15 per cent.

The business case had stated that any surplus for distribution to the racing industry bodies would be small following funding of the new greyhound registration system and other costs. The result of the lower sale price and higher refurbishment costs is a deficit of $267,000 in the funding of the amalgamation. This is before funding the cost of a new greyhound registration system, or providing a small surplus for distribution to the racing industry bodies.

We understand that the Authority has not provided reports to the Minister on the significant variations to the estimated cost of the Bankstown building refurbishment.

In terms of relocation targets, the Authority's move into the refurbished building in early September 2007 was more than 15 months later than the target in the Strategic Plan.

Current value of the Bankstown building

Independent certified valuation obtained by the Authority on 22 November 2007 assessed the market value of the Bankstown building as $2.845 million. Based on the previous market valuation of $1.25 million and adding the building costs from the above table of $1.648 million (building contract costs $1.496 million and architect etc costs $0.152 million) the implied value of the refurbished building is $2.898 million. This is $53,000 greater than the recent market valuation.

The Authority states that the correct comparison to the recent valuation is to exclude the architect and related fees of $152,000. The Audit Office believes that including this amount is appropriate and gives a proper value for comparison to the certified valuation. The building work would not have been completed without these services being provided.

The independent valuer's report noted that the Bankstown property has a good appearance and provides a very good standard of accommodation.

Chapter 6 - Savings, funding and budgets - contains further analysis of cash reserves, refurbishment costs and building value.

4 Structure and staffing of the new Authority

At a glance

By July 2007 the Authority reached the staffing target of 51. However, it is yet to complete the integration of its activities on amalgamation.

The feasibility study developed a possible structure and change management documents to assist transition to the new structure. The staffing target of 51 was based on a report commissioned by the feasibility working party. The Authority pursued a more gradual approach, taking advantage of natural attrition. The target reached in July 2007 has achieved savings of approximately $850,000 per annum when compared to a total staff of 63 in October 2004.

The Authority is yet to finalise its structure that has evolved from the merging of the two former authorities. In particular, it is to further revise the number of direct reports to the CEO and to further integrate its racing administration activities. The Authority is yet to consolidate its two employment awards into one.

4.1 Were plans clearly defined at the planning stage?

The Strategic Plan for 2005-06 did not include any reference to a review of the Authority's structure or the need to develop and manage a change implementation program.

The Board at its meeting on 8 October 2004 resolved that 'the incoming Chief Executive deal with the issues raised in the report' about the Authority's structure and staffing included in the feasibility study.

Revised structure with reduced staff

The pre-amalgamation briefing to the Board indicated that the structure was to be flatter with integration of greyhound and harness racing functions. It was to reduce staff in corporate services and the number of senior divisional managers. Reductions in staff numbers were to contribute the bulk of the estimated savings of $800,000 per annum.

As mentioned in Chapter 2, the feasibility study report had accepted that combined staffing could be reduced by 12 positions from its starting numbers of 63. This was to deliver most of the expected annual savings. A revised structure supporting the reduction was included in a consultant's report (the 'Spencer report' of June 2004) supporting the feasibility study's finding.

The Authority advised us that it did not at any stage adopt the consultant's report. And that an important factor in this decision was the advice provided by a very senior executive of the Department of Gaming and Racing soon after the establishment of the Authority in October 2004 regarding the status of the consultant's report. This advice to the Board was that the Spencer Report was a guide only and need not be followed rigidly.

OLGR have advised that the two most senior executives in the then Department of Gaming and Racing involved with the reforms have stated they have no recollection of such advice being provided to the Authority. They further believed that the Authority was reporting against benchmarks established by the feasibility study and its supporting consultancy reports.

4.2 Was the amalgamation plan's implementation monitored and reported, and was appropriate action taken?

Without a formal approach to managing its staff losses and making savings, the Authority did not have a reference point from which to inform stakeholders of its intentions and progress against them. Second reading speeches in Parliament and the feasibility study report had made it clear that savings in the order of $800,000 were to be achieved through largely reducing staff costs in a new structure.

The Authority's approach to its structure and staffing differed to that in the feasibility study's report supported by the Government. The Authority did not prepare an equivalent change plan supporting its different approach to achieving a new structure. Variations included, creating the position of Deputy CEO and maintaining separate chairs and panels of stewards. The CEO included updates on staffing issues, as required, in monthly reports to the Board.

Approaches to a structure

The feasibility study report and the Government indicated that a plan for future staffing requirements should be undertaken at start up. The Strategic Plan 2005-06, drafted nine months after start-up, did not include a structure and staffing plan. The Authority adopted an approach of natural attrition to reduce staff numbers.

The 2005-06 Annual Report included an organisation chart showing the current staffing with significant differences to the structure proposed by the feasibility study report. The chart indicated a merging of the similar functions of the two former regulatory authorities. The new structure evolved from decisions made over the first year as the Authority became more familiar with its needs. For example, the Authority did not wish to fill the position of Manager of Stewards suggested in the Spencer Report of June 2004 because of concerns over the ability of the two stewarding functions to integrate. Separate chairs of stewards are maintained in every other jurisdiction in Australia. For example, WA and Tasmaina have combined regulatory authorities and have separate chairs of stewards. In addition, the two racing codes operate under two different sets of rules. These factors place limitations on the integration of the stewarding function.

The Authority did not formally assess the option of shared corporate services. This was a suggestion of the feasibility study and the briefings. A shared corporate service unit operated within the Department of Arts, Sport and Recreation (DASR) could have been selected to provide this service to the Authority.

The Authority has advised that it did examine the outsourcing of HR functions. As a result the salaries processing function was outsourced to an external bureau. They consider this as a sound alternative to utilising DASR shared corporate services.

The organisation chart indicated a merging of the similar functions of the two former regulatory authorities.

The co-location of the finance function occurred in early 2006. The finance function's full time equivalent staffing is currently 3.5, down from 6.5 on amalgamation. New financial software has been introduced and detailed monthly reports are produced separately for greyhound and harness racing. At the time of amalgamation the finance area had a high workload modifying charts of accounts and accounting for high levels of debtors. The outsourced payroll processing is oversighted by the HR Manager.

Industrial awards

The integration of the Authority is limited by still having two industrial awards. As a result there are separate conditions of service for greyhound and harness racing staff. As some conditions vary considerably, it is a serious obstacle to integration. The Authority states that not having an amalgamated award has not impeded workflows or the transferring of staff between the two areas.

The Authority has advised that action is now being taken to commence negotiations with the unions on a single award. The 2005-06 Strategic Plan included a target of 30 June 2006 for the Board to agree on options for an integrated award structure.

Actions against stewards

The Authority has lost its top three stewards in harness racing for disciplinary reasons in recent years. The investigations and payouts involved significant effort by the executive and Board members during 2004-05 and 2006-07. The costs were significant and put pressure on budgets which required supplementary funding from the racing industry bodies.

4.3 Did amalgamation achieve anticipated outcomes and benefits?

Natural attrition

The Authority's approach has been to progressively review its organisation chart and position descriptions as its staff numbers have been reduced through natural attrition. The Authority's view is that it would have been inappropriate to attempt such a comprehensive review at commencement, because of all the other operational challenges and difficulties it faced. The Authority did create new positions in response to its needs. They included the position of Deputy CEO (DCEO) in 2004, and the positions of General Counsel and Human Resources Manager in 2005.

The costs and benefits of natural attrition compared to introducing a change program with the option of voluntary redundancies (VRs) were not assessed. The timing of a change program could have been tailored to minimise service delivery difficulties.

Change has been slow through the process of natural attrition, with no fixed date for achieving the staffing target. The objectives were achieved between October 2004 and July 2007. The cost of natural attrition was approximately equal to the use of redundancies, a figure of approximately $600,000. The on-going salaries of keeping officers approximated the estimated costs of paying redundancies, as the majority of surplus staff, including many long term employees, left during the first two years.

The Authority believes it was impractical and unfeasible to shed 12 staff immediately. It believes its approach of natural attrition was most effective in a planning process to integrate two diverse industry bodies, particularly from a staff morale and efficiency aspect.

Staff reductions

The Authority has reduced its number of permanent staff to the target of 51 (including one staff member on maternity leave) and currently has an equivalent full-time staff number of 50.2. But, the lack of a formal review of requirements and workloads means that basis of the Authority's structure is unclear and further integration of functions is possible through continuing implementation of the amalgamation. The CEO has ten staff directly reporting to him, which we consider excessive. The Authority's submissions to the Minister and OLGR in early 2007 on staffing matters included reference to a new position of Racing Services Manager to replace one, and possibly two managers. Concerns over staff numbers against staff targets and new positions were factors prompting the Minister to seek reviews of the Authority's performance. The position of Racing Services Manager was proposed to further integrate the Authority's racing administration activities.

In addition, the integration of its greyhound and harness racing administration activities will not be achieved until the greyhound registration system is installed. Integration will not be complete until staff are employed under a single award. There are currently two awards with differing employment conditions for greyhound and harness racing industry staff. The audit noted that different employment conditions were causing some dissatisfaction with staff and that they supported different cultures within the Authority. Varying conditions include fixed and flexible working hours, and 20 and 30 days annual leave. The Authority stated that having two awards creates minimal internal impact and that a factor delaying the amalgamation of the awards was the likelihood of pressure to adopt a 'best of both worlds' approach for all staff would result in higher employment costs.

Recruitment freeze

Concerns about unresolved staffing and financial issues in early 2007 led to OLGR advising the Authority to freeze recruitment to non-steward positions. Subsequently the Minister announced the two inquiries in to the Authority on 4 June 2007. A position for which the Authority was seeking funding was that of Racing Services Manager. It was similar to that of Manager Racing Administration which was included in the duties of the DCEO position.

The Authority stated that its intention was for the Racing Services Manager to replace 1, and possibly 2, existing employees and was to have had responsibility for 2 other line managers, thereby reducing the number of the direct reports to the CEO from 10 to 7.

New positions

The appointment of a DCEO raises questions about what structure the Authority really wanted. The DCEO was appointed instead of a Manager Racing Administration position suggested in the Spencer report. The DCEO's duty statement requires the position to undertake both corporate services and racing administration duties. However, the organisation chart in the 2006 annual report indicates that racing activities report directly to the

CEO and that the DCEO has responsibility for finance and IT and no direct responsibility for racing administration. The Authority states that the role of the DCEO evolved in response to circumstances - for example, the DCEO's finance role increased as two finance managers retired and were not replaced.

The 2005 and 2006 organisation charts indicate 11 direct reports to the CEO. With the outsourcing of the legal work (following the departure of the legal counsel), this has now been reduced to 10. The CEO has expressed a desire to us to significantly reduce the number of direct reports.

The Authority appointed an HR manager to help integrate the HR functions and improve the management of staff. A further position of general counsel was filled at the same time. The appointment of a new position of general counsel was in the performance schedule of the CEO's contract. The Board approved the general counsel position as a replacement for the position of Manager Stewarding, Greyhounds. The position was recently been vacated and not filled. This will result in increased external legal fees for the Authority.

A formal and expert review of the Authority's structure was not conducted to support such significant changes. We consider that such a review would have been desirable in an organisational change of this magnitude. The Authority states that the changes were not of sufficient magnitude to warrant further review.

Payroll savings

The Authority has achieved savings in its payroll. The Authority's staff of 51 at July 2007 equates to savings in salaries of in excess of $850,000 per annum in 2007-08. The savings are based on the reduction from 63 staff employed at the time of amalgamation. The cost savings figure is net, having been offset by new positions having higher salaries, for example, the DCEO position.

The Authority separated the Chair of Stewards role for greyhounds and harness. This was in contrast to the Spencer Report recommendation of merging the two steward positions into one, but a common approach in other jurisdictions. In addition, the Authority employed an additional greyhound steward as an integrity measure.

The impact of savings on the budget and contributions from the industry bodies is discussed in Chapter 6.

Recommendation

It is recommended that the Authority finalise the structure of the Authority to achieve full amalgamation and reduce the number of direct reports to the CEO.

5 Improving information technology systems

At a glance

> By and large, the Authority has achieved its IT targets. The exception is the installation of a system for all racing industry registration functions. Such a system will support further integration, efficiencies and service improvements.

The Authority had the opportunity through the merging of systems and processes to perform the same volume of work in a more efficient manner and achieve economies of scale. Business practices were to be modified and staff structures and numbers revised.

5.1 Were plans clearly defined at the planning stage?

Briefing material provided to the Authority includes in the start-up to do list '... establishing ... appropriate management and financial accounting systems/software'. The feasibility study stated that common IT platforms for corporate and industry needs should be examined.

The Strategic Plan 2005-06 includes amalgamation related targets to:

- improve and enhance IT facilities, & evaluate current IT systems by 31 May 2006
- achieve optimal levels of efficiency in the application of IT to accounting processes - to combine the two industry ledgers by 30 April 2006.

The CEO's contract includes actions to:

- upgrade the greyhound racing registration IT system to the harness racing *Harvey* system by 31 December 2007
- upgrade of computers for employees, where applicable, by 30 September 2006.

5.2 Was the amalgamation plan's implementation monitored and reported, and was appropriate action taken?

The Authority met the targets in the Strategic Plan 2005-06 to combine the two industry ledgers by 30 April 2006 and to evaluate the current IT systems by 31 May 2006. The Authority's IT Strategy was in place by the target of 31 May 2006 specified in the Plan. A business case for the upgrade of the greyhound registration system has been prepared ready for submission to the Minister.

The lack of a common registration system for harness and greyhound racing limits integration. A compatible greyhound registration system will lead to streamlined processes, improved client services and a reduction in staff.

The process to replace the greyhound registration system has been an extended one. It was commenced in mid-2004 by the Greyhound Racing Authority (GRA) prior to amalgamation. The Authority's 2005 Annual Report states that a business case was prepared for an IT platform for greyhound operations based on the *HaRVEY* system used by the Authority's harness racing function. As the initial consultant's study had not considered other options, another consultant was engaged to test the veracity of the first study. Following this report, a further study was undertaken by the first consultant to support a new business case, which was prepared in November 2006. The estimated total project cost of installing the preferred *HaRVEY* system is $668,000.

A circumstance distracting the Authority was the disputed ownership of the half share in *HaRVEY*. The system was initially equally owned by Harness Racing Victoria (HRV) and the Harness Racing Authority (HRA - NSW), with the HRA share subsequently transferred to the Authority. Harness Racing NSW (HRNSW) disputed the transfer from the former HRA to GHRRA. Following an independent inquiry report of October 2005, the Minister directed that ownership of the system be transferred to HRNSW. They subsequently sold the 50 per cent interest to HRV for $600,000.

A further dispute was about where the funding should come from for *HaRVEY*. GRNSW claiming that it should come from surplus funds comprising a partially funded provision for depreciation, transferred from GRA on amalgamation. An Authority paper of January 2007 calculated that $88,000 was available from the provision for depreciation to fund HaRVEY. This was revised by the Board at its October 2007 meeting. The Authority states that GRNSW has included $680,000 in its 2008 budget for this project. (The next chapter has more detail on the funding of the project.)

For these reasons, the installation of HaRVEY did not achieve the target of 31 December 2007 included in the CEO's contract.

Recommendation

It is recommended that the Authority install the new greyhound registration system as soon as possible to gain productivity and service benefits.

6 Savings, funding and budgets

At a glance

> Staff numbers have been reduced, albeit slowly, and salary increases have been absorbed in annual budgets, which have remained stable. On the other hand, the costs of amalgamation have increased, notably the costs of refurbishment of the Bankstown building have significantly increased over estimates. The Authority is to fund only $133,000 of the $668,000 estimated cost of the new greyhound registration system from the $400,000 they identified as surplus cash reserves, which were sourced from the greyhound industry.

This Chapter focuses on the achievement of savings in salaries, the impact of savings on industry contributions, building costs, the composition of cash reserves and improving budget practices.

6.1 Did amalgamation achieve anticipated outcomes and benefits?

Savings arising from amalgamation

The savings to be realised by the amalgamation were to come from staff reductions and accommodation savings. The savings from co-location were the minor component of the overall savings and initially estimated by the Authority to be in the range of $80,000 to $100,000.

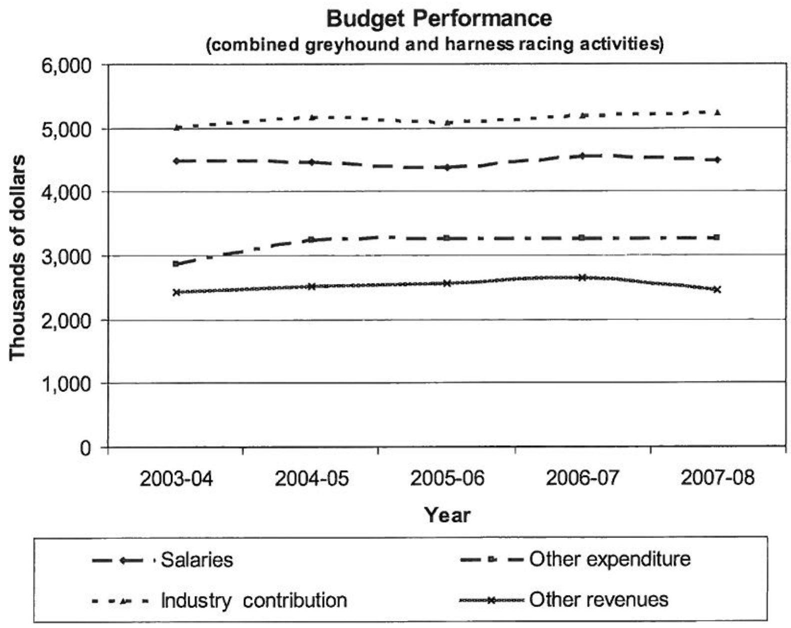
While targets for staff reductions and salary savings have been reached, salary increases of four percent each year have absorbed the salary savings. Contributions from the racing industry bodies have remained stable. Savings arising from co-location to one building have only been possible since January 2007, a year later than expected, and are now estimated by the Authority to be $50,000. This is a minor component of overall savings.

Impact of reducing staff numbers

Savings from reductions in staff numbers have absorbed salary (and other running cost) increases over 4 years.

As indicated in the table below, the Authority's revenue inflows have stayed relatively constant since its inception and industry contributions have remained steady over the four years 2004-05 to 2007-08. During the same time the Authority's expenditure has increased, due primarily to salary increases, consumer price index (CPI) increases and racing integrity initiatives, to offset staff reduction savings. The trends in both expenditure and revenue for each of the racing industry bodies can be seen in the table below.

Authority budget performance trends



Source: Greyhound and Harness Racing Regulatory Authority

Salary savings

Savings per annum from staff reductions by the Authority between October 2004 and July 2007, and adjusted for new positions, are in excess of $850,000. The savings achieved are in excess of the $800,000 per annum savings set as an amalgamation target. The savings reduced industry contributions by absorbing the salary increases awarded to Authority staff. During the four years 2004-05 to 2007-08 the four per cent per annum salary increases are estimated to total $623,000. There have also been increases in costs relating to enhancements in integrity, including the confirmatory testing of all positive greyhound swabs and a third party camera at TAB harness tracks, and some greater than CPI increases beyond the Authority's control, such as the increased Australian Harness Racing Council levy.

The Audit Office believes the application of the savings by the Authority to integrity initiatives such as increased testing and the installation of cameras is inconsistent with the original intentions of government. As referenced in Chapter 2, the second reading speeches in support of the Authority's legislation stated that savings were to be distributed directly to the industry racing bodies.

Forty five per cent of the total salary savings occurred in 2004-05 and the balance spread over the remaining three years. Most of the salary savings were gained in the Authority's harness racing function - they account for two thirds or approximately $570,000. The greyhound function contributed approximately $280,000 of the savings. This is consistent with the harness racing activities having greater numbers of staff, relative to greyhound staff, on amalgamation.

Building refurbishment

The Authority invested heavily in Bankstown building's refurbishment. The costs of refurbishing and equipping the Bankstown building have increased significantly compared to earlier estimates- see Chapter 3.

Prior to the sale of the Auburn building in September 2007 and the application of sale proceeds against the costs of refurbishment, the costs were being funded by an internal 'loan' from the Authority's cash reserves. The Authority had estimated that the payment of $1.7 million from cash reserves for the refurbishment would leave an estimated balance of $146,000 at 31 January 2008 in cash reserves. The use of the cash reserves held in investments for the refurbishment will have reduced the Authority's investment income and require increased contributions from industry. The loan from the greyhound industry sourced funds has been repaid with the sale of the Auburn building.

Composition of cash reserves

Clarifying the composition of cash balances was a task passed on to the Authority on amalgamation. The cash reserves comprised:

- funding to meet staff entitlements
- funding of past depreciation expenses (for future capital acquisition)
- past operating surpluses largely carried over from GRA and its predecessors.

The briefing material included in its to do list '... establishing ... accounting treatment for staff entitlements and depreciation'. The make-up of the cash reserves was identified as an outstanding issue in the amalgamation feasibility study. It suggested that the former Authority engage consultants to examine their composition prior to amalgamation. The review was not undertaken and the issue left for the Authority to resolve. The issue had not been resolved at the commencement of this audit.

Applying surplus cash reserves

During the course of the audit the Authority undertook analysis of the likely excess in cash reserves, comprising past surpluses and provisions of capital replacement transferred to the Authority from previous greyhound racing authority. The Board resolved in October 2007 that there was $400,000 available from cash reserves to fund the deficiency in amalgamation building costs, with the balance of $144,000 to help fund the greyhound registration system. This leaves an estimated balance of $524,000 to be funded by GRNSW if the system is to be acquired. (The balance available for funding HaRVEY has been revised to $133,000 leaving an amount of $555,000 to be funded by GRNSW under this arrangement.)

The Audit Office notes that HRNSW is not being asked to fund the deficit in amalgamation costs (revised by the Authority in January 2008 to be $267,000). We consider that it would be fairer if amalgamation costs are shared equally by the two racing industry bodies, rather than being borne solely from greyhound industry sourced funds previously held in cash reserves. The decision meant that the Authority did not have to seek further budget funding from the two racing industries with the approval of the Minister. The Authority has advised that it is reviewing its earlier decision and is advising the industries accordingly. A factor influencing its decision in October 2007 was the uncertainty in the industries caused by the outbreak of equine influenza.

Final costs and benefits

The final costs and benefits of amalgamation will not to be known until the refurbishment of the Bankstown building is completed and the greyhound registration system funded and installed. The performance of the amalgamation should be evaluated when this occurs.

Recommendation

It is recommended that the Authority report the final costs and benefits of amalgamation against the Authority's amalgamation objectives

Contemporary budget practices

The Authority's budget submission to the Minister does not clearly indicate how it is linked to the services and results it delivers, and how it creates on-going efficiencies. The Results and Services Plan (RSP) approach, applied across government, is designed to do this.

RSPs help shift discussions in the budget process away from incremental funding issues towards examining the full range of services provided by agencies, and their current and future costs. By adopting a RSP approach, including three year forward estimates, the focus of budget review is at a more strategic level. It will facilitate a more strategic discussion between the Authority, the Minister and racing industries about the agency's future funding needs.

At present the Authority's budget does not include either forward estimates or efficiency dividends.

Consistent with RSP requirements, the Authority's budget should be extended to include its three year forward estimates. The budget and estimates should also include efficiency dividends at levels applied in State Budgets to agencies. By applying the public sector wage scales and conditions the Authority conforms to government wage constraint policies.

The Authority points out that historically it was not requested to provide either an RSP or three year forward estimates, but has no objection to doing so.

Recommendations

It is recommended that the Authority:

- prepare a results and services plan (RSP) in support of its budget submissions
- include three year forward estimates in its annual budget and RSP submissions
- include efficiency dividends in budgets and estimates consistent with levels in State Budgets
- revise the corporate plan in line with their RSP for improved external accountability. (See also Chapter 2, page 28.)

Appendix

Appendix

About the audit

Audit objective and lines of inquiry

The audit objective was to determine whether the Authority is realising the intended benefits of amalgamation.

It did this by addressing three specific questions or sub-objectives:

1. Was amalgamation well planned?
2. Was amalgamation implemented according to plan?
3. Was the amalgamation evaluated to determine if anticipated outcomes and benefits were achieved?

Audit criteria

In answering the lines of inquiry, we used the following audit criteria (the 'what should be') to judge performance. We based these standards on our research of current thinking and guidance on better practice. They have been discussed, and wherever possible, agreed with those we are auditing.

For line of inquiry 1, we assessed the extent to which:

- Objectives and benefits of amalgamation were clearly defined at the planning stage
- Plans and budgets were clearly defined at the planning stage
- Baseline measures were captured at the commencement of the project
- Staff accountable for a successful amalgamation were identified at the planning stage.

For line of inquiry 2, we assessed the extent to which:

- The amalgamation plan's implementation was monitored and reported, and corrective action taken
- Benefit achievement was monitored and reported and responsive action taken
- Records were kept of approved variations to plans and expected benefits
- Post amalgamation reviews identified areas for continuing attention.

For Line of inquiry 3, we assessed the extent to which:

- Evaluation revealed whether anticipated outcomes and benefits were achieved
- Evaluation revealed whether unanticipated amalgamation outcomes and benefits were achieved.

Audit scope / boundaries

Included in the audit's scope was the implementation of the Government's decision to create the Authority by amalgamating the greyhound and harness racing regulatory authorities. The audit's scope did not include any detailed examination of planning prior to the creation and operation of the Authority. The audit will not question the merits of the Government policy objective.

The role of the Office of Liquor, Gaming and Racing (OLGR) in the Department of Arts, Sport and Recreation as adviser to the Minister is included in the audit's scope. Prior to March 2006, this advisory role was undertaken by the Office of Racing in the Department of Gaming and Racing.

Audit approach

The criteria are the standards against which the Authority's performance is assessed. The results of this assessment were the audit's findings. Where appropriate, recommendations were made to address how gaps between actual and desirable performance can be addressed.

The audit collected evidence by:

- conducting structured interviews with board members, executives and staff responsible for -
    - defining amalgamation objectives and benefits
    - developing amalgamation plans and budgets
    - identifying and valuing baseline benefits
    - managing the amalgamation
    - performing post implementation review
- conducting structured interviews with stakeholders including representatives of the two racing industries and OLGR
- reviewing amalgamation documents, applying our criteria and procedures. The documents to include -
    - plans and budgets
    - steering committee reports and minutes
    - post implementation reviews.

The audit team worked as appropriate with the consultants from IAB Services conducting the parallel review.

A review of literature, using appropriate data bases, was conducted, including interstate practices.

Audit selection

We use a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to Parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards AUS 806 and 808 on performance auditing, and to reflect current thinking on performance auditing practices. We produce our audits under a quality management system certified to International Standard ISO 9001. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983.*

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the Authority and OLGR, and in particular those members who participated in interviews. We would also like to thank representatives of GRNSW and HRNSW for their assistance. In addition, we acknowledge the co-operation of Bronwyn Jones of the Internal Audit Bureau who was conducting a review for OLGR in the Authority at the time of our audit.

Audit team

Our team leader for the performance audit was Chris Bowdler. Sean Crumlin provided direction and quality assurance.

Audit cost

Including staff costs, printing costs and overheads, the estimated cost of the audit is $168,500.

Performance Audits by the Audit Office of New South Wales

Performance Auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

Performance audits may review a government program, all or part of a government agency or consider particular issues which affect the whole public sector.

Where appropriate, performance audits make recommendations for improvements.

If you wish to find out what performance audits are currently in progress, visit our website at www.audit.nsw.gov.au.

Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently and effectively, and in accordance with the law.

Performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also assist the accountability process by holding managers to account for agency performance.

What are the phases in performance auditing?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team will develop audit criteria and define the audit field work.

At the completion of field work we will meet with agency management to discuss all significant matters arising out of the audit. Following this, we will prepare a draft performance audit report.

We meet with agency management to check that facts presented in the report are accurate and that recommendations are practical and appropriate. Following this, a formal draft report is provided to the CEO for comment. The relevant Minister is also provided with a copy of the final report. The final report, which is tabled in Parliament, includes any comment made by the CEO on the conclusion and the recommendations of the audit.

Depending on the scope, performance audits can take several months to complete.

Copies of our performance audit reports can be obtained from our website or by contacting our Office.

How do we measure an agency's performance?

During the planning phase, the team develops the audit criteria. These are standards of performance against which the agency or program is assessed. Criteria may be based on best practice, government targets, benchmarks, or published guidelines.

Do we check to see if recommendations have been implemented?

Every few years we conduct a follow-up audit. These follow-up audits look at the extent to which action has been taken to address issues or recommendations agreed to in an earlier performance audit.

The Public Accounts Committee (PAC) may also conduct reviews or hold inquiries into matters raised in performance audit reports. Agencies are also requested to report actions taken against each recommendation in their annual report.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards. This includes ongoing independent certification of our ISO 9001 quality management system.

The PAC is also responsible for overseeing the activities of the Audit Office and conducts a review of our operations every three years.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament and from internal sources.

Further information

Further information can be obtained from our website www.audit.nsw.gov.au or by contacting us on 9275 7277.

Performance Audit Reports

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
100	NSW Police Department of Corrective Services	*Managing Sick Leave*	23 July 2002
101	Department of Land and Water Conservation	*Regulating the Clearing of Native Vegetation*	20 August 2002
102	E-government	*Electronic Procurement of Hospital Supplies*	25 September 2002
103	NSW Public Sector	*Outsourcing Information Technology*	23 October 2002
104	Ministry for the Arts Department of Community Services Department of Sport and Recreation	*Managing Grants*	4 December 2002
105	Department of Health Including Area Health Services and Hospitals	*Managing Hospital Waste*	10 December 2002
106	State Rail Authority	*CityRail Passenger Security*	12 February 2003
107	NSW Agriculture	*Implementing the Ovine Johne's Disease Program*	26 February 2003
108	Department of Sustainable Natural Resources Environment Protection Authority	*Protecting Our Rivers*	7 May 2003
109	Department of Education and Training	*Managing Teacher Performance*	14 May 2003
110	NSW Police	*The Police Assistance Line*	5 June 2003
111	E-Government	*Roads and Traffic Authority Delivering Services Online*	11 June 2003
112	State Rail Authority	*The Millennium Train Project*	17 June 2003
113	Sydney Water Corporation	*Northside Storage Tunnel Project*	24 July 2003
114	Ministry of Transport Premier's Department Department of Education and Training	*Freedom of Information*	28 August 2003
115	NSW Police NSW Roads and Traffic Authority	*Dealing with Unlicensed and Unregistered Driving*	4 September 2003
116	NSW Department of Health	*Waiting Times for Elective Surgery in Public Hospitals*	18 September 2003
117	Follow-up of Performance Audits	*Complaints and Review Processes (September 1999)* *Provision of Industry Assistance (December 1998)*	24 September 2003
118	Judging Performance from Annual Reports	*Review of Eight Agencies' Annual Reports*	1 October 2003
119	Asset Disposal	*Disposal of Sydney Harbour Foreshore Land*	26 November 2003

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
120	Follow-up of Performance Audits NSW Police	*Enforcement of Street Parking (1999)* *Staff Rostering, Tasking and Allocation (2000)*	10 December 2003
121	Department of Health NSW Ambulance Service	*Code Red:* *Hospital Emergency Departments*	15 December 2003
122	Follow-up of Performance Audit	*Controlling and Reducing Pollution from Industry (April 2001)*	12 May 2004
123	National Parks and Wildlife Service	*Managing Natural and Cultural Heritage in Parks and Reserves*	16 June 2004
124	Fleet Management	*Meeting Business Needs*	30 June 2004
125	Department of Health NSW Ambulance Service	*Transporting and Treating Emergency Patients*	28 July 2004
126	Department of Education and Training	*School Annual Reports*	15 September 2004
127	Department of Ageing, Disability and Home Care	*Home Care Service*	13 October 2004
128*	Department of Commerce	*Shared Corporate Services: Realising the Benefit* *including guidance on better practice*	3 November 2004
129	Follow-up of Performance Audit	*Environmental Impact Assessment of Major Projects (2001)*	1 February 2005
130*	Fraud Control	*Current Progress and Future Directions* *including guidance on better practice*	9 February 2005
131	Follow-up of Performance Audit Department of Housing	*Maintenance of Public Housing (2001)*	2 March 2005
132	Follow-up of Performance Audit State Debt Recovery Office	*Collecting Outstanding Fines and Penalties (2002)*	17 March 2005
133	Follow-up of Performance Audit Premier's Department	*Management of Intellectual Property (2001)*	30 March 2005
134	Department of Environment and Conservation	*Managing Air Quality*	6 April 2005
135	Department of Infrastructure, Planning and Natural Resources Sydney Water Corporation Sydney Catchment Authority	*Planning for Sydney's Water Needs*	4 May 2005
136	Department of Health	*Emergency Mental Health Services*	26 May 2005
137	Department of Community Services	*Helpline*	1 June 2005
138	Follow-up of Performance Audit State Transit Authority Ministry of Transport	*Bus Maintenance and Bus Contracts (2002)*	14 June 2005
139	RailCorp NSW	*Coping with Disruptions to CityRail Passenger Services*	22 June 2005

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
140	State Rescue Board of New South Wales	*Coordination of Rescue Services*	20 July 2005
141	State Budget	*In-year Monitoring of the State Budget*	28 July 2005
142	Department of Juvenile Justice	*Managing and Measuring Success*	14 September 2005
143	Asset Management	*Implementing Asset Management Reforms*	12 October 2005
144	NSW Treasury	*Oversight of State Owned Electricity Corporations*	19 October 2005
145	Follow-up of 2002 Performance Audit	*Purchasing Hospital Supplies*	23 November 2005
146	Bus Transitways	*Liverpool to Parramatta Bus Transitway*	5 December 2005
147	Premier's Department	*Relocating Agencies to Regional Areas*	14 December 2005
148	Department of Education and Training	*The New Schools Privately Financed Project*	8 March 2006
149	Agency Collaboration	*Agencies Working Together to Improve Services*	22 March 2006
150	Follow-up of 2000 Performance Audit	*Fare Evasion on Public Transport*	26 April 2006
151	Department of Corrective Services	*Prisoner Rehabilitation*	24 May 2006
152	Roads and Traffic Authority	*The Cross City Tunnel Project*	31 May 2006
153	Performance Information	*Agency Use of Performance Information to Manage Services*	21 June 2006
154	Follow-up of 2002 Performance Audit	*Managing Sick Leave in NSW Police and the Department of Corrective Services*	June 2006
155	Follow-up of 2002 Performance Audit	*Regulating the Clearing of Native Vegetation*	19 July 2006
156*	Fraud Control	*Fraud Control Improvement Kit: Meeting Your Fraud Control Obligations*	20 July 2006
157	Roads and Traffic Authority	*Condition of State Roads*	16 August 2006
158	Department of Education and Training	*Educating Primary School Students with Disabilities*	6 September 2006
159	NSW Health	*Major Infectious Disease Outbreaks: Readiness to Respond*	22 November 2006
160	NSW Health	*Helping Older People Access a Residential Aged Care Facility*	5 December 2006
161	Follow-up of 2003 Performance Audit	*The Police Assistance Line*	6 December 2006

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
162	NSW Health	*Attracting, Retaining and Managing Nurses in Hospitals*	12 December 2006
163	Legal Aid Commission of NSW	*Distributing Legal Aid in New South Wales*	13 December 2006
164	Department of Juvenile Justice NSW Police Force	*Addressing the Needs of Young Offenders*	28 March 2007
165	Homelessness	*Responding to Homelessness*	2 May 2007
166	Follow-up of Performance Audit Department of Education and Training	*Using Computers in Schools for Teaching and Learning*	9 May 2007
167	Follow-up of 2001 Performance Audit: Ambulance Service of New South Wales	*Readiness to Respond*	6 June 2007
168	Ministry of Transport	*Connecting with Public Transport*	6 June 2007
169	NSW Police Force	*Dealing with Household Burglaries*	27 June 2007
170	RailCorp	*Signal Failures on the Metropolitan Rail Network*	15 August 2007
171	Department of Premier and Cabinet Department of Commerce	*Government Advertising*	29 August 2007
172	Department of Primary Industries	*Improving Efficiency of Irrigation Water Use on Farms*	21 November 2007
173	NSW Police Force	*Police Rostering*	5 December 2007
174	Department of Education and Training	*Ageing workforce - Teachers*	13 February 2008
175	Department of Commerce Department of Primary Industries	*Managing Departmental Amalgamations*	5 March 2008
176*	Better Practice Guide	*Implementing Successful Amalgamations*	5 March 2008
177	Office of the Director of Public Prosecutions	*Efficiency of the Office of the Director of Public Prosecutions*	26 March 2008
178	Greyhound and Harness Racing Regulatory Authority	*Managing the Amalgamation of the Greyhound and Harness Racing Regulatory Authority*	April 2008

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