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Parliament of Victoria
Public Accounts and Estimates Committee

Report on the 2012-13 Budget Estimates — Part Two

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DUTIES OF THE COMMITTEE

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

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

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

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

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

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

ACRONYMS AND TERMS

Agency	Government entities which generally receive their funding through 'departments' and for which 'departments' are responsible for reporting. Examples include Victoria Police, hospitals and TAFEs. Agencies, like 'departments', are directly accountable through one or more ministers to the Parliament.
Asset initiative	A new program or project ('initiative') that delivers assets. See 'asset investment'.
Asset investment	Expenditure on assets (generally infrastructure, such as roads or hospitals) as opposed to expenditure on the delivery of goods and services ('outputs').
(Asset) investment through other sectors	Funding for 'asset investment' provided by the 'general government sector' to an 'agency' within the 'public non-financial corporation sector' for an asset that becomes part of the 'public non-financial corporation sector'.
Base funding	The amount of funding received by a 'department' or 'agency' for the goods and services that it delivers every year. This is distinct from funding for time-limited 'initiatives'.
Budget estimates	Forecasts for future years made in the budget papers about matters such as income, expenditure, assets, liabilities and goods and services to be delivered.
Contingencies/ contingency provisions	Amounts included in a budget for expenses that have not been determined at the time of the budget. These provisions are for both predictable expenditure (such as dealing with population growth and initiatives to be released in future budgets) and unpredictable expenditure (such as unforeseen natural disasters).
Department	A large government entity. There are currently 11 departments in Victoria, plus the Parliamentary Departments. Funding for most 'agencies' is generally provided through departments and departments are required to report on the financial and performance results of the agencies for which they are responsible. Departments, like 'agencies', are directly accountable through one or more ministers to Parliament.
Depreciation	The amount of money it would require to keep the State's assets in the same condition as they were in last year. This amount is listed as an expense on the operating statement, and the cash equivalent to that amount is usually used to partially fund 'asset investment'.
Direct (asset) investment	'Asset investment' by the 'general government sector' managed by an 'entity' within that sector for an asset that becomes part of that sector.
Efficiency measure	A specific kind of 'savings initiative' where the intent is to provide the same level of service at a lower cost or additional services for the same cost.

Entity	Either a 'department' or an 'agency'.
Forward estimates period	The period for which estimates are made in the budget papers. This includes the budget year and the following three financial years. The forward estimates period for the 2012-13 Budget is 2012-13 to 2015-16 inclusive.
General government sector	Government 'entities' which provide services either with no charge to the user or with charges significantly below the cost of providing the services. This includes all 'departments' and many 'agencies'.
Gross state product (GSP)	The total value of goods and services produced by the state in a year. This includes the goods and services delivered by the Government and the private sector.
GST	Goods and Services Tax
Initiative	A specific program or project detailed in the budget papers. Budget papers can include 'asset initiatives', 'output initiatives', 'revenue initiatives', 'revenue foregone initiatives' and 'savings initiatives'.
Net debt	A calculation based on the difference between the value of selected categories of financial assets and financial liabilities. Essentially, the difference in value between what the Government owes and assets that it could easily convert to cash. Not all financial assets and liabilities are included.
Net result from transactions / net operating balance	See 'operating balance'.
Non-financial public sector	The 'general government sector' and 'public non-financial corporation sector' consolidated together.
Operating balance / surplus	A measure of a body's financial performance in a year which is calculated by subtracting an entity's expenses in the year from its income. Also known as the 'net result from transactions' or 'net operating balance'. 'Asset investment' is not included in the operating balance.
Outcome	The impact of an 'output' on the community, such as healthier people or a reduction in crime.
Output	An aggregate of goods and services (such as health care or policing services) delivered by a 'department' or its agencies. Outputs are identified in the budget papers.
Output expenditure	Expenditure on 'outputs' (that is, goods and services). This is distinct from 'asset investment' although it includes expenditure on 'public private partnerships'.
Output group	A number of 'outputs' grouped together in the budget papers.

Output initiative	A new program or project ('initiative') that delivers goods and services (part of a department's 'outputs'). Output initiatives are usually for a limited period of time, although they are sometimes perpetual.
PAEC	Public Accounts and Estimates Committee
Public financial corporation sector	Government 'agencies' which provide financial services, such as the Treasury Corporation of Victoria or the Transport Accident Commission.
Public non-financial corporation sector	Government 'agencies' which provide goods or service with charges that recover most of the cost of producing them, such as water authorities and trusts administering certain facilities. Does not include 'agencies' providing financial services (see 'public financial corporation sector').
Public private partnership (PPP)	An arrangement in which the private sector delivers an asset on behalf of the Government. Ownership of the asset usually passes to the Government after a defined period of time. Government expenditure for PPP projects is included in 'output expenditure' rather than 'asset investment'.
Revenue	Income received by the Government, mostly from State taxes and grants from the Commonwealth Government.
Revenue foregone initiative	Changes in policy which result in a decrease in 'revenue'. Examples include reducing a tax rate or increasing the number of people exempted from a tax. Like 'revenue initiatives', revenue foregone initiatives are usually perpetual.
Revenue initiative	Changes in policy which result in an increase in 'revenue'. Examples include new taxes or increasing existing taxes. Revenue initiatives are usually perpetual.
Savings initiative	Changes in the provision of 'outputs' that result in reductions to the cost of the 'output'. This may be done by reducing the services provided or providing the same services more efficiently (see 'efficiency measure'). Savings initiatives are only one factor affecting 'output expenditure'. Thus, they may not reduce a department's total 'output expenditure' compared to the previous year if other factors (such as 'output initiatives') are greater in value. Savings initiatives are usually perpetual.
TAFE	Technical and Further Education
Total estimated investment (TEI)	An estimate of the total amount of expenditure required to deliver an 'asset investment' project.

CHAIRMAN'S FOREWORD

I am pleased to present this second and final part of the Committee's *Report on the 2012-13 Budget Estimates*. The report analyses the plans and estimates set out by the Government in the 2012-13 budget papers and aims to explain the Government's plans, put them in context and ensure that there is an appropriate level of transparency.

Making sure that there is sufficient transparency in the budget papers is a key function of the Public Accounts and Estimates Committee. This transparency is essential for fully understanding the Government's plans at the start of the financial year. It is also essential for understanding how the Government's actual performance compares to its intentions at the end of the year.

The inquiry into the budget estimates is a major undertaking. Work on the inquiry lasts from March to September and includes extensive questionnaires sent to departments, over 54 hours of hearings with Victoria's ministers and the Parliament's Presiding Officers and a detailed analysis of the information in the budget papers.

As a result of this work, the Committee has been able to identify a number of areas where improvements could be made. In some areas, there is scope for additional disclosure. Savings measures, departments' base funding, reprioritised funding and expenditure on public private partnerships are some major examples. In other areas, such as asset investment and election commitment funding, the Committee has noted that the disclosure in the budget papers is unclear and differs from one place to another.

The report also identifies some concerns about the Department of Treasury and Finance in its roles of overseeing and quality assuring performance measurement and responses to the Committee's previous recommendations. Similar concerns have been noted by the Committee in a number of reports recently.

Regarding revenue from GST, the inquiry has revealed that there is over $1 billion difference between the State Government's estimates and the Commonwealth Government's estimates for the next four years (refer Chapter 3, pp.50-1). The Committee is unable to understand or explain this anomaly. This may indicate a serious risk – if the Government's plans are premised on inaccurate data, their practicability may be called into question. It is evident that the data provided by the Commonwealth Treasury must be timely and accurate to enable the Victorian Department of Treasury and Finance a high level of assurance in forecasting. I highlight this as an issue requiring urgent attention.

This year's report marks a shift in how the Committee's reports are presented. Previous reports have often contained a lot of detail and been quite technical in their analysis. I believe that this has limited their usefulness to both the Parliament and the community. We have put a lot of effort this year into making the report more concise and expressing the analysis in more straight-forward terms. I therefore commend this report to all members of Parliament, as I believe that all will find something of value and find it a good deal more accessible.

I would like to thank the many people who have contributed their time and effort to helping this inquiry. The Presiding Officers, Premier, Deputy Premier, Treasurer, Assistant Treasurer, Attorney-General, ministers, departmental secretaries and many of their staff have provided essential information in response to our questionnaires, in person at the public hearings and in providing further detail answering questions on notice.

I would also like to extend my gratitude to the members of the Secretariat for the great deal of work that they have put into this inquiry. As always, they have performed at a high level with challenging time constraints and I am very grateful for the high quality of their work. Further, this report would not be possible without the active cooperation of all members of the Committee who make reasonable endeavours to achieve consensus findings and recommendations and support for the Report.

Philip R. Davis MP
Chairman

FINDINGS AND RECOMMENDATIONS OF THE COMMITTEE

CHAPTER 2 Key Aspects of the 2012-13 Budget

2.3 Structure of the 2012-13 budget papers

FINDING: The 2012-13 budget papers follow the same structure as the 2011-12 budget papers. However, three new budget information papers have also been produced. These provide additional information about the context of the Budget and strategies within it. *page 12*

FINDING: Most of the major changes to the budget papers in 2012-13 have involved providing more information than previously. *page 13*

2.4 Budget setting and initiatives

FINDING: The Treasurer has indicated that factors impacting on the Budget include:

- a high Australian dollar;
- weaker global and national economic conditions; and
- a reduction in GST and other revenue compared to previous estimates. *page 15*

FINDING: The Government has developed two key strategies: an economic reform strategy and a medium-term fiscal strategy. Currently, only one strategy has specific targets to measure progress and two of the four targets for that strategy are long-term goals. *page 17*

RECOMMENDATION 1: The Government develop a reporting framework, including measures and targets, for its economic reform and medium-term fiscal strategies. Progress compared to targets should be reported annually in the budget papers or annual Financial Report for the State. ***page 17***

FINDING: The 2012-13 Budget announces $4.1 billion worth of new output initiatives (additional goods and services to be delivered) and $2.7 billion of new asset initiatives (infrastructure and other physical assets). *page 18*

FINDING: Most of the funding for the new output initiatives announced in the 2012-13 Budget is expected to come from:

- reprioritisation and adjustments of funding previously allocated to departments;
- savings initiatives; and
- the release of contingency provisions. *page 20*

FINDING: The 2012-13 Budget funds the bulk of the election commitments which were not funded in the 2011-12 Budget. *page 21*

FINDING: The value of election commitments funded prior to the 2012-13 Budget is unclear. Figures for this were reported differently in the 2011-12 budget papers, and have changed again in the 2012-13 budget papers. *page 22*

RECOMMENDATION 2: Where a value reported as a total in budget papers disagrees with the sum of each contributing value, an explanation for the difference be given. ***page 22***

RECOMMENDATION 3: Where figures for funds committed are cited in successive budgets, but the figures vary, clear explanations be provided for the variations. ***page 22***

FINDING: Inconsistent figures are given in the 2012-13 budget papers for the value of election commitments funded in the 2012-13 Budget. No explanation for the inconsistency is given. *page 22*

FINDING: The presentation of information about election commitment funding in the budget papers does not allow the reader to easily identify which commitments have been funded. No information is provided about which commitments have not yet been funded. *page 23*

RECOMMENDATION 4: **Future budget papers include a table listing the Government's formal election commitments. For each commitment, the table should identify relevant initiatives and show:**

(a) **the total funding required;**

(b) **how much has been funded in prior budgets;**

(c) **how much has been funded in the current budget; and**

(d) **how much remains to be funded.** *page 24*

RECOMMENDATION 5: **In describing initiatives based on election commitments, the Department of Treasury and Finance clearly specify any:**

(a) **alterations or re-scoping of the election commitments; and**

(b) **changes between the initial cost estimate and the amount of funding actually provided in the Budget.** *page 24*

FINDING: There is currently no system in place to track commitments made by the Government. It is difficult to determine what has been committed to, what funding has been provided to date and what commitments remain to be funded in the future. *page 24*

RECOMMENDATION 6: **The Department of Treasury and Finance investigate ways to monitor announced funding commitments made since the election, so that:**

(a) **all commitments can be easily identified;**

(b) **funding provided for these commitments in a budget is clearly identified;**

(c) **any variations between the commitment and the actual level of funding provided are identified and explained; and**

(d) **the value of commitments that will need to be funded in future budgets is known.** *page 25*

2.5 Operating surplus

FINDING: The Budget forecasts a surplus of $154.9 million in 2012-13. This is in line with the Government's target of at least $100.0 million. *page 26*

FINDING: The Government has announced a number of savings and revenue initiatives since its election. The Government estimates that these savings initiatives have saved $1,157.2 million in 2012-13. The revenue initiatives are estimated to have provided an additional $616.2 million in 2012-13. *page 26*

FINDING: The Committee notes that the Government has established a Better Services Implementation Taskforce to reform government services. *page 28*

FINDING: The Government expects the surplus to grow to $2.5 billion by 2015-16. Underpinning this are a number of savings and revenue initiatives that have been released since the Government came to office, with an estimated impact of $8.9 billion over the forward estimates period. *page 29*

2.6 Asset investment

FINDING: The Government is planning to spend $6.3 billion on infrastructure and other physical assets in 2012-13 and an average of $4.7 billion per year between 2013-14 and 2015-16. *page 29*

FINDING: Over the five years to 2015-16, this expenditure is expected to average 1.4 per cent of gross state product, which exceeds the Government's target of 1.3 per cent. *page 29*

FINDING: The Government expects an increasing proportion of the asset investment program to be funded without borrowing in future years. The Government anticipates that asset investment will be fully funded without borrowing in 2015-16. *page 30*

FINDING: Information about asset investment is presented in a variety of ways across the budget papers. *page 31*

FINDING: Net debt is expected to increase from 4.9 per cent of gross state product in June 2012 to 6.5 per cent by June 2014, before declining to 6.0 per cent by June 2016. *page 32*

FINDING: The two rating agencies utilised by the Government have indicated that the State's AAA credit rating remains unchanged following the 2012-13 Budget. *page 33*

2.7 Contingency provisions

FINDING: The 2012-13 Budget includes contingency provisions totalling $4.6 billion for outputs and $2.6 billion for asset investment over the four years to 2015-16. For 2012-13, however, the Government has set a negative contingency for outputs, anticipating that factors such as departmental underspends will exceed unplanned expenditure requirements. *page 35*

CHAPTER 3 Revenue and Borrowings

3.3 Revenue over the forward estimates period

FINDING: The Government is forecasting a total revenue of $48.4 billion in 2012-13. This will be the highest level of revenue ever recorded by the State. The Government forecasts that revenue will continue to grow in each year to 2015-16. *page 41*

FINDING: In recent years, revenue has increased steadily every year in nominal terms, and the Government forecasts that it will continue increasing throughout the forward estimates period. *page 42*

FINDING: Revenue per Victorian has fallen as a result of the ending of Commonwealth stimulus funding. The Government plans to increase revenue by an average of $37 per person per year over the forward estimates period. *page 43*

FINDING: Revenue has become a smaller proportion of the State economy (measured by gross state product) since the Commonwealth stimulus funding years. In future years, the Government predicts that GSP will grow faster than revenue. As a result, revenue as a share of GSP is expected to decrease over the forward estimates period, returning to levels similar to what was seen before 2009-10. *page 43*

FINDING: The Government has introduced a series of revenue initiatives since it came to power. The Government expects these to increase the growth rate of revenue over the forward estimates period. *page 44*

FINDING: As part of the 2012-13 Budget, the Government has revised its expectation for revenue in 2012-13 downwards by $450.2 million compared to the forecast made in the 2011-12 Budget. In contrast, the Government has revised its revenue forecasts for 2013-14 and 2014-15 upwards by $362.0 million. *page 45*

FINDING: The Government has identified that current revenue forecasts for 2012-13 and 2013-14 are significantly lower than the forecasts made in the 2010-11 Budget Update. This is due to the estimates in the 2010-11 Budget Update being overly optimistic. This was realised at the time of the 2011-12 Budget. *page 46*

3.4 Components of revenue over time

FINDING: The Government expects State-sourced revenue and Commonwealth-sourced revenue to grow at similar rates over the forward estimates period. *page 48*

FINDING: General purpose grants for 2012-13 are expected to be $11.0 billion. This in an increase over the previous year. General purpose grants are forecast to rise in each year of the forward estimates. *page 49*

FINDING: After two years of growth by around 5 per cent, the State Government expects general purpose grants to rise by 7.0 per cent in 2015-16. The budget papers do not give a reason for this sudden increase. *page 50*

RECOMMENDATION 7: In future budget papers, the Department of Treasury and Finance provide explanations when significant variations for revenue components are predicted over the forward estimates period. ***page 50***

FINDING: Forecasts for general purpose grants in the State budget papers are $1.1 billion higher over the forward estimates period than Commonwealth forecasts. These forecasts were prepared at nearly the same time. *page 51*

RECOMMENDATION 8: The Department of Treasury and Finance and the Commonwealth explore ways of more effectively liaising with each other when preparing forecasts for general purpose grants. ***page 51***

RECOMMENDATION 9: If the Department of Treasury and Finance uses a different method for estimating future GST grants (such as predicting different relativities or different GST pool sizes) compared to the Commonwealth Government, the differences in these methods should be explained in the budget papers. ***page 51***

RECOMMENDATION 10: If the Department of Treasury and Finance is expecting large amounts of funding through general purpose grants from sources other than GST revenue, these sources should be detailed and quantified. *page 51*

FINDING: The three largest State-sourced components of revenue are: payroll tax; land transfer duty; and sales of goods and services. The Government expects that, over the forward estimates period, these will grow approximately in line with the wider economy. *page 54*

FINDING: Initiatives announced in the 2012-13 Budget have increased the amount of revenue expected from a number of revenue components. *page 55*

FINDING: The Government has changed the amount of dividends required to be paid to it from a number of authorities. The effects these changes are expected to have on authorities are not discussed in the budget papers. *page 57*

RECOMMENDATION 11: Future budget papers include a discussion of the effects that changes to dividend requirements are expected to have on contributing agencies. *page 57*

FINDING: Dividend payments from agencies have been rescheduled from one year to another, significantly affecting the amount of revenue from dividends. The budget papers do not identify the periods from which dividends are rescheduled, or the reasons for changing the schedule of payments. *page 58*

RECOMMENDATION 12: The Department of Treasury and Finance include a disaggregation of dividends revenue showing, for each year:

(a) **which authorities contribute dividend payments for the year;**

(b) **the period the dividend payment relates to; and**

(c) **reasons for any alteration to dividend payments or schedules.** *page 58*

3.5 Revenue and revenue foregone initiatives

FINDING: Revenue initiatives worth $2.0 billion (over five years) have been released since the 2011-12 Budget. These support the Government's strategy of increasing revenue growth faster than operating costs in order to increase the operating surplus. *page 59*

FINDING: Changes in government policy have been introduced in the 2012-13 Budget or the 2011-12 Budget Update that affect revenue. However, these changes have not been discussed as revenue (or revenue foregone) initiatives in the budget papers. *page 62*

RECOMMENDATION 13: The Department of Treasury and Finance clarify under which circumstances a change in policy that affects revenue estimates is discussed as a revenue (or revenue foregone) initiative. *page 62*

RECOMMENDATION 14: In the section of Budget Paper No.3 that lists revenue initiatives, the Department of Treasury and Finance include cross-references to any initiatives not listed in that Section that have an impact on revenue. *page 62*

3.6 Net debt and borrowings

FINDING: The Government's target for net debt is to reduce net debt as a share of gross state product by 2022. This target can be partly but not fully evaluated during the 57th Parliament. *page 63*

RECOMMENDATION 15: The Government produce interim targets for net debt, which will assist in monitoring progress over time. *page 63*

FINDING: Net debt as a share of GSP is forecast to decline in 2014-15 and 2015-16. This is consistent with the Government's medium-term fiscal strategy. However, net debt in dollar terms will increase in 2014-15. The total value of the Government's liabilities (primarily borrowings) will increase in both years. *page 64*

CHAPTER 4 Output Expenditure

4.1 Introduction

FINDING: Approximately 93 per cent of departments' output funding is base funding or ongoing funding. This funds the goods and services that are delivered every year. However, departments' base funding is not quantified in the budget papers and changes to base funding are not generally detailed or explained. *page 67*

RECOMMENDATION 16: Future budget papers detail each department's base funding, explaining any significant variances in the amount of base funding from one year to the next. ***page 67***

4.3 Output expenditure over the forward estimates

FINDING: Output expenditure is expected to increase each year between 2012-13 and 2015-16. However, the growth rate is expected to be less than it was in previous years. *page 68*

FINDING: The Government has reduced the forecast level of expenditure in 2012-13, 2013-14 and 2014-15 compared to previous estimates. *page 70*

4.4 Understanding the level of expenditure

FINDING: The Government's expenditure on outputs will decrease as a proportion of gross state product between 2012-13 and 2015-16. This decrease returns the level of expenditure to the levels seen before the Global Financial Crisis. *page 72*

FINDING: The amount that the Government is planning to spend per Victorian (in real terms) is expected to decline in future years. As with expenditure as a proportion of gross state product, this decline returns the level of expenditure to a level similar to what was seen before the Global Financial Crisis. *page 73*

FINDING: The Government plans to implement a number of efficiency initiatives in this budget and future budgets. The Government anticipates that these will provide improved services while reducing the amount of expenditure per Victorian in real terms. *page 75*

FINDING: The strategies to achieve efficiencies are only detailed at a high level in the budget papers. The Government has not publicly set out any measures that will be reported on to indicate whether or not its strategies have actually achieved efficiencies. *page 76*

RECOMMENDATION 17: The Government establish a suite of measures to identify whether or not efficiency initiatives have actually achieved efficiencies. Actual results for these measures should be publicly reported each year. Among other things, these measures should clearly identify whether savings targets have been achieved though:

(a) **efficiencies (that is, through delivering services at a reduced cost per unit); or**

(b) **reduced service delivery.** ***page 76***

FINDING: The Better Services Implementation Taskforce has been established to assist departments in achieving efficiencies. *page 77*

RECOMMENDATION 18: Regarding the Better Services Implementation Taskforce, the Government should publicly disclose:

(a) **the strategies developed by the Taskforce;**

(b) **how the strategies will be implemented;**

(c) **accountability frameworks established to monitor the success of these strategies; and**

(d) **the relationship between the Taskforce's strategies and the Government's published savings initiatives.** ***page 77***

4.5 New initiatives

FINDING: The 2012-13 Budget provides $4.1 billion of funding for new output initiatives (over five years). This is less than was provided in 2011-12 but more in line with historic levels. No specific explanation is provided in the budget papers for the reduction compared to 2011-12. *page 78*

FINDING: The largest output initiatives in the 2012-13 Budget focus on vocational education, health and public safety. A suite of initiatives have also been funded for 'protecting Victoria's vulnerable children'. *page 80*

4.6 Savings initiatives

FINDING: Since the Government was elected, it has announced a series of savings initiatives. These have been much larger than savings initiatives in earlier budgets. The Government expects these initiatives to save $6.4 billion between 2012-13 and 2015-16. This is expected to partially offset the new initiatives released since the Government was elected, which are expected to cost $9.5 billion over the same period. *page 82*

FINDING: In the 2011-12 Budget Update, the Government announced two savings initiatives which will have almost $1 billion of impact in 2014-15. The Budget Update provides overall descriptions of the strategies to achieve the savings. However, it does not break down the savings targets by either area of expenditure or department. *page 83*

FINDING: Figures provided by departments for their shares of the savings initiatives from the 2011-12 Budget Update do not reconcile with figures in the Budget Update. *page 84*

FINDING: The 2012-13 Budget announces further savings, averaging $254.1 million per year. The disclosure of these initiatives is improved compared to the initiatives in the 2011-12 Budget Update but does not include some information that had been provided for initiatives in the 2011-12 Budget. *page 85*

FINDING: Despite the size of the savings initiatives released in recent budgets, relatively little concrete information about how these savings will be realised has been included in the budget papers. *page 85*

RECOMMENDATION 19: When announcing savings initiatives, the Department of Treasury and Finance provide additional information in the budget papers. This should include, where available:

(a) **the specific areas targeted for savings;**

(b) **a quantified break-down of the savings targets according to those specific areas; and**

(c) **the level of expected savings for each specific area for each department.** ***page 86***

FINDING: The 2012-13 budget papers extend the 2011-12 Budget Update savings initiatives into 2015-16. The budget papers anticipate that these initiatives will provide an additional $272 million of savings in that year. The budget papers provide no details of how these savings are expected to be realised or what the impacts will be. *page 86*

RECOMMENDATION 20: When previously announced savings initiatives are continued and increased in later budgets, the budget papers should detail how the additional savings are expected to be realised, in which departments they will be realised and what the impacts will be. *page 87*

FINDING: Evidence presented to the Committee in previous inquiries about the *Government Election Commitment Savings* initiative raised concerns about how the savings targets were set. No details have been supplied about the processes used to set the savings targets in the 2011-12 Budget Update and the 2012-13 Budget. *page 88*

RECOMMENDATION 21: In future budget papers, the Department of Treasury and Finance provide details of the methodology used to calculate savings targets and to calculate their impacts on service delivery. *page 88*

FINDING: In some cases where targets in previous initiatives were not practicable, departments made savings cuts in different areas to those specified by the Government. The current reporting arrangements will not require departments to provide details of whether they implement the latest savings initiatives in the way specified by the Government or by other means. *page 88*

RECOMMENDATION 22: The Department of Treasury and Finance amend the guidance for annual reports to require departments to disclose their actual achievements compared to targets for savings initiatives and the impacts of savings measures. The required disclosure should include, as a minimum, the information suggested in Section 4.6.4 of this report. *page 89*

4.7 Reprioritised funding

FINDING: Although the 2012-13 Budget reprioritises or adjusts $144.4 million of funding from previously specified purposes in 2012-13, no details are supplied in the budget papers about what areas this money has been reprioritised from. *page 90*

RECOMMENDATION 23: Future budget papers provide additional details about the line item 'funding from reprioritisation and adjustments', including which programs or services have been affected and what impacts are expected. *page 90*

4.8 Goods and services provided

FINDING: The Government plans to increase expenditure on health and education by the largest dollar amounts over the forward estimates to 2015-16. However, in percentage terms, those increases are less than is planned for other areas. Expenditure on 'public order and safety' is expected to grow at one of the slowest rates over the forward estimates period following substantial increases in recent years. *page 91*

FINDING: The Government has not provided any significant overall funding increases for 'social security and welfare' or 'housing and community services' between 2011-12 and 2012-13. Some areas within these categories have received increased funding (most notably child protection and family services), while others have received reduced funding. Several ministers indicated their intention to introduce efficiencies rather than reduce services as a result of the funding reductions. *page 93*

CHAPTER 5 Performance Measurement

5.2 Background

FINDING: Problems with the public sector performance management reporting framework have been identified by the Committee in previous reports. The Government is currently in the process of improving the framework. *page 98*

5.3 Changes in the 2012-13 Budget

FINDING: The total number of 62 objectives in the budget papers is unchanged from 2011-12. However, the total number of outputs has decreased from 139 to 127. The total number of performance measures has also decreased, from 1,242 in 2011-12 to 1,203 in 2012-13. *page 99*

5.4 Objectives and objective performance indicators

FINDING: A number of departmental objectives focus on the activities that the department will perform (outputs) rather than the outcomes they are funded to deliver. This may continue due to unclear advice in the related Budget and Financial Management Guidance. *page 101*

RECOMMENDATION 24: The Department of Treasury and Finance update Budget and Financial Management Guidance—08 so that it consistently advises that objectives should indicate the intended outcomes of outputs and does not advise that objectives should detail 'what is being delivered, to whom, to what standard and by when'. *page 101*

FINDING: The Department of Treasury and Finance introduced a new requirement in 2011 that objective performance indicators should be included in the budget papers. This would increase departments' ability to show the impact of funding choices on the achievement of objectives. However, the performance indicators do not appear in the 2012-13 budget papers. *page 102*

RECOMMENDATION 25: The Department of Treasury and Finance ensure that future departmental performance statements include objective performance indicators. *page 102*

FINDING: The inclusion of tables linking outputs to objectives in departmental performance statements provides a clearer link between the Government's spending and its performance. *page 103*

FINDING: A new requirement to link each output to one objective reduces ambiguity about which activities support what outcomes. This increases the Parliament's and the community's ability to 'follow the money' from expenditure to impact. However, only seven out of 12 departments implemented this requirement in 2012-13. *page 103*

5.5 Outputs

FINDING: Output descriptions in the 2012-13 budget papers are very general and do not provide a complete picture of the goods and services being delivered. New requirements have recently been introduced to increase the detail included in output descriptions. *page 108*

RECOMMENDATION 26: The Department of Treasury and Finance ensure that output descriptions in future budget papers meet the requirements set out in Budget and Financial Management Guidance-09 for output specifications. *page 108*

5.6 Output performance measures

FINDING: The provision of online data sets with information about performance measures from 2007-08 onwards allows for greater tracking of performance over time and understanding of changes in performance. *page 109*

FINDING: As in previous years, departments continue to rely heavily on quantity measures in assessing their performance. *page 110*

FINDING: The two departments with the lowest proportion of quality measures in the 2011-12 budget papers both reduced their proportions of quality measures in the 2012-13 Budget. *page 111*

FINDING: Despite a commitment to aim for all outputs to contain quality performance measures, this has not occurred. In total, there are 12 outputs (representing $1.5 billion of funding) with no quality measures in the 2012-13 budget papers. *page 113*

FINDING: There are a number of performance measures for which not enough information was provided to properly interpret them. As such, these measures did not provide a clear and full understanding of departmental performance. *page 115*

RECOMMENDATION 27: The Department of Treasury and Finance require departments to publish supporting information for budget paper performance measures which explains the basis for the measures. In determining what information should be required, the Department of Treasury and Finance consider the United Kingdom's measurement annex as a model. ***page 115***

FINDING: There are no performance measures in the 2012-13 budget papers for 17 major initiatives worth a combined value of $1.4 billion. *page 117*

FINDING: Targets for 10 outputs did not appear to reflect the impact of substantial changes to output funding. *page 118*

RECOMMENDATION 28: The Department of Treasury and Finance ensure that all outputs have performance measures that reflect the full scope of the output's activities, including all major programs, outputs and asset initiatives funded within the output. *page 118*

RECOMMENDATION 29: The Department of Treasury and Finance ensure that all outputs have performance targets that reflect the impact of changes to funding. *page 118*

5.7 Victoria's performance management framework

FINDING: Performance measurement requirements exist across multiple separate documents released over the last decade and located in a variety of places. The relationships between the documents are not always clear and there is no overarching structure to assist in navigating them. *page 119*

RECOMMENDATION 30: The Department of Treasury and Finance establish a central access point for all documents and resources related to performance management. *page 119*

FINDING: Some performance management resources make reference to a *Performance Management Framework*, but no such document appears to be publicly available. *page 119*

RECOMMENDATION 31: The Department of Treasury and Finance publish the *Performance Management Framework* on its website. *page 120*

FINDING: Departmental performance information has been approved despite not meeting explicit criteria, indicating a gap in quality assurance systems and processes. *page 120*

RECOMMENDATION 32: The Department of Treasury and Finance implement independent validation of performance measures and targets. *page 120*

FINDING: Government financial systems are regularly audited. However, there is no independent validation of the Government's performance information systems. *page 121*

RECOMMENDATION 33: The Department of Treasury and Finance implement a system for having departments' performance information systems independently validated. *page 121*

RECOMMENDATION 34: The Auditor-General undertake regular audits of departments' performance information systems. These audits should ensure that the systems provide accurate and consistent data for reporting on performance measures. *page 122*

CHAPTER 6 Asset Investment and Public Private Partnerships

6.3 Annual asset investment between 2012-13 and 2015-16

FINDING: The trend of annual asset investment is downwards over the forward estimates period from $6.3 billion in 2012-13 to $4.1 billion in 2015-16. The level of expenditure in 2014-15 and 2015-16 is similar to the levels prior to the Global Financial Crisis. *page 126*

FINDING: The Government has set itself a target for infrastructure investment (net asset investment) of 1.3 per cent of gross state product based on a five-year rolling average. The current budget estimates predict that the Government will meet this target for each year to 2015-16. *page 127*

RECOMMENDATION 35: The Government should detail its expected performance compared to its asset investment target each year in the budget papers. This should be followed by reporting actual results compared to the target in the annual Financial Report for the State. Any occasions on which the target is not met should be explained. *page 127*

FINDING: The Government currently plans to reduce annual asset investment in 2014-15 and 2015-16. As a result of this, the Government will have to significantly increase asset investment in 2016-17 and beyond in order to meet its target for asset investment. Funding this increase may be a challenge for the Government. *page 128*

FINDING: In 2014-15, depreciation in the general government sector is expected to be higher than net direct investment. This means that the service capacity of the State's assets is not being maintained. *page 129*

RECOMMENDATION 36: **Future budget papers should include a comparison between net direct investment and depreciation in the general government sector.** *page 130*

RECOMMENDATION 37: **In any year where net direct investment is expected to be less than depreciation in the general government sector, the budget papers should explain the Government's reasons for planning this and show the Government's strategy to manage the situation.** *page 130*

6.4 Sources of funding – where is the Government getting the money?

FINDING: The Government plans to decrease annual asset investment and increase operating surpluses over the next four years. If successful, this will allow the Government to fund its annual asset investment in 2015-16 without borrowings. *page 132*

6.5 Total estimated investment of projects released in the 2012-13 Budget

FINDING: The total estimated investment of new asset projects released in the 2012-13 Budget is $2.7 billion. This level is an increase on the year before but is lower than those years which received significant Commonwealth stimulus funding. *page 133*

6.6 Avenues of asset investment – which Government bodies do the investing?

FINDING: Investment through other sectors ('net cash flows from investments in financial assets for policy purposes') will total $6.5 billion over the forward estimates period. The budget papers do not disclose what projects the funds are invested in or what policies the investments support. Departmental annual reports do not provide information on what projects are supported by investment through other sectors, or the progress or outcomes of these projects. *page 136*

RECOMMENDATION 38: **The Department of Treasury and Finance provide a detailed break-down of asset investment through other sectors ('net cash flows from investments in financial assets for policy purposes') as part of the budget papers. This should include:**

(a) **what projects are funded by the item; and**

(b) **what policy purposes each project supports when not published elsewhere.** *page 136*

RECOMMENDATION 39: The guidance for annual reports be amended to require departments that fund asset investment through other sectors ('net cash flows from investments in financial assets for policy purposes') to include in their annual reports a report that shows the progress of the project and results of the investment. ***page 136***

FINDING: There has been a substantial increase in expenses for public private partnerships since 2010-11, from $394.1 million in 2010-11 to approximately $1 billion per year from 2013-14 onwards. There is no discussion of the Government's strategy with respect to investing in public private partnerships. *page 137*

FINDING: Expenditure on public private partnerships is included in two items in notes to the comprehensive operating statement. Neither of the titles of these items refer to public private partnerships. This makes it difficult to identify public private partnership expenditure. *page 137*

RECOMMENDATION 40: The budget papers include an additional table bringing together all components of estimated expenditure on public private partnerships, including interest, operating payments and any other expenditure. ***page 138***

FINDING: The expenditure on individual public private partnership projects is not disclosed in the budget papers. However, there are some disclosures made at project level in the annual Financial Report for the State. *page 138*

RECOMMENDATION 41: The budget papers detail expected expenditure for the year ahead for each individual public private partnership project. ***page 138***

FINDING: The components of public private partnership expenditure are expected to change significantly between 2010-11 and 2013-14. No discussion of these changes has been included in budget papers. *page 139*

RECOMMENDATION 42: Significant changes to the components of expenditure on public private partnerships should be accompanied by explanations. ***page 139***

FINDING: A number of PPPs are outside the general government sector. It is impossible to identify expenditure for these projects in the budget papers. *page 140*

RECOMMENDATION 43: The budget papers disclose expenditure on public private partnerships by public non-financial corporations to the same standard as the general government sector. ***page 140***

6.7 The assets being delivered

FINDING: The Government's priority areas for asset investment for 2012-13 and 2013-14 are health and 'transport and communications'. *page 140*

FINDING: The number of instances where TEIs have changed by more than 10 per cent between 2011-12 and 2012-13 without satisfactory explanation is low. *page 142*

6.8 Inconsistent reporting in budget papers

FINDING: The budget papers give more than one figure for direct asset investment. The budget papers also give more than one figure for direct asset investment on new projects. The varying figures are not reconciled and the explanations that are given are not comprehensive enough to provide accountability. *page 144*

RECOMMENDATION 44: The Department of Treasury and Finance provide a reconciliation between the different figures for asset investment given in Table 6.3 of this report. This reconciliation should quantify and explain differences between these figures caused by:

(a) threshold conventions;

(b) sectoral classification conventions;

(c) expenditure for projects not disclosed individually in Budget Paper No.4;

(d) contingency allowances; and

(e) any other factors that contribute to differences. ***page 144***

FINDING: A glossary has been newly included in Budget Paper No.4. This glossary contains three terms. However, there are many more terms used in the budget papers when describing asset investment. *page 145*

RECOMMENDATION 45: The Department of Treasury and Finance expand the glossary of definitions in the budget papers to include plain English definitions of all terms identified in Appendix A6.7, as well as any other terms used in describing asset investment. *page 145*

FINDING: Whereas some new asset initiatives announced in the 2011-12 Budget Update have been treated as existing initiatives in the 2012-13 budget papers, one has been treated as a new initiative. This makes identifying the budget paper in which the initiative is first funded difficult. *page 146*

RECOMMENDATION 46: The Department of Treasury and Finance ensure that new asset initiatives announced in budget updates are treated consistently in the papers of the following budget. *page 146*

FINDING: At least two asset initiatives have been listed as new in Budget Paper No.4 but are not in Budget Paper No.3 or the previous budget update. No information about this misalignment is given in the budget papers. *page 146*

RECOMMENDATION 47: The Department of Treasury and Finance ensure that all new asset initiatives are discussed in detail in either Budget Paper No.3 or the budget update. *page 146*

CHAPTER 7 The Government's Responses to the Committee's Report on the 2011-12 Budget Estimates

7.2 Responses to recommendations

FINDING: Overall, 110 of the 129 (85 per cent) recommendations to the Government were positively received, with support, support in principle or a commitment to review the recommendation. There were 18 unsupported recommendations (14 per cent). The Government did not respond to one recommendation. *page 148*

7.3 Implementation of recommendations

FINDING: Despite positive responses to 110 recommendations in the *Report on the 2011-12 Budget Estimates*, only 42 per cent of those have been fully or partially implemented to date. *page 148*

FINDING: Of the recommendations with positive responses, 40 (36 per cent) have clearly not been implemented to date. The Committee found four cases where an explicit commitment to implement a recommendation in the 2012-13 budget papers was not met. *page 151*

FINDING: As a result of previous recommendations not being implemented, a number of issues previously identified by the Committee remain unresolved. These include a need for:

- additional break-downs of expenditure or revenue items;
- fuller explanations for information in the budget papers;
- disclosure of the status of initiatives announced or commenced in previous budgets;
- centralised disclosure of key information; and
- improved quality of performance information. *page 152*

FINDING: The persistence of these issues continues to inhibit the transparency of the Government's budgetary decision-making. *page 152*

RECOMMENDATION 48: The Government implement all of the supported recommendations from the *Report on the 2011-12 Budget Estimates*, ensuring that:

(a) the activities undertaken are specifically those identified in the recommendation; and

(b) each recommendation is implemented in a timely and complete manner. *page 152*

RECOMMENDATION 49: The Government identify in its response to the *Report on the 2012-13 Budget Estimates* any recommendations from the *Report on the 2011-12 Budget Estimates* which it initially supported, but no longer supports. *page 152*

7.4 Unsupported recommendations

FINDING: The Government's explanation for not supporting two recommendations appears to be based on inaccurate information. *page 154*

7.5 Monitoring the implementation of recommendations

FINDING: The Government has no guidelines to assist departments with understanding and meeting their responsibilities for implementing recommendations. *page 156*

RECOMMENDATION 50: **The Government establish and publish guidelines for the implementation of Parliamentary Committee recommendations. These guidelines should include:**

(a) **a mechanism for assigning responsibility for the implementation of recommendations;**

(b) **processes for monitoring the implementation of positively received recommendations; and**

(c) **a system for reporting on the implementation of positively received recommendations.**

page 156

RECOMMENDATION 51: **In the development of guidelines for the implementation of Parliamentary Committee recommendations, the Government consider as a model the Australian Capital Territory's *Guidelines for Responding to Reports by the Auditor-General*.**

page 157

7.6 Quality of responses to recommendations

FINDING: The Government's use of the response category 'support' is subject to multiple interpretations and does not necessarily indicate that the Government intends to implement the actions specified in the recommendation. *page 158*

FINDING: Current arrangements for responding to recommendations in the Committee's reports may create confusion as to where ultimate authority over and accountability for responding to recommendations lies. *page 160*

FINDING: Action has been taken to improve the clarity, consistency and transparency of responses to the Committee's recommendations. However, mismatches between the Government's classification of its responses and its intended actions continue to occur.

page 162

RECOMMENDATION 52: **The Government establish and publish processes and guidance for responses to Parliamentary Committee recommendations to ensure:**

(a) **decisions about whether or not to support recommendations are based on current and accurate information;**

(b) **responses clearly address the recommendations' substance as well as intent;**

(c) **responses are classified in a way that enables consistent interpretation of the Government's intent; and**

(d) **the expectations associated with a particular response type are explicit.** ***page 162***

RECOMMENDATION 53: The Government assign the Department of Premier and Cabinet or the Department of Treasury and Finance responsibility for the quality assurance of responses to Parliamentary Committee recommendations. This should include ensuring that each response meets defined criteria for clearly and consistently representing the Government's intentions in relation to the recommendations. *page 163*

RECOMMENDATION 54: After an appropriate length of time, the Auditor-General consider reviewing the systems and processes put in place by central agencies for responding to Parliamentary Committee recommendations. *page 163*

CHAPTER 1 INTRODUCTION

1.1 Background

Each May, the Parliament is presented with two appropriation bills. These release to the Government and the Parliament the money they need to operate. Accompanying these bills, the Government tables a suite of budget papers. These papers include the Government's plans for the State's finances for the next four years. The Public Accounts and Estimates Committee is required by legislation to examine these budget papers and the budget estimates within them.[1]

The overall aims for the inquiry into the budget estimates include:

- assisting members of Parliament in their consideration of the appropriation bills;
- giving members of Parliament and the community a better understanding of the budget estimates;
- encouraging clear, full and precise statements of the Government's objectives and planned achievements in the budget papers; and
- encouraging efficient and effective government administration.

This report includes the Committee's findings regarding the 2012-13 budget papers and budget estimates. The report has been tabled in two parts, of which this is the second.

1.2 Structure and content of the report

Part One of the report was report was tabled in June 2012. The principal aim of Part One was to assist members of Parliament in their consideration of the appropriation bills. These bills were passed by the Legislative Council on 21 June 2012.

To assist members, Part One included a summary of the key aspects of the 2012-13 Budget, along with indices to the public hearings held by the Committee in May 2012. It also contained a review of the performance measures that the Government proposed discontinuing, including details of the measures that the Committee believed should not be discontinued.

Part Two of the report repeats the summary from Part One and adds a more in-depth description and analysis of the Budget, including many of the issues touched on in Part One. The chapters of this part cover the Government's plans for revenue, output expenditure and asset expenditure. A number of themes have emerged from this investigation.

After two budgets, the overall strategy of the current Government is beginning to emerge. The Government has adopted an economic reform strategy and a medium-term fiscal strategy. These set out high-level goals and the Government is continuing to develop more detailed plans. The Committee has highlighted a number of areas throughout this report where more details about the Government's plans and strategies would be appropriate.

Several other areas where transparency and accountability could be improved have also been identified in this report, including:

1 *Parliamentary Committees Act 2003*, Section 14

- asset expenditure, where the Government's intended outcomes are not always clear and a variety of figures are given which are difficult to reconcile (see Chapter 6);
- savings and efficiency initiatives, where limited details are provided about the Government's plans and there is no reporting on actual results or impacts (see Chapter 4); and
- public private partnerships, about which very little information is provided in the budget papers (see Chapter 6).

The amount of revenue received by the State is a critical component of the Government's plans. For these plans to be practicable, there need to be accurate forecasts of likely revenue over the forward estimates period. However, as discussed in Chapter 3, the Committee has noticed that future revenue forecasts have varied widely from one budget to another.

More disconcertingly, the State Government's estimates for revenue from GST grants differ from the estimates made one week later by the Commonwealth Government by over $1 billion across the forward estimates period. If the basis for the State Government's plans is out by such a large amount, the Government may face significant challenges in implementing its plans in future years. The Committee considers it imperative that the Department of Treasury and Finance and the Commonwealth try to establish better relationships with each other to eliminate such differences in the future.

This report also contains a chapter looking at the performance information included in the budget papers. Various aspects of the Government's performance reporting system have been considered in a number of recent inquiries by the Committee. Each of these identified serious issues which need to be addressed and made recommendations accordingly. The Committee is pleased to see that the Department of Treasury and Finance has put some effort into improving the system. However, as Chapter 5 identifies, there is still much work to be done.

The final chapter of this report looks at the Government's responses to the Committee's recommendations in its *Report on the 2011-12 Budget Estimates*. Disturbingly, though the Government supported most of the recommendations made by the Committee, the Committee found that only a minority have actually been implemented.

A number of chapters suggest that there is scope for the Department of Treasury and Finance to undertake more oversight work in some areas. In particular, the Committee considers that the Department should undertake more quality assurance work regarding departments' performance information and responses to Committee recommendations.

Both Parts One and Two of this report have been mostly restricted to the general government sector. That sector consists of the government entities that do not recover the costs of their services from the end user, but rather receive the bulk of their funding from the Government. This covers all government departments, the Parliamentary Departments and many agencies. By narrowing the inquiry's focus to this sector, the Committee has been able to produce a more compact report.

The Committee has also introduced other changes to make this report more readable. The discussion has been provided in plainer English, more use has been made of diagrams and particular key indicators have been used in multiple chapters as a way of understanding the Government's plans. In some cases, more detailed discussion and evidence, especially tables of data, have been required to fully explain how the Committee reached its conclusions. This additional information has been moved from the body of the report to appendices.

1.3 Process followed for the review of the 2012-13 budget estimates

Before the tabling of the Budget, the Committee sent a questionnaire to all government departments and the Parliamentary Departments (see Appendix A8.2). The Committee used the responses to understand and conduct its analysis of the budget estimates.

Shortly after the tabling of the Budget in Parliament, the Committee conducted a series of public hearings with the Premier, the Deputy Premier, the Treasurer, the Assistant Treasurer, the Attorney-General and the ministers for all portfolios. Hearings were also held with the Presiding Officers of the Parliament.

1.3.1 Questionnaire

The questionnaire was distributed in March 2012, during the budget planning period. Responses to the questionnaire were required in time for the public hearings. Issues raised in the questionnaire provided information for both parts of this report.

The 2012-13 budget estimates questionnaire focussed on:

- strategic priorities;
- budget preparation;
- spending;
- efficiencies and savings;
- asset and output initiative funding;
- revenue initiatives, departmental income and tax expenditures;
- grants from the Commonwealth;
- net debt;
- geographic considerations;
- performance measures; and
- staffing matters.

All responses from departments have been published on the Committee's website (www.parliament.vic.gov.au/paec).

1.3.2 Public hearings

Public hearings were held soon after the tabling of the Budget. All ministers and the Presiding Officers were asked to appear as witnesses before the Committee (see Appendix A8.1). In total, there were 48 public hearings, lasting for over 54 hours.

At the hearings, each person was asked to give a short presentation, usually including slides, on their portfolio. Following the presentation, witnesses were questioned by members of the Committee. The questions dealt with how the funds allocated to the portfolio in the budget were to be used.

Transcripts of the public hearings, presentations and other documents tabled are on the Committee's website (www.parliament.vic.gov.au/paec).

1.3.3 Questions on notice

A number of ministers also took questions on notice at the hearing. Responses to these questions were received some time after the hearing and are also published on the Committee's website.

1.3.4 Report

The Committee's report has been based on the evidence from the questionnaires, public hearings and questions on notice, along with the Committee's own research and analysis. The report contains the Committee's findings along with recommendations for areas where improvements could be made in the future.

1.4 Timeliness and quality of responses

The Committee sought written input from ministers and departments at two stages:

- in response to the questionnaire; and
- in response to questions on notice.

The Committee appreciates the large amount of work that has gone into providing these responses.

During the 2011-12 inquiry, some responses to questionnaires and questions on notice were not received in a timely manner. The Committee recommended that this be improved in the future.[2] The Committee is pleased to note that, with only a few exceptions, responses were received in a more timely manner in 2012-13.

Most questions were answered appropriately and with sufficient detail. However, there were some cases where the responses provided were below the standard expected by the Committee. The Committee hopes to see improvement in this area in future years.

1.4.1 Timeliness

Questionnaire

As noted above, most questionnaire responses were received in a timely manner in 2012-13. Appendix A1.1 provides a full list of when each department's response was received. All questionnaires were received within a day of the deadline except for the Department of Primary Industries, whose response was one week late.

Questions on notice

Most ministers provided their responses to the questions on notice by the due date. Most who did not make it by the due date provided their responses within the next week. Details of response dates are given in Appendix A1.2.

2 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendations 1 and 2, p.4

The response from the Minister for Planning, however, was received late, but related solely to providing details of a document that had already been published. It is unclear to the Committee why this response took so long.

1.4.2 Quality

Questionnaire

A number of responses to the questionnaire did not contain all of the requested information.

In some cases, departments explained that information was not currently available. This particularly applied to questions about savings initiatives and staffing numbers, for which most departments were not able to provide estimates past 2012-13.

Question 4.3 is one of the questions which sought details about savings initiatives and how they affected past expenditure and future estimates. Although no department was able to provide future estimates, most supplied information about past expenditure. Three departments, however, refused to provide any details, responding that:[3]

> *Specific Government savings are reported in the Budget Papers, and will be reported to Parliament in future Budget Papers. For example, there has been a significant saving in government advertising across portfolio areas.*

This response was provided verbatim by all three departments.

All departments were asked about actions taken to date in response to certain previous recommendations by the Committee (Question 12.1). A number of departments (Business and Innovation; Treasury and Finance; Planning and Community Development; Justice; and Parliament) provided detailed responses. The Department of Health, however, responded:[4]

> *The Government responses to recommendations from the Committee's 2011-12 Budget Estimates Reports 2 and 3 are yet to be tabled in Parliament. As such, it would be inappropriate to provide comment at this time.*

The Government's responses to Parts Two and Three of the *Report on the 2011-12 Budget Estimates* were tabled on 7 February 2012 and 14 March 2012 respectively. The Department of Health's response to the Committee's questionnaire was received on 3 May 2012, well after the Government's responses to both parts of the previous report were tabled.

In previous years, when questions with multiple parts had been asked, not all parts of the question were responded to. To avoid any confusion, in 2012-13 the Committee provided tables for departments to complete for a number of questions. In this way, each datum required by the Committee could be clearly seen.

3 Department of Business and Innovation, response to the Committee's 2012-13 budget estimates questionnaire, received 3 May 2012, p.11; Department of Primary Industries, response to the Committee's 2012-13 budget estimates questionnaire, received 10 May 2012, p.12; Department of Planning and Community Development, response to the Committee's 2012-13 budget estimates questionnaire, received 4 May 2012, p.15

4 Department of Health, response to the Committee's 2012-13 budget estimates questionnaire, received 3 May 2012, p.39

However, in response to the questionnaire, a number of departments removed parts of the tables or altered labels in making their responses:

- the Department of Human Services deleted one row of a table, supplying no details about the initiative listed in that row;[5]
- the Department of Transport removed two columns from one table and provided no details of the information requested in those columns;[6] and
- the Department of Treasury and Finance changed the heading in the column of one table, significantly restricting the scope of the question from '*affected items in the budget*' to '*main affected tax lines in the budget*'.[7]

In all three cases, no explanation was provided by the department as to why the information was not provided.

The Committee found in its *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* that a number of responses to questionnaires provided as part of that inquiry were '*unsatisfactory or uninformative*'. The Committee also identified in that inquiry that departments were modifying questions and not responding to the original questions.[8] The Committee recommended that departments ensure this not occur again.[9] The Committee is disappointed to see this sort of inappropriate behaviour recurring. The Committee considers that this shows a lack of respect for the Committee by the relevant departments.

Questions on notice

The responses to questions on notice were generally relevant and clear. In one case, however, the Committee considers that the Minister did not provide an appropriate response.

The Minister for Women's Affairs was asked for information about funding carried forward from 2010-11 for four outputs, including quantifying the amounts carried forward. The Minister's response quoted the budget and actual costs for these outputs, but did not address or explain any funds carried forward from the 2010-11 Budget.[10]

1.5 Acknowledgement

The Committee thanks the Presiding Officers, Premier, Deputy Premier, Treasurer, Assistant Treasurer, Attorney-General, ministers, departmental secretaries and deputy secretaries, heads of agencies and their accompanying staff for their assistance at the budget estimates hearings and for their work in responding to the budget estimates questionnaire (see Appendix A8). The Committee also thanks all the ministers who took questions on notice or agreed to provide further information.

5 Question 4.2 – Department of Human Services, response to the Committee's 2012-13 budget estimates questionnaire, received 4 May 2012, p.14

6 Question 4.2 – Department of Transport, response to the Committee's 2012-13 budget estimates questionnaire, received 3 May 2012, pp.13-14

7 Question 2.4 – Department of Treasury and Finance, response to the Committee's 2012-13 budget estimates questionnaire, received 3 May 2012, p.8

8 Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, p.9

9 ibid., Recommendation 1

10 Hon. M. Wooldridge MP, Minister for Women's Affairs, response to questions on notice, received 25 June 2012

1.6 Cost

The cost of this inquiry was approximately $107,900.

CHAPTER 2 KEY ASPECTS OF THE 2012-13 BUDGET

2.1 Introduction

This chapter provides an overview of the key aspects of the 2012-13 Budget. Most of the discussion in this chapter was included in the *Report on the 2012-13 Budget Estimates — Part One*. However, it has been repeated here because it provides important background information for understanding the Budget. The discussion in some areas has been expanded compared to what appeared in Part One and recommendations have been added.

The chapter starts with a discussion of the key components of a budget. These components and their relationship to each other are described and included in a diagram in Section 2.2. Each of these components will be discussed further in the other chapters of this report.

The chapter then seeks to answer the following key questions about the Budget:

- How are the budget papers structured? (Section 2.3)
- What is the setting in which the Budget was released? This includes the challenges facing the Government, its strategic directions and the new initiatives it has announced. (Section 2.4)
- What will the operating surplus be, and how will it be achieved? (Section 2.5)
- What are the Government's plans for asset investment? (Section 2.6)
- What contingencies has the Government built into the Budget? (Section 2.7)

This report is primarily on the budget for the general government sector. The general government sector covers all government departments, as well as the agencies which provide services with no charge or with charges significantly below costs. It does not include government agencies that recover the costs of their services (such as water corporations) or agencies that provide financial services.

2.2 Key components of a budget

Figure 2.1 illustrates the key components of the Budget. Each of these components has been examined in this inquiry and is discussed further in this report. This diagram is intended to provide an overall understanding of how the components of a budget are connected to each other and how money flows from one area to another. The diagram will be referred to throughout the report.

The amounts used in the diagram relate specifically to 2012-13. Appendix A2.1 provides details of these amounts and indicates where in the budget papers these items can be found.

The first component of the diagram is **revenue**, which mostly consists of State taxation and grants from the Commonwealth Government. This is discussed in detail in Chapter 3 of this report.

The bulk of the revenue funds the Government's **output expenditure**. This expenditure primarily covers the goods and services delivered by the Government. Output expenditure is discussed in Chapters 4 and 5 of this report.

The Government's **annual public private partnerships (PPP) expenditure** is included within output expenditure. This expenditure goes towards assets which have been delivered by the private sector on behalf of the Government and which usually become Government assets after an agreed length of time. Section 6.6.3 of this report looks at this expenditure.

The amount of revenue that remains after output expenditure has been funded is the **operating surplus**. As can be seen from Figure 2.1, this is a relatively small amount in 2012-13. However, the Government plans to increase this amount substantially between 2012-13 and 2015-16 (see Section 2.5.3 below).

Costs such as **depreciation and similar** are also included in the amount of output expenditure. These costs are included in the operating statements for accounting reasons, but do not actually involve any transfer of cash. As a result, the cash equivalent to these costs is still available from revenue to be used by the Government as it sees fit.

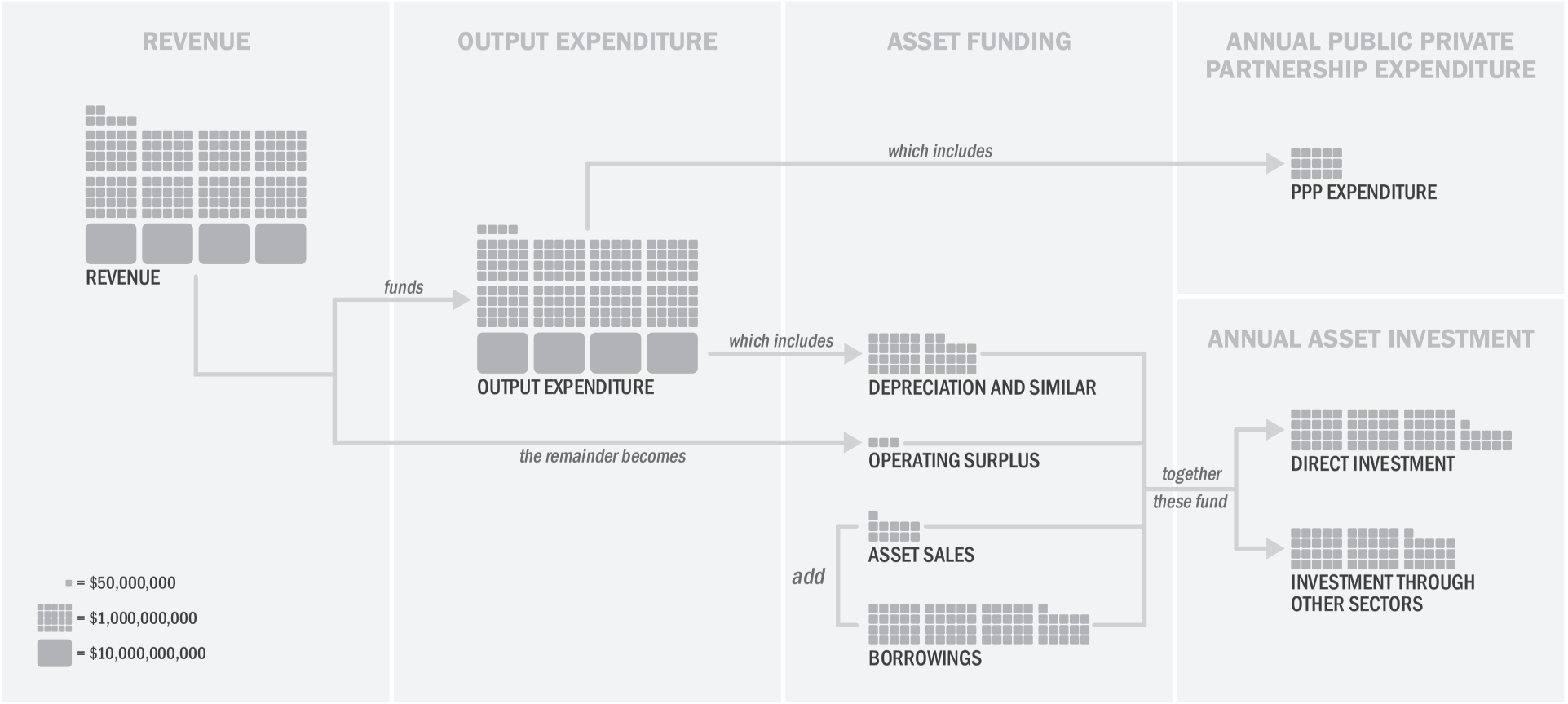
Usually, the cash equivalent to depreciation and similar is used to fund asset investment. Some or all of the operating surplus may also be used for this purpose. Where the amounts from these two sources are not enough, the Government may add proceeds from **asset sales** and **borrowings**. The amount of borrowings is substantial in 2012-13, as shown in Figure 2.1, but is expected by the Government to decline significantly over the forward estimates, so that no borrowings will be required for asset funding in 2015-16 (see Section 6.4 of this report).

Together these four sources constitute **asset funding**, which is equal to the amount of **annual asset investment**. Annual asset investment is the amount that the Government spends each year on infrastructure projects (such as hospitals or schools) and other physical assets (such as computers). Annual asset investment does not include expenditure on public private partnerships.

Annual asset investment is delivered through two avenues. **Direct investment** covers projects directly delivered by the general government sector (that is, the departments and agencies that do not generally charge for their services). **Investment through other sectors** covers those projects which are funded by the general government sector, but where the assets become part of the public non-financial corporations sector (that is, Government agencies which charge for their services, such as water corporations). In 2012-13, these projects are all in the transport area (such as regional rail link and new trains).

Annual asset investment is discussed further in Chapter 6 of this report.

Figure 2.1 Key components of the 2012-13 Budget



Source: Public Accounts and Estimates Committee Secretariat

2.3 Structure of the 2012-13 budget papers

The 2012-13 budget papers consist primarily of five documents:

- the Treasurer's speech (Budget Paper No.1);
- a paper on the budget strategy and outlook (Budget Paper No.2);
- details of new initiatives, departmental performance statements (including performance measures) and local government financial relations (Budget Paper No.3);
- details of expenditure on infrastructure and other physical assets (Budget Paper No.4); and
- financial statements for various sectors of the Government and for each department, along with other financial details (Budget Paper No.5).

This repeats the same structure as the 2011-12 budget papers. As in 2011-12, the 2012-13 budget papers are also accompanied by:

- a budget overview document; and
- online financial data sets.

Three new 'budget information papers' were produced in 2012-13 that were not produced in 2011-12. The three budget information papers in 2012-13 discuss:

- regional and rural Victoria (Budget Information Paper No.1);
- Victorian families (Budget Information Paper No.2); and
- Federal financial relations (Budget Information Paper No.3).

All three budget information papers provide background on their topics. This information helps readers to understand the context of the Budget. Budget Information Papers No.1 and No.2 also contain details of the Government's strategies and aims relating to the papers' topics, initiatives from previous budgets and new initiatives in the 2012-13 Budget. The regional and rural Victoria budget information paper also contains a list of existing and new projects broken down by the five regions of regional Victoria.

Much of Budget Information Paper No.3 discusses what the Government considers to be its fiscal challenges, including the system of GST distribution. It also contains several useful diagrams, including break-downs of various Commonwealth grants.

The Committee welcomes the additional disclosure provided by these information papers and encourages the Government to release similar budget information papers in future years. The Committee recognises that the topics of these papers may vary from year to year, depending on the budget setting and priorities in any particular year.

FINDING: The 2012-13 budget papers follow the same structure as the 2011-12 budget papers. However, three new budget information papers have also been produced. These provide additional information about the context of the Budget and strategies within it.

2.3.1 Changes in the 2012-13 budget papers

As well as the addition of the new budget information papers, a number of changes have been made to the other budget papers in 2012-13. These include expanded information in some areas, reduced information in other areas and restructuring. The major changes are detailed in Table 2.1.

Most changes have involved providing additional information. The Committee welcomes this additional disclosure.

FINDING: Most of the major changes to the budget papers in 2012-13 have involved providing more information than previously.

Table 2.1 Main changes between the 2011-12 and the 2012-13 budget papers

Budget paper	Chapter	Type of change	Details
Budget Paper No.2 (*2012-13 Strategy and Outlook*)	Chapter 1	Expansion	Additional information has been provided about the Government's fiscal strategy and budget strategy.
	Chapter 2	Expansion	A section has been added discussing structural change in the Victorian economy.
	Chapter 3	Expansion	A new chapter has been added looking at the Government's economic reform strategy. This is an expanded version of information included in Chapter 2 in 2011-12.
	Chapter 4	Restructure	Explanations for the changes to revenue and expenditure estimates for the budget year (and the two following years) between the previous budget update and the current budget have been included in Chapter 4. These previously appeared in an appendix.
	Chapter 5	Expansion	Additional discussion has been added about the financial results and position of the public sector as a whole (referred to as the 'State of Victoria').
Budget Paper No.3 (*2012-13 Service Delivery*)	Introduction	Reduction	The 2011-12 budget paper included a discussion of the Government's policy agenda in the Introduction (pp.2-9). This has not been included in the 2012-13 budget paper. Additional information about selected elements of the Government's policy agenda appears in the budget information papers, but not all areas of policy are covered.
	Chapter 1	Restructure	In 2011-12, new initiatives which were election commitments were listed in a separate chapter from other new initiatives. In 2012-13, both election commitments and other new initiatives were included in Chapter 1. An 'election commitment summary report' has been added.
		Reduction	During the 56th Parliament, initiatives that were released in the previous year's budget update were also included in the next year's budget papers. Initiatives from the 2011-12 Budget Update have not been included in Budget Paper No.3 for 2012-13.

Budget paper	Chapter	Type of change	Details
Budget Paper No.3 (*2012-13 Service Delivery*) (continued)	Chapter 2	Expansion	Departmental objectives have been modified. For the first time, outputs have been clearly linked to objectives for most departments. This helps the reader to understand the relationship between the Government's objectives and what it funds.
		Reduction	In previous budget papers, each department listed its key strategic priorities for the year. This has not been included in 2012-13. However, the Committee has collected this information as part of its budget estimates questionnaire, and included the departments' responses in Part One of this report.
		Restructure	Changes have been made to output descriptions, performance measures and explanations for changes to performance measures and targets.
Budget Paper No.4 (*2012-13 State Capital Program*)	Chapter 1	Expansion	Additional information has been added about expenditure on infrastructure and other physical assets. This includes details of public private partnership projects.
	Chapters 2 & 3	Expansion	Asset projects expected to be completed prior to the budget year have been listed for the first time. The Committee welcomes this additional disclosure. However, as recommended by the Committee previously,[(a)] additional information about completed asset projects should be disclosed. This information could be added to the budget paper in future years.
	Definitions and Style Conventions	Expansion	A small glossary has been added, following a previous recommendation by the Committee.
Budget Paper No.5 (*2012-13 Statement of Finances*)	Chapter 3	Expansion	A high-level analysis of the financial statements has been added for each department. These analyses compare the 2012-13 budget estimates to the previous year's estimated figures. This analysis had been included in earlier budget papers, but removed in 2011-12. The Committee recommended that this be re-instated in the previous report on the budget estimates.
	–	Restructure	In previous years, an appendix provided tables with historical data and the forward estimates for key items of the financial statements. This has not been included in the 2012-13 budget papers, but the data are available in the online financial data sets.
Online financial data sets	–	Expansion/ restructure	New data have been added online, including historic trends for some financial data and performance measures. Some figures previously provided in the budget papers are now provided online.

(a) Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, Recommendation 45, p.222

Source: Assessment by the Public Accounts and Estimates Committee

2.4 Budget setting and initiatives

2.4.1 Budget challenges

In his budget speech, the Treasurer stated that Victoria is facing a number of challenges. He described these as real and substantial, explaining:[11]

> *Global and national economic factors have resulted in a softer economy and significant reductions in government revenue [compared to previous estimates].*
>
> *These forces are placing real pressure on Victorian businesses and families and on the Government's capacity to meet community needs.*

The Treasurer indicated that these factors include '*a high Australian dollar, weaker global and national economic conditions and a substantial reduction [compared to previous estimates] in GST and other revenue.*'[12]

In response to these challenges, the Treasurer indicated that:[13]

> *… the Government is taking decisive action to strengthen the State's finances, boost state-funded infrastructure to record levels (with a focus on productivity-enhancing infrastructure) while protecting the most vulnerable.*

Despite these challenges, the Treasurer considers that '*Victoria has strong economic prospects in the years ahead. The 2012-13 Budget is a key step in meeting that potential.*'[14]

FINDING: The Treasurer has indicated that factors impacting on the Budget include:

- a high Australian dollar;
- weaker global and national economic conditions; and
- a reduction in GST and other revenue compared to previous estimates.

2.4.2 Strategic directions

The Government's response to these challenges includes two key strategies:

- an economic reform strategy; and
- a medium-term fiscal strategy.

A fiscal strategy generally deals with the financial aspects of government activities, such as raising taxes and government expenditure. In contrast, an economic strategy generally seeks to bring about changes in the broader economy as well.

11 Budget Paper No.1, *2012-13 Treasurer's Speech*, May 2012, p.1

12 Victorian Budget, *2012-13 Budget Overview*, May 2012, p.1

13 ibid.

14 ibid.

Economic reform strategy

This strategy consists of four 'pillars':[15]

- *creating significantly stronger budget capacity to fund infrastructure, maintain high quality services and keep taxes competitive;*
- *improving productivity, through investment in economic infrastructure, skills reform, creating competitive markets and reducing business costs;*
- *growing export markets to support Victorian businesses, particularly through enhanced international engagement; and*
- *supporting industries and employees in transition.*

The budget papers describe the impetus for each pillar and the key budget initiatives related to each.[16] The Committee notes that these pillars are expressed in very broad terms, with no specified targets.

Medium-term fiscal strategy

This strategy complements the first pillar of the economic reform strategy and includes four measures with targets (see Table 2.2).

Table 2.2 Medium-term fiscal strategy

Measure	Target[(a)]
Infrastructure investment	Infrastructure investment of 1.3 per cent of GSP (calculated as a rolling five-year average)
Net debt	General government net debt reduced as a percentage of GSP over the decade to 2022
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035
Operating surplus	A net operating surplus of at least $100 million and consistent with the infrastructure and debt parameters

(a) The targets are described in the budget papers as 'parameters against which progress will be measured' rather than as 'targets'. It is not clear to the Committee whether the Government has used the word 'parameter' rather than 'target' to indicate a difference in meaning.

Source: Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.9

The budget papers state that these measures and targets draw on the final recommendations of the Independent Review of State Finances.[17] This review was established following the 2010 election '*to consider the financial position of the State and recommend strategies to strengthen the finances of the State, so as to increase the living standards of Victorians.*'[18]

15 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.24

16 ibid., pp.24-33

17 ibid., p.8

18 Independent Review of State Finances, 'Welcome', <www.irsf.vic.gov.au>, accessed 18 May 2012

The budget papers also state that the Government has adopted the Review's overarching financial management principles as its long-term financial management objectives.[19] These long-term objectives are described as:[20]

- managing responsibly;
- looking after the future;
- managing the unexpected;
- improving services; and
- maximising community benefit.

The Government is yet to publicly release the Review's final report.

Enabling progress reporting

For both strategies, the Committee considers that the Government should establish specific targets that can be regularly reported against. This reporting is essential for the Parliament and community to understand the Government's progress at implementing these strategies.

The pillars of the economic strategy are couched in very broad terms, with no targeted outcomes. The medium-term fiscal strategy has four targets. However, two of these are long-term targets extending into subsequent decades. This provides relatively little transparency around whether or not the Government is achieving its intentions in the interim.

To maximise transparency and accountability, the Committee considers that more detailed targets need to be developed for the two strategies and regularly reported against. As with all performance targets, these should be relevant, meaningful and unambiguous.[21]

FINDING: The Government has developed two key strategies: an economic reform strategy and a medium-term fiscal strategy. Currently, only one strategy has specific targets to measure progress and two of the four targets for that strategy are long-term goals.

RECOMMENDATION 1: The Government develop a reporting framework, including measures and targets, for its economic reform and medium-term fiscal strategies. Progress compared to targets should be reported annually in the budget papers or annual Financial Report for the State.

19 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.8

20 ibid., p.9

21 See further on performance targets in Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Two*, June 2011, p.7

2.4.3 New output and asset initiatives

The 2012-13 Budget announces new output initiatives (that is, new goods and services to be delivered by the Government) with a cost of $4.1 billion between 2011-12 and 2015-16.[22] The Budget also announces new asset initiatives (that is, funding for infrastructure and other physical assets) with a total estimated investment (over the life of the projects) of $2.7 billion.[23]

New output initiatives increase government expenditure and have a negative effect on the surplus. Savings initiatives have the opposite effect, as they are intended to reduce expenditure. New asset initiatives are partially funded from the surplus. Where sufficient cash is not available, borrowings will normally be required to fund them.

These new initiatives are presented in several different ways through the budget papers:

- the 2012-13 Budget Overview describes the Government's main new funding decisions (including major new initiatives) for each of 12 themes;
- Budget Paper No.2 (*2012-13 Strategy and Outlook*) provides tables of the total value of new output and asset initiatives for each department. It also details the financial impact of the new output initiatives on the Budget;[24]
- Budget Paper No.3 (*2012-13 Service Delivery*) lists all new output and asset initiatives announced in this budget. Descriptions of each initiative, details of funding and links to the departments' outputs are provided. Separate tables have also been supplied listing new initiatives under the heading 'Protecting Victoria's vulnerable children';
- Budget Paper No.4 (*2012-13 State Capital Program*) lists both new and existing asset projects (over certain thresholds). Details provided include the total estimated investment and the estimated expenditure for 2012-13; and
- Budget Information Papers No.1 and No.2 include details of new and existing initiatives relevant to their themes ('regional and rural Victoria' and 'Victorian families').

More details about the new output initiatives can be found in Chapter 4 of this report. Asset initiatives are discussed further in Chapter 6.

FINDING: The 2012-13 Budget announces $4.1 billion worth of new output initiatives (additional goods and services to be delivered) and $2.7 billion of new asset initiatives (infrastructure and other physical assets).

Impact of the new output initiatives

The total cost of the new output initiatives will be $4.1 billion over the four years to 2015-16. The Government plans to fund the bulk of this through:

- 'reprioritisation and adjustments' of funding previously allocated to departments (see discussion below on the meaning of this);

22 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

23 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.49

24 ibid., pp.47, 49

- savings initiatives; and
- the release of contingency provisions.

Table 2.3 shows that, after taking these into account, the financial impact of the new output initiatives is only an additional cost of $39.1 million in 2012-13. The table also shows that, between 2013-14 and 2015-16, it is expected that the funding released from these three sources will be greater than the cost of the initiatives announced in the 2012-13 Budget.

Table 2.3 Net financial impact of the new output initiatives in the 2012-13 Budget

	2012-13 Budget ($ million)	2013-14 estimate ($ million)	2014-15 estimate ($ million)	2015-16 estimate ($ million)
Output initiative costs (gross)	1,211.5	936.3	969.4	985.8
Less:				
• Funding from reprioritisation and adjustments	144.4	51.7	40.1	15.8
• Savings	241.9	265.9	267.8	240.3
• Release of contingency provisions	786.1	816.3	810.2	799.8
Total deductions	**1,172.4**	**1,133.9**	**1,118.1**	**1,055.9**
Net financial impact	**39.1**	**-197.6**	**-148.8**	**-70.2**

Source: Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.47

The only discussion of the item 'funding from reprioritisation and adjustments' in the budget papers is an explanatory note. This note states, '*This includes the reprioritisation of resources previously allocated to departments.*'[25] In the absence of more information, the Committee assumes that this item relates to reductions in funding provided for programs in previous budgets. These reductions are presumably a result of changes to the Government's strategic priorities, and are separate to reductions through savings measures.

As well as the $144.4 million that was reallocated in the 2012-13 Budget, an additional $384.4 million of funding for 2012-13 was reallocated in the 2011-12 Budget.[26] In total, therefore, $528.8 million previously allocated to programs in 2012-13 has been reallocated. The Committee has recommended previously that additional information about this be provided,[27] though this has not been supported by the Government.[28] The disclosure of this information is discussed further in Section 4.7 of this report.

The 'savings' item relates to the savings initiatives announced in the 2012-13 Budget. These are detailed elsewhere in the budget papers and discussed further in Section 4.6 of this report.

The third item indicates how much the Government expects to draw on its contingency provisions to offset the cost of new initiatives. In total, $3.2 billion is released from these provisions over the four years to 2015-16.[29] Contingency provisions in the 2012-13 Budget are discussed below in Section 2.7.

25 ibid., p.47

26 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.30

27 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 24, p.95

28 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.14

29 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.47

FINDING: Most of the funding for the new output initiatives announced in the 2012-13 Budget is expected to come from:

- reprioritisation and adjustments of funding previously allocated to departments;
- savings initiatives; and
- the release of contingency provisions.

2.4.4 The Government's election commitments

Prior to its election in 2010, the Government set out a series of commitments to be achieved over the next four years. The 2011-12 budget papers disclose that the Government's election commitments had been costed at:[30]

- $5.2 billion for output and revenue commitments; and
- $2.4 billion for asset commitments.

The 2011-12 Budget funded $5.1 billion of the output and revenue commitments and $1.1 billion of the asset commitments.[31] The 2011-12 budget papers indicate that the remaining commitments '*will be fully funded in future budgets during this term of government.*'[32]

The 2012-13 budget papers provide an update on the Government's progress at funding the election commitments (see Table 2.4). However, as discussed below, these figures do not entirely agree with figures presented elsewhere.

Table 2.4 Progress at funding the Government's election commitments

	Government election commitments[(a)] ($ million)	Funding provided up to 2012-13 Budget ($ million)	Funding provided in 2012-13 Budget ($ million)	Progress as at 2012-13 Budget[(b)] ($ million)
Output and revenue initiatives[(c)]	5,213.1	5,001.6	183.3	5,184.9
Asset initiatives[(d)]	2,403.6	1,040.1	1,154.6	2,194.8

Notes (as supplied by the Department of Treasury and Finance):

(a) Government Election Commitments refers to the Liberal Nationals Coalition 2010 Election Commitments document.

(b) Total includes adjustments to funding as a result of changes to policy parameters, such as bringing forward the timing of election commitments and delivery of services beyond the scope of the Government Election Commitments.

(c) Government Election Commitments total includes revenue and savings items. Where achieved, the funding progress amount also includes revenue and savings as specified within the Government Election Commitments.

(d) Government Election Commitments total includes relevant savings as specified within the Government Election Commitments.

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.81

30 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.13

31 ibid.

32 ibid.

Table 2.4 indicates that the 2012-13 Budget funds an additional $183.3 million of output and revenue initiatives and an additional $1,154.6 million of asset initiatives. The end result is that around 99 per cent of output and revenue commitments have now been funded and about 91 per cent of asset commitments have now been funded.

FINDING: The 2012-13 Budget funds the bulk of the election commitments which were not funded in the 2011-12 Budget.

Election commitment funding provided prior to 2012-13

Table 2.4 indicates that $5.0 billion of output and revenue initiatives were funded prior to 2012-13 and $1.0 billion of asset initiatives. However, the Committee notes that different figures have been provided elsewhere for the value of funding provided prior to 2012-13. Table 2.5 compares the differing figures. As can be seen from the table, figures vary for both output and asset initiatives.

Table 2.5 Value of funding committed prior to 2012-13

	Sum of individual initiatives in the 2011-12 budget papers[a] ($ billion)	Total provided in the 2011-12 budget papers[b] ($ billion)	Total provided in the 2012-13 budget papers[c] ($ billion)
Output and revenue initiatives (expenditure over the forward estimates)	4.67[d]	5.12	5.00
Asset initiatives (total estimated investment)	0.99	1.10	1.04

(a) Budget Paper No.3, *2011-12 Service Delivery*, May 2011, Chapter 1

(b) ibid., p.13

(c) Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.81

(d) The 2012-13 budget papers note that the figure for output and revenue initiatives includes '*savings as specified within the Government election commitments*'. Adding the *Government Election Commitment Savings* initiative increases this figure to $6.24 billion.

It is not clear to the Committee why these figures are different.[33] There is no clear explanation in either the 2011-12 or 2012-13 budget papers. However, the 2012-13 budget papers note that the total funding committed up to and including the 2012-13 Budget:[34]

> *… includes adjustments to funding as a result of changes to policy parameters, such as bringing forward the timing of election commitments and delivery of services beyond the scope of the Government Election Commitments.*

However, neither of the examples in that note would lower the value of initiatives previously funded between the 2011-12 and 2012-13 budgets.

33 The Committee was able to eliminate some likely scenarios. There were no government-wide election commitments identified in 2011-12 (which would explain the differences between the figures in the 2011-12 budget papers). There were also no initiatives in the 2011-12 Budget Update (which would explain the difference between the figures in the 2011-12 and 2012-13 budget papers).

34 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.81

The Committee considers that, as a general principle, if figures such as these are reported differently in different parts of a budget paper, or from one budget paper to another, the variations should be explained.

FINDING: The value of election commitments funded prior to the 2012-13 Budget is unclear. Figures for this were reported differently in the 2011-12 budget papers, and have changed again in the 2012-13 budget papers.

RECOMMENDATION 2: Where a value reported as a total in budget papers disagrees with the sum of each contributing value, an explanation for the difference be given.

RECOMMENDATION 3: Where figures for funds committed are cited in successive budgets, but the figures vary, clear explanations be provided for the variations.

Election commitment funding provided in 2012-13

As a result of the inconsistencies in the 2011-12 budget papers, the Committee specifically recommended last year that budget papers include tables for election commitments '*reconciling departmental allocations with aggregates disclosed elsewhere*.'[35]

The Government's response was that:[36]

> *The Department of Treasury and Finance will seek to build on initiatives around the disclosure of election commitments and election savings, to improve the quality and clarity of published material on these subjects in forthcoming budget papers.*

However, inconsistent figures appear again in the 2012-13 budget papers for election commitment initiatives that are new in that budget. In this case, the sum of the funding listed for the individual initiatives is well in excess of the total reported for both asset output initiatives (see Table 2.6). This variation is not explained.

FINDING: Inconsistent figures are given in the 2012-13 budget papers for the value of election commitments funded in the 2012-13 Budget. No explanation for the inconsistency is given.

35 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, Recommendation 3, p.21

36 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part One, tabled 24 November 2011, p.3

Table 2.6 Value of funding committed in 2012-13

	Sum of individual initiatives in the 2012-13 budget papers[a] ($ billion)	Total provided in the 2012-13 budget papers[b] ($ billion)
Output and revenue initiatives (expenditure over the forward estimates)	0.21	0.18
Asset initiatives (total estimated investment)	1.62	1.15

(a) Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

(b) ibid., p.81

Disclosure in the 2012-13 budget papers

In 2011-12, new initiatives which were election commitments were listed in a separate chapter from other new initiatives. In 2012-13, however, election commitments and other new initiatives are included together in one chapter. The descriptions of the initiatives in 2012-13 do identify some initiatives as election commitments. Unlike last year, however, it is not possible to see which election commitments have been funded in this budget together in one place.

A table listing all of the election commitments funded would improve accountability. This table could show the total funding required for each commitment, funding provided to date and funding in the current budget. The Committee notes that previous budget papers have used a similar format for asset commitments.[37] Further value would be added if the table also identified the initial cost estimates for each commitment, with a brief explanation of any subsequent adjustments (including changes to scope).

This table could also include a list of the commitments that have not yet been funded. The 2011-12 budget papers included lists of 'election commitments to be funded in future years' for some departments. However, equivalent lists have not been included in 2012-13. The 2012-13 budget papers do refer the reader to the *Liberal Nationals Coalition 2010 Election Commitments* document,[38] but this document is not publicly available.

In addition, where commitments from those lists have been funded in 2012-13, in some cases the initiative has been described differently in the 2012-13 budget papers to how it was described in 2011-12. This makes tracing the Government's progress at implementing these measures difficult. It also raises the possibility that these commitments have been altered or re-scoped.

FINDING: The presentation of information about election commitment funding in the budget papers does not allow the reader to easily identify which commitments have been funded. No information is provided about which commitments have not yet been funded.

37 Budget Paper No.3, *2010-11 Service Delivery*, May 2010, pp.273-7

38 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.81

RECOMMENDATION 4: Future budget papers include a table listing the Government's formal election commitments. For each commitment, the table should identify relevant initiatives and show:

(a) the total funding required;

(b) how much has been funded in prior budgets;

(c) how much has been funded in the current budget; and

(d) how much remains to be funded.

RECOMMENDATION 5: In describing initiatives based on election commitments, the Department of Treasury and Finance clearly specify any:

(a) alterations or re-scoping of the election commitments; and

(b) changes between the initial cost estimate and the amount of funding actually provided in the Budget.

2.4.5 Commitments made since the election

Since the election, the Government has made many further commitments. In some cases, these commitments are announced for the first time in budget papers. In many other cases, the commitments are announced through other means, such as media releases or policy documents. Just as with the election commitments, there is no publicly accessible resource that brings all of these commitments together.

In addition, the initiatives announced in the budget papers are not reconciled to these commitments. There are no details about which initiatives in the budget are fulfilling previously made commitments. There is also no information about the value of commitments that have been made which have not yet been funded.

As a result of this lack of information, it is difficult to see:

- what has been committed to;
- whether or not each commitment has been funded;
- if a commitment has been funded, whether as much funding has been provided as was originally committed to; and
- what commitments have been made that will need to be funded in the future.

The Committee considers that this situation means that there is not an appropriate accountability loop for commitments made since the election.

FINDING: There is currently no system in place to track commitments made by the Government. It is difficult to determine what has been committed to, what funding has been provided to date and what commitments remain to be funded in the future.

RECOMMENDATION 6: The Department of Treasury and Finance investigate ways to monitor announced funding commitments made since the election, so that:

(a) all commitments can be easily identified;

(b) funding provided for these commitments in a budget is clearly identified;

(c) any variations between the commitment and the actual level of funding provided are identified and explained; and

(d) the value of commitments that will need to be funded in future budgets is known.

2.5 Operating surplus

The difference between the total revenue received and the total operating expenses is referred to as the 'net operating balance' or 'net result from transactions'. This net operating balance is typically used to fund infrastructure spending (which is not included in operating expenses) or pay off debt.

The Government has repeatedly committed to delivering a minimum of $100 million surplus for the net operating balance.[39] In 2012-13, this has been identified as one of the four targets of the medium-term fiscal strategy (see Section 2.4.2 of this report).

Consistent with this target, the Government is forecasting a surplus of $154.9 million in 2012-13. The Treasurer explained that:[40]

> *Despite global uncertainty, a softer economy and a significant fall in revenue* [compared to previous estimates]*, the 2012-13 Budget will be in surplus by $155 million.*
>
> *The budget projects surpluses in every year.*
>
> *The forecast surplus will grow over the next four years to $2.5 billion by 2015-16.*
>
> *Surpluses are not an end in themselves.*
>
> *Surpluses are important because they build the capacity to fund infrastructure and better services. They reduce our reliance on debt and they help protect Victoria against future economic shocks.*

Table 2.7 shows the revenue and expense projections for 2012-13 together with the original budget and the latest estimate for 2011-12 (referred to as the 'revised estimate').

Table 2.7 shows that the operating surplus for 2012-13 is expected to be $14.5 million (10 per cent) higher than the initial budget for 2011-12 and $28.9 million (23 per cent) higher than the latest estimate for 2011-12.

39 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.4; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.9

40 Budget Paper No.1, *2012-13 Treasurer's Speech*, May 2012, p.3

FINDING: The Budget forecasts a surplus of $154.9 million in 2012-13. This is in line with the Government's target of at least $100.0 million.

Table 2.7 Revenue and expense estimates for 2011-12 and 2012-13

Operating item	2011-12 Budget ($ million)	2011-12 revised estimate ($ million)	2012-13 Budget ($ million)
Revenue	47,439.2	46,875.1	48,356.7
Expenses	47,298.8	46,749.1	48,201.8
Operating surplus (net result from transactions)	**140.4**	**126.0**	**154.9**

Sources: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.26; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.38

2.5.1 Savings and revenue initiatives

At first glance, there appears to be relatively small movements between 2011-12 and 2012-13. However, underlying this apparent stability have been a number of initiatives announced by the Government since it came to office, including:

- savings initiatives, to limit the growth in expenditure; and
- revenue initiatives, to increase the amount of revenue.

These measures are summarised in Table 2.8. As can be seen from the table, they have had a sizeable impact on the 2012-13 Budget.

The Government estimates that these revenue and savings initiatives will provide an additional $8.9 billion between 2012-13 and 2015-16.[41]

A range of issues connected with the savings initiatives are discussed in Section 4.6 of this report. The revenue initiatives and their impact are discussed in Section 3.5.

FINDING: The Government has announced a number of savings and revenue initiatives since its election. The Government estimates that these savings initiatives have saved $1,157.2 million in 2012-13. The revenue initiatives are estimated to have provided an additional $616.2 million in 2012-13.

41 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.5

Table 2.8 Savings and revenue initiatives, as announced in budget papers, 2011-12 to 2012-13

Budget	Initiative	Estimated impact in 2012-13 ($ million)	Estimated five-year totals[a] ($ million)
SAVINGS INITIATIVES			
2011-12 Budget	Government election commitment savings	349.6	1,568.7
	Measures to offset the GST reduction	161.7	637.7
2011-12 Budget Update	Capping departmental expenditure growth	227.0	1,010.0
	Maintain a sustainable public service	177.0	931.0
2012-13 Budget	Savings	241.9	1,016.2
Total savings initiatives		**1,157.2**	**5,163.6**
REVENUE INITIATIVES[b]			
2011-12 Budget	Various[c]	127.2	481.5
2011-12 Budget Update	Various[d]	317.5	1,157.5
2012-13 Budget	Various[e]	171.5	805.7
Total revenue initiatives[f]		**616.2**	**2,444.7**
TOTAL SAVINGS AND REVENUE INITIATIVES		**1,773.4**	**7,608.3**

(a) These figures represent the total estimated value of each initiative over the first five years of its life (i.e. the total indicated in the budget papers in the year in which it was released), as this is generally the only information broken down by initiative. The five years covered by initiatives from the 2011-12 Budget and Budget Update differ from the years covered by initiatives from the 2012-13 Budget. The total value presented here differs from the figures presented in Budget Paper No.2 (*2012-13 Strategy and Outlook*, May 2012, p.5), which are the totals for these initiatives in the years 2012-13 to 2015-16. The large increase in the 2011-12 Budget Update initiatives in 2015-16 which was not announced at the time of the 2011-12 Budget Update (see Section 4.6.3) means that the total value of the initiatives between 2012-13 and 2015-16 ($8.9 billion) is larger than the totals of the initiatives as announced originally in their budget papers ($7.6 billion).

(b) Does not include revenue foregone initiatives.

(c) *Enhanced Tax Compliance*; *Landfill Levy*; and *Reform of Land Rich Duty*.

(d) *Receipt of Dividends from the Victorian WorkCover Authority*; *Shorten Land Transfer Duty Payment Period*; *Increase Motor Vehicle Registration Fee*; and *Increase New Passenger Motor Vehicle Duty*.

(e) *Abolish Stamp Duty Exemption for Grants of Crown Land*; *Contributions for Specific Bus Services*; *Enhanced Revenue Compliance*; *Environmental Contribution Levy*; *Increased Penalty Unit Value*; and *Working With Children Check Application and Renewal Fees*.

(f) The 2012-13 budget papers provide lower figures for the total value of revenue initiatives ($601 million for 2012-13) – Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.5. It is not clear how this figure has been calculated.

Sources: Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.92, 148; Victorian Budget 2011-12, *Efficiency Savings Background Brief*, n.d., p.1; *2011-12 Victorian Budget Update*, December 2011, pp.113-4; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

2.5.2 The Better Services Implementation Taskforce

The Government has indicated that it is committed to reforming government services, especially by:[42]

- *improving the governance and focus of government agencies;*
- *addressing areas of duplication with the Commonwealth;*
- *increasing the transparency of government operations and outcomes achieved; and*
- *modernising service delivery and providing more choice.*

The budget papers state that initial steps have been taken in these directions in the 2012-13 Budget and explain that, '*Details on these measures are provided in Budget Paper No. 3.*'[43] In the absence of more detailed information, the Committee assumes that this relates to the new round of savings announced in the 2012-13 Budget (see Table 2.8).

In addition, in March 2012, the Government announced the establishment of a Better Services Implementation Taskforce. This taskforce consists of experienced executives from the private and public sectors[44] and is expected to '*oversee modernisation of Victoria's government services.*'[45] The taskforce will draw on recommendations of the Independent Review of State Finances concerning the governance and operations of public sector entities.[46]

The Committee considers that the work of this taskforce will be of interest to the Parliament and the community and intends to follow its progress in future years. Section 4.4.3 of this report includes further discussion of the taskforce.

FINDING: The Committee notes that the Government has established a Better Services Implementation Taskforce to reform government services.

2.5.3 Future operating surpluses

Partly as a result of these measures, the Government anticipates that revenue will grow at a faster rate than expenses over the next four years. This will allow the operating surplus to increase over that period (see Table 2.9).[47]

The Committee intends to closely monitor, in future reports, the performance of the Government compared to these estimates.

42 ibid., p.31

43 ibid.

44 Hon. T. Baillieu MP, Premier, 'Implementation taskforce established', media release, 16 March 2012

45 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.31

46 ibid.

47 ibid., pp.36-40

Table 2.9 Revenue and expense estimates, 2012-13 to 2015-16

Operating item	2012-13 Budget ($ million)	2013-14 estimate ($ million)	2014-15 estimate ($ million)	2015-16 estimate ($ million)
Revenue	48,356.7	50,458.7	52,384.9	55,001.6
Expenses	48,201.8	49,597.6	51,308.4	52,473.8
Operating surplus (net result from transactions)	**154.9**	**861.1**	**1,076.4**	**2,527.8**

Source: Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.38

FINDING: The Government expects the surplus to grow to $2.5 billion by 2015-16. Underpinning this are a number of savings and revenue initiatives that have been released since the Government came to office, with an estimated impact of $8.9 billion over the forward estimates period.

2.6 Asset investment

2.6.1 Level of investment

In 2012-13, the Government is expecting to spend $6.3 billion on asset investment.[48] Asset investment includes infrastructure such as roads and hospitals, and other physical assets such as trains and computers. Between 2013-14 and 2015-16, the Government expects to spend an average of $4.7 billion per year in asset investment.[49]

The budget papers estimate that asset investment (net of proceeds from asset sales) over the five-year period to 2015-16 will average 1.4 per cent of gross state product[50] (see Table 2.10 for the last four years of that period). This exceeds the Government's medium-term fiscal strategy target of 1.3 per cent (see Section 2.4.2 of this report).

FINDING: The Government is planning to spend $6.3 billion on infrastructure and other physical assets in 2012-13 and an average of $4.7 billion per year between 2013-14 and 2015-16.

FINDING: Over the five years to 2015-16, this expenditure is expected to average 1.4 per cent of gross state product, which exceeds the Government's target of 1.3 per cent.

48 ibid., p.48

49 ibid.

50 ibid., p.47

As discussed in Section 2.2 above, funding for this expenditure comes primarily from four sources:

- the operating surplus (net result from transaction) – that is, the money left over after operating expenses have been deducted from the income;
- depreciation and similar – these are included in the operating expenses for accounting reasons but do not actually involve any cash flowing out, so the cash equivalent to these amounts is still available;
- proceeds from asset sales; and
- borrowings.

Table 2.10 shows the proportion of the Government's asset investment that could be funded from the first three of these sources.

Table 2.10 Projected asset investment, 2012-13 to 2015-16

Item	2012-13	2013-14	2014-15	2015-16
Funding from the surplus, 'depreciation and similar' and asset sales **[A]** ($ million)	2,558.3	3,544.4	3,638.4	5,304.4
Expenditure on asset investment[a] **[B]** ($ million)	6,346.8	5,680.4	4,256.1	4,102.8
Percentage of **[A]** over **[B]** (per cent)	40.3	62.4	85.5	129.3
Net asset investment[b] as a proportion of gross state product (per cent)	1.7	1.5	1.0	1.0

(a) Includes 'expenditure on approved projects' and 'capital provision approved but not yet allocated'.

(b) Expenditure on asset investment minus proceeds from asset sales.

Source: Calculated by the Committee's Secretariat from data in Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.17

Over the four years from 2012-13 to 2015-16, it is expected that the proportion of the Government's asset investment than can be funded from sources other than borrowings will increase from 40 per cent to the full amount.[51] This change primarily reflects the Government's expectation of higher operating surpluses over the forward years (see Section 2.5.3).

This report examines asset investment and how it is funded in more detail in Chapter 6.

FINDING: The Government expects an increasing proportion of the asset investment program to be funded without borrowing in future years. The Government anticipates that asset investment will be fully funded without borrowing in 2015-16.

51 ibid., p.37

2.6.2 Disclosure in the budget papers

As in previous years, details of the Government's asset investment program are spread across the various 2012-13 budget papers. For example:

- Budget Paper No.2 (*2012-13 Strategy and Outlook*) provides details of the aggregate expenditure on asset investment and a list of each department's expenditure on new asset initiatives;[52]
- Budget Paper No.3 (*2012-13 Service Delivery*) details each new asset initiative announced in the 2012-13 Budget. Initiatives are listed by department. Details include a description of each project, the total estimated investment, estimated expenditure for each year to 2015-16 and the relevant output to which the initiative contributes;[53]
- Budget Paper No.4 (*2012-13 State Capital Program*) lists new and existing asset initiatives under departmental and agency headings. It shows each project's total estimated investment, estimated expenditure to 30 June 2012, estimated expenditure in 2012-13 and projected remaining expenditure. Due to varying accounting bases, threshold conventions and the exclusion of projects identified as commercially sensitive,[54] the total expenditure detailed in this budget paper does not align with totals elsewhere; and
- Budget Paper No.5 (*2012-13 Statement of Finances*) identifies (within each department's financial statements) the expected cash expenditure on asset investment.[55] It also breaks down the total asset investment from 2012-13 to 2015-16 by department and purpose.[56]

The Committee has previously raised concerns about this segmented approach to presenting information[57] and the fact that data in one budget paper cannot always be reconciled with related material in other budget papers (due to factors such as threshold conventions and different inclusions or exclusions). See further concerns about the disclosure of asset information in Section 6.8.

FINDING: Information about asset investment is presented in a variety of ways across the budget papers.

52 ibid., pp.48-9

53 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

54 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, pp.8-9

55 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, Chapter 3

56 ibid., pp. 33-4

57 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, p.26

2.6.3 Net debt

As noted in Section 2.2, where the level of asset investment exceeds the funding available, additional borrowings are required. These additional borrowings contribute to the Government's level of net debt. Net debt is defined in the budget papers as:[58]

> *The sum of borrowings and deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.*

The changes in net debt over the forward estimates period can be seen in Table 2.11. In dollar terms, net debt is expected to increase to 2015, before reducing marginally between 2015 and 2016. The reduction between 2015 and 2016, though, is a result of the Government increasing the value of its financial assets (mostly cash and deposits) rather than reducing the amount of borrowings. Borrowings, in fact, are forecast to increase by approximately $400,000 in that year.[59]

Table 2.11 Net debt as at 30 June, 2012 to 2016

	2012	2013	2014	2015	2016
Net debt ($ billion)	16.1	20.7	23.1	23.8	23.7
Net debt (per cent of gross state product)	4.9	6.1	6.5	6.3	6.0

Source: Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.51

The Government's medium-term fiscal strategy includes a target of reducing net debt as a proportion of gross state product between 2012 and 2022.[60] As can be seen from Table 2.11 net debt reduces as a proportion of gross state product after 2014. However, this reduction is primarily driven by the expected increase in gross state product, rather than a reduction in debt.

Debt is discussed in more detail in Section 3.6 of this report.

FINDING: Net debt is expected to increase from 4.9 per cent of gross state product in June 2012 to 6.5 per cent by June 2014, before declining to 6.0 per cent by June 2016.

Statements on the 2012-13 Budget from credit agencies

The State's credit rating is not solely determined by net debt. The budget papers indicate that Standard & Poor's (one of the credit agencies engaged by the Government) uses the ratio of '*net debt (excluding advances paid) plus superannuation of the NFPS* [non-financial public sector] *as a proportion of NFPS operating revenue*'[61] as the key indicator for credit ratings. A review of the State's credit rating could occur if this ratio exceeded 130 per cent. While this ratio is expected

58 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.51

59 ibid.

60 ibid., p.9

61 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.60. The NFPS includes the general government sector (all departments and those agencies that provide services free of charge or for less than cost), as well as public non-financial corporations (those agencies that provide goods and services while recovering costs).

to increase during 2012-13, it is expected to peak at 127 per cent at 30 June 2013 and then decline over the rest of the forward estimates period.[62]

Standard & Poor's stated in its press release that Victoria's credit ratings (AAA/Stable) '*are not immediately affected by the Victorian government's announcement of its 2012-13 budget.*'[63] The comments by the agency included:[64]

> *Today's budget is consistent with our expectation that the government will manage the state's finances within the constraints of lower operating revenues. The budget also includes a new fiscal strategy that targets operating surpluses and lower debt while providing for future infrastructure investment. Providing the state remains committed to its medium-term fiscal strategy, downside potential to the rating is low.*
>
> *Standard & Poor's assessment of a strong institutional framework and a strong and diversified economy continue to support the ratings on Victoria.*

Moody's Investors Service, which also provides a credit rating for Victoria, stated that '*the outlook on the State of Victoria's AAA rating is stable and is unlikely to change with the release of its 2012-13 budget.*'[65] The agency further commented that:[66]

> *Despite the impact of weaker revenue growth that has occurred more recently as state conveyancing duties and GST-backed commonwealth grants have slowed, the performance is expected to improve due to the state's intention to restrain spending including implementing the recommendations of the state's Independent Review of State Finances.*

Both agencies have therefore confirmed that their ratings of Victoria remain stable following release of the 2012-13 Budget.

FINDING: The two rating agencies utilised by the Government have indicated that the State's AAA credit rating remains unchanged following the 2012-13 Budget.

2.7 Contingency provisions

In each budget, contingency provisions are made for expenses that have not been determined when the Budget is prepared. These expenses may be required for:[67]

- unexpected needs, such as natural disasters, demands for services growing faster than predicted or wage negotiations resulting in higher costs than estimated; or

62 Budget Paper No.3, *2012-13 Strategy and Outlook*, May 2012, p.60

63 Standard & Poor's, 'Ratings on the Australian State of Victoria unchanged after State Budget announcement', media release, 1 May 2012

64 ibid.

65 Moody's Investors Service, *Announcement: Moody's comments on State of Victoria's 2012-13 Budget*, 1 May 2012

66 ibid.

67 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, pp.52-3

- needs which are expected but cannot currently be quantified, such as variations to asset investment projects and new initiatives to be released in future budgets.

Three types of contingency provision are made, as indicated in Table 2.12.

Table 2.12 Contingency items within the 2012-13 Budget and Appropriation Bill

Contingency item	2012-13 ($ million)	2013-14 ($ million)	2014-15 ($ million)	2015-16 ($ million)	Total ($ million)
Output contingencies[(a)]	-130.5	1,025.9	1,582.3	2,132.3	4,610.0
Asset contingencies[(b)]	-	328.4	520.0	1,768.1	2,616.5
Advance to the Treasurer to meet urgent claims[(c)]	524.1	-	-	-	524.1

(a) Budget Paper No.5, *2012-13 Statement of Finance*s, May 2012, p.30

(b) 'Capital provision approved but not yet allocated' – Budget Paper No.2, *2012-13, Strategy and Outlook*, May 2012, p.48

(c) Appropriation (2012/2013) Bill 2012, page 16 of Schedule 1. The Advance to the Treasurer is released on a yearly basis. It is expected that similar figures would also be made available in future years.

The Government has put aside sizeable contingency provisions, with $4.6 billion set aside for outputs (over the four years to 2015-16) and $2.6 billion for asset investment, in addition to the Advance to the Treasurer. The value of contingency provisions varies significantly from one year to another, but the 2012-13 provisions are in line with historic amounts.[68]

Of particular interest to the Committee is the fact that the 2012-13 output contingency is a negative amount ($-130.5 million). The budget papers do explain that the contingency provision is a net amount which includes expected departmental underspending as well as allowance for additional expenditure.[69] However, no specific explanation of how this year's contingency amount was calculated is provided.

The Committee notes that one impact of the negative output contingency in 2012-13 is that the operating expenses are reduced by this amount. If this negative contingency were not in place, the net result from transactions would be a surplus of $24.4 million rather than $154.9 million.

Overall, there has been a substantial reduction in the level of contingency funds for 2012-13 compared to 2011-12. In 2011-12, $342.2 million of output contingency provision was made and $779.1 million was available through the Advance to the Treasurer.[70] Together, these provided an additional $1,121.3 million. This contrasts substantially with the $393.6 million available from these two sources in 2012-13.

The Committee does not have a view on the appropriate level of contingency provisions. It can be argued that a large contingency is important for risk management. It can also be argued that excess provisions should be avoided so that funds can be used to deliver services.[71]

68 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, p.198

69 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.30

70 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.31; Appropriation (2011/2012) Bill 2011, p.16 of Schedule 1

71 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, p.30

However, the Committee considers that transparency about contingency provisions is important. This transparency should include explanations for the value of contingency provisions in a particular budget, including the methodology used to calculate the provisions. In its *Report on the 2011-12 Budget Estimates*, the Committee recommended that the Government present expanded information about contingencies in future years, including their role in the budgetary process and the methodology employed for determining their quantification.[72]

The Government supported that recommendation, indicating that the Department of Treasury and Finance '*will explore opportunities to enhance discussion around the basis and role of contingencies.*'[73]

The presentation of material on contingencies in the 2012-13 Budget is essentially unchanged from the previous year. The Committee strongly encourages the Government to go beyond its stated support for enhanced presentation through the taking of substantive action in the 2013-14 budget papers.

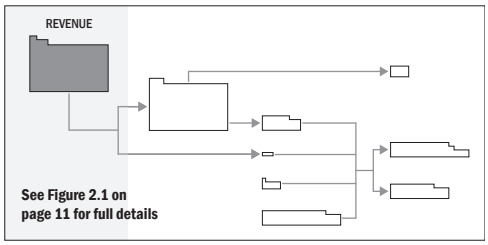
FINDING: The 2012-13 Budget includes contingency provisions totalling $4.6 billion for outputs and $2.6 billion for asset investment over the four years to 2015-16. For 2012-13, however, the Government has set a negative contingency for outputs, anticipating that factors such as departmental underspends will exceed unplanned expenditure requirements.

72 ibid., Recommendation 8, p.31

73 Victorian Government, Government Responses to the Recommendations of the Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part One, tabled 24 November 2011, p.5

CHAPTER 3 REVENUE AND BORROWINGS

3.1 Introduction



This chapter looks at the Government's revenue, especially the revenue forecasts for the next four years and the Government's strategy behind them.

As seen in Figure 2.1, revenue is the primary input into the whole of the State's finances. It funds output expenditure, and expenditure on public private partnerships. Together with asset sales and borrowings, it also contributes to asset investment. As such, most government activities are funded by the revenue received each year.

Table 3.1 shows the estimates for revenue made in the 2012-13 Budget.

Table 3.1 Revenue, 2012-13 to 2015-16

	2012-13 ($ million)	2013-14 ($ million)	2014-15 ($ million)	2015-16 ($ million)
Total revenue from transactions	48,356.7	50,458.7	52,384.9	55,001.6

Source: Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.5

In discussing and explaining revenue, this chapter seeks to address a number of questions:

- What is the Government's strategy for revenue? (Section 3.2)
- How much revenue is the Government expecting over the next four years? Will revenue increase or decrease? (Section 3.3)
- How are the different components of revenue expected to change over the next four years? (Section 3.4)
- What initiatives has the Government announced in the 2012-13 Budget that affect revenue? (Section 3.5)
- What are the Government's plans for borrowings over the next four years? (Section 3.6)

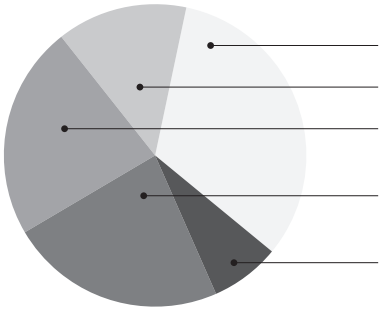
3.1.1 Sources of revenue

Figure 3.1 shows the major sources of revenue for 2012-13. A more detailed break-down can be found in Appendix A3.3 of this report. Further disaggregation of taxes is found in the budget papers.[74]

The State is able to raise a number of taxes, including taxes such as payroll tax, stamp duty on property transfers, and motor vehicle registration fees.

74 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.164

Figure 3.1 Sources of revenue, 2012-13



	($ million)	(%)
State taxes	15,783	33
Sales of goods and services	6,753	14
General purpose grants from the Commonwealth	11,042	23
Other grants from the Commonwealth[(a)]	11,178	23
Other revenue[(b)]	3,601	7
TOTAL	48356	100

(a) Includes 'specific purpose grants for on-passing'; 'grants for specific purposes'; and 'other contributions and grants'.

(b) Includes 'interest'; 'dividends and income tax equivalent and rate equivalent revenue'; and 'other revenue' (including fines)

Sources: Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.161, 173

Different types of grants are also received annually from the Commonwealth Government.

For 2012-13, 'general purpose grants' are expected to make up nearly one quarter of all revenue. General purpose grants are primarily the State's share of funds raised by the Commonwealth Goods and Services Tax (GST). This is divided amongst the states by the Commonwealth Government following recommendations made by the Commonwealth Grants Commission. The amount Victoria receives varies each year depending on the overall size of the GST pool and Victoria's share of that pool (which is adjusted each year). The State can spend general purpose grants however it chooses.

Other grants from the Commonwealth Government are mainly made up of 'grants for specific purposes' and 'grants for on-passing'. These are expected to make up nearly one quarter of the total revenue for 2012-13. 'Grants for specific purposes' are tied to nominated Commonwealth-funded programs such as the *National Education Agreement*, the *National Healthcare Agreement* and various national partnerships. 'Grants for on-passing' are passed directly to other bodies such as local governments or non-government schools.

A portion of the Government's revenue comes from goods and services that it sells (for example, the provision of medical services to private patients, educational services in TAFEs, or rights to operate public transport systems).

Other sources of revenue include:

- interest;
- dividends received from Government-owned trading entities such as water authorities;
- revenue received from government business enterprises to correct any competitive advantage from exemptions from regular taxes ('income tax and local government rate equivalent revenue'); and
- fines from road infringements and court penalties.

3.2 Strategy for revenue

The Government intends to increase operating surpluses in each of the next four years. The Government plans to use these surpluses to fund future infrastructure, reduce debt and enable the State to withstand future economic shocks.[75]

As seen in Figure 2.1, the operating surplus is the amount of revenue left after output expenditure. In order to keep the surplus growing, the Government must make sure that revenue grows at a faster rate than output expenditure. To do this, the Government has introduced measures to increase revenue growth (see Section 3.5) and measures to decrease expenditure growth (see Chapter 4).

In general, the Government has less control over its revenues than its expenditures. This is because policies set by the Government do not have a large effect on many components of State revenue. However there are some possible actions that will have some impact. The Government can:

- alter the rates of existing taxes (such as payroll or land transfer taxes) or charges (such as vehicle registration fees);
- alter eligibility criteria for existing taxes or charges, increasing or decreasing the number of people required to pay;
- alter the number of people eligible for rebates or concessions or alter the amount of rebates or concessions; and
- introduce new revenue streams, by charging for services that were previously provided free.

Section 3.5 of this chapter explores initiatives related to revenue in the 2012-13 Budget in more detail.

In both of the last two budgets, the Government has also increased the number of monitoring and enforcement staff in the State Revenue Office to ensure greater compliance. This is discussed in greater detail in Section 3.5.1.

The Government has also identified having a competitive rate of taxation compared to other jurisdictions as a goal.[76] As in the 2011-12 Budget,[77] the Government has identified taxation reform in the 2012-13 Budget as an important factor that affects the competitiveness of Victorian businesses.[78]

As part of its report on the budget estimates for 2011-12, the Committee recommended that:[79]

> *The Department of Treasury and Finance supplement the disclosure of revenue items in the budget papers by including measures of the competitiveness of Victoria's taxation system compared to the other Australian states and territories.*

75 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, pp.6-9

76 Examples include: Budget Paper No.1, *2012-13 Treasurer's Speech*, May 2012, p.4; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, pp.30-1

77 For example, Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.6

78 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, pp.30-1

79 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 56, p.156

The Government has indicated that it is reviewing this recommendation, noting that:[80]

> *Measuring tax competitiveness is a difficult issue because it needs to consider the burden of taxation on various groups and the total amount collected. The Department of Treasury and Finance is assessing the merits of a suite of tax competitiveness measures, but which of these measures are preferred will not be finalised until after the 2012-13 budget.*

The Committee anticipates the finalised suite of taxation competitiveness measures will be included in the 2013-14 Budget.

3.3 Revenue over the forward estimates period

The total revenue for 2012-13 is expected to be $48.4 billion.[81] This is a record level for the State. Over the forward estimates period, the Government expects revenue to rise consistently, to $55.0 billion in 2015-16.[82]

To understand what this amount of revenue means for Victoria, the Committee has used two indicators:

- the amount of revenue expected per Victorian, adjusted for price changes (that is, in 'real terms'); and
- the amount of revenue compared to gross state product (that is, the income of the Government compared to the income of the whole State).

Based on the Government's estimates, the amount of revenue in real terms is expected to steadily increase over the forward estimates period. By contrast, revenue as a share of gross state product (GSP) is expected to decline over the same period.

The years 2009-10, 2010-11 and (to a lesser extent) 2011-12 were years of artificially high revenue. This was largely due to funding provided by the Commonwealth which was intended to respond to the Global Financial Crisis. This funding lapsed at the end of 2011-12.[83]

3.3.1 Total revenue

Figure 3.2 shows the Government's expected total revenue over the forward estimates period, compared to the prior six years.

The overall trend of revenue shows steady growth between 2006-07 and 2015-16, apart from slower growth rates between 2009-10 and 2011-12. The slower growth in those years is largely a result of the rapid growth between 2008-09 and 2009-10 due to growth in Commonwealth funding (including the *Economic Stimulus Plan – Nation Building* grants). Figure 3.7 (later in this chapter) separates revenue into State-sourced and Commonwealth-sourced components. This shows that, while the Commonwealth funding fully explains the rapid growth followed by a slower rate during those years, the State-sourced revenue grows consistently.

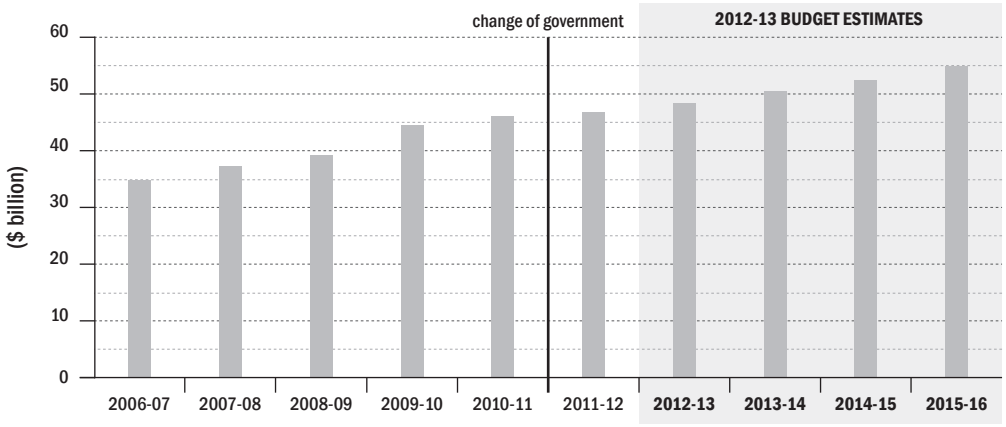
80 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.29

81 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.5

82 ibid.

83 ibid., pp.175-6

Figure 3.2 Total revenue, 2006-07 to 2015-16



Source: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/OperatingStatementGG2012-13BU1May2012/$File/OperatingStatementGG2012-13BU1May2012.XLS>, accessed 17 May 2012

The total revenue for 2012-13 is expected to be $48.4 billion. This is an increase of 3.2 per cent from the latest estimate for 2011-12 ($46.9 billion).[84] This is also above the revenue figures for the two previous years, 2009-10 and 2010-11, which had been raised above more 'normal' levels due to extraordinary Commonwealth stimulus funding during those years.

Over the forward estimates period, the Government expects that revenue will continue growing, with annual growth rates reaching 5.0 per cent in 2015-16.

FINDING: The Government is forecasting a total revenue of $48.4 billion in 2012-13. This will be the highest level of revenue ever recorded by the State. The Government forecasts that revenue will continue to grow in each year to 2015-16.

The Committee notes that the budget papers make several mentions of reductions in revenue, such as '*this economic climate has driven large reductions in projected revenue*'.[85] The Treasurer has listed problems facing the Government as '*…global uncertainty, a softer economy and a significant fall in revenue*'.[86] In addition, witnesses in budget estimates hearings talked about falling revenue. The Treasurer, for example, remarked that '*when you are framing a budget it is very difficult when your revenue is on the decline*'.[87]

The 'reduction' discussed is based on comparing the latest revenue estimates to earlier estimates. That is, the revenue is reduced compared to previous expectations. This is different from the situation where the amount of revenue actually received in one year is less than in the previous year. As can be seen in Figure 3.2, the actual amount of revenue has increased every year in recent years and the Government expects it to continue increasing throughout the forward estimates period. The Committee considers that this subtle difference has led to some confusion.

84 ibid., p.161

85 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.1

86 Budget Paper No.1, *2012-13 Treasurer's Speech*, May 2012, p.3

87 Hon. K. Wells MP, Treasurer, 2012-13 budget estimates hearing, transcript of evidence, 4 May 2012, p.10

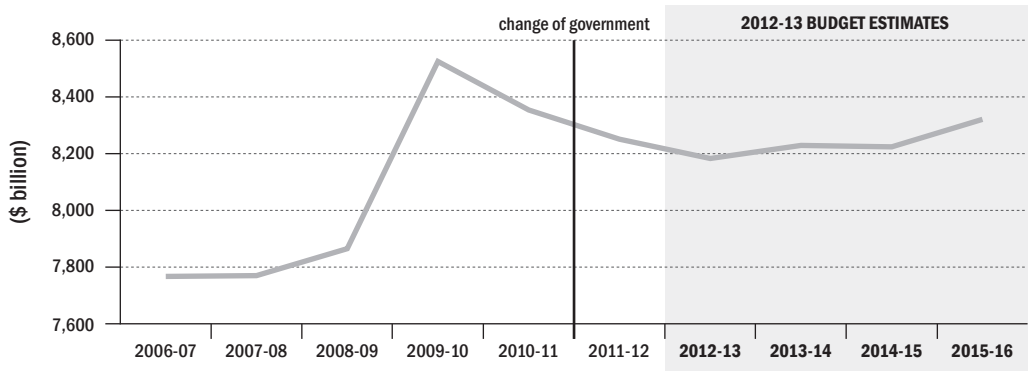
The difference between previous expectations and current estimates of revenue are discussed in more detail in Section 3.3.3.

FINDING: In recent years, revenue has increased steadily every year in nominal terms, and the Government forecasts that it will continue increasing throughout the forward estimates period.

Revenue per Victorian

Revenue per Victorian shows the overall burden that individual Victorians bear, including Commonwealth GST payments that are returned to the State. Undertaking an analysis on a per person basis partly compensates for population changes. For this indicator, the Committee has also adjusted the amount of revenue to compensate for price changes from year to year (that is, amounts are provided in 'real terms'). Figure 3.3 shows real revenue per Victorian since 2006-07 and the Government's estimates for the forward estimates period (in 2012-13 dollars).

Figure 3.3 Real revenue per Victorian, 2006-07 to 2015-16



Note: Real revenue is calculated using the price deflator implicit in the Department of Treasury and Finance's calculation of real and nominal GSP. Revenue is provided in 2012-13 dollar terms.

Sources: Calculated by the Committee based on: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/OperatingStatementGG2012-13BU1May2012/$File/OperatingStatementGG2012-13BU1May2012.XLS>, accessed 17 May 2012; Department of Treasury and Finance, 'Macroeconomic Indicators 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/Macroeconomicindicators2012-13BU1May2012/$File/Macroeconomicindicators2012-13BU1May2012.xlsx>, accessed 2 July 2012

Real revenue per Victorian was particularly high between 2009-10 and 2011-12 due to Commonwealth funding which was intended to offset the effects of the Global Financial Crisis. This additional funding has now lapsed. However, the Government still anticipates that the amount of revenue per Victorian in the forward estimates period will be significantly more than it was before the Global Financial Crisis. In addition, the Government expects it to rise by an average of $37 per year per person over the forward estimates period.

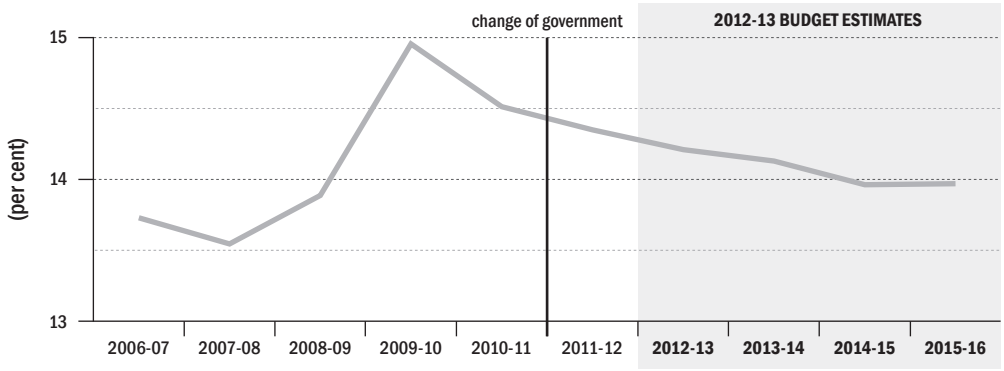
The growth in revenue per Victorian over the forward estimates period is in contrast to expenditure per Victorian, which is expected to fall over the forward estimates period (see Section 4.4.2). This is in line with the Government's plan to increase revenue at a faster rate than expenditure.

FINDING: Revenue per Victorian has fallen as a result of the ending of Commonwealth stimulus funding. The Government plans to increase revenue by an average of $37 per person per year over the forward estimates period.

Revenue as a share of gross state product

Revenue as a proportion of gross state product (GSP) shows the size of the Government in comparison to the Victorian economy. This is shown in Figure 3.4.

Figure 3.4 Revenue as a share of GSP, 2006-07 to 2015-16



Sources: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/OperatingStatementGG2012-13BU1May2012/$File/OperatingStatementGG2012-13BU1May2012.XLS>, accessed 17 May 2012; Department of Treasury and Finance, 'Macroeconomic Indicators' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/Macroeconomicindicators2012-13BU1May2012/$File/Macroeconomicindicators2012-13BU1May2012.xlsx>, accessed 2 July 2012

The years of Commonwealth stimulus funding are also evident in this chart. There was a sharp rise in revenue as a share of GSP in 2009-10 when Commonwealth funding increased the amount of revenue and the Global Financial Crisis slowed down GSP growth. In the following years, GSP has grown at a faster rate. Over the forward estimates period, the Government estimates that the economy will grow at a faster rate than revenue, resulting in a decline in revenue as a share of GSP. Based on these estimates, revenue will stabilise as a proportion of GSP by 2014-15, at just under 14 per cent. This is a similar level to what it was prior to 2009-10.

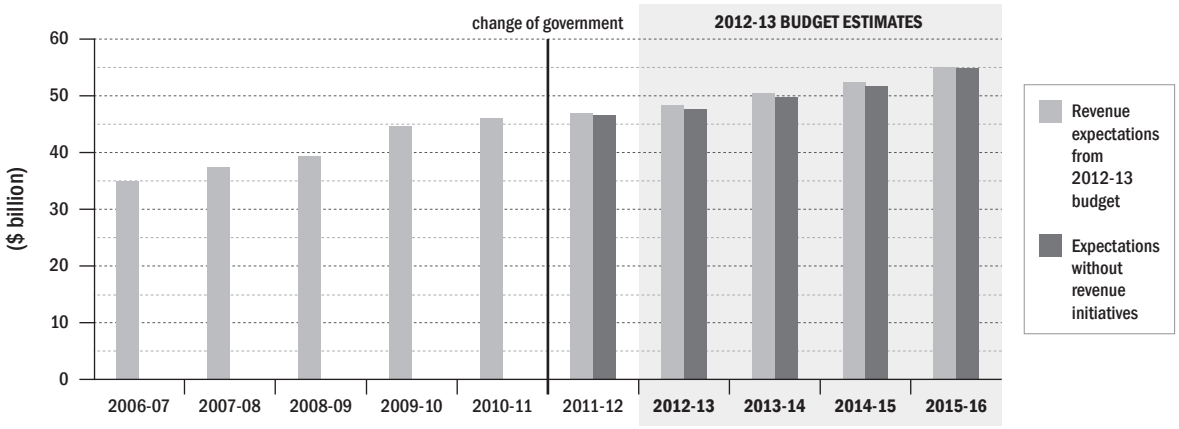
FINDING: Revenue has become a smaller proportion of the State economy (measured by gross state product) since the Commonwealth stimulus funding years. In future years, the Government predicts that GSP will grow faster than revenue. As a result, revenue as a share of GSP is expected to decrease over the forward estimates period, returning to levels similar to what was seen before 2009-10.

3.3.2 The impact of revenue initiatives

Since coming to office, the Government has introduced a number of plans that are designed to increase the total amount of revenue (see Section 3.5). The total impact of these initiatives is discussed in Section 2.5.1 of this report.

Figure 3.5 shows the Government's estimates for revenue each year over the forward estimates period. The figure also shows (based on the Government's figures) how much revenue would have come in without the revenue initiatives that have been announced since the change of Government. Based on these estimates, without the initiatives, revenue would have grown, but at a slower rate.

Figure 3.5 Expected revenue without revenue initiatives since 2010-11 Budget Update



Sources: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/OperatingStatementGG2012-13BU1May2012/$File/OperatingStatementGG2012-13BU1May2012.XLS>, accessed 17 May 2012; Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.148; Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.114; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.79

As discussed above, the Government intends to keep the growth rate of revenue higher than that of output expenditure. The Government has not indicated that its revenue initiatives have been introduced for that specific purpose. However, they will assist the Government to achieve this aim.

FINDING: The Government has introduced a series of revenue initiatives since it came to power. The Government expects these to increase the growth rate of revenue over the forward estimates period.

3.3.3 Comparison to previous estimates

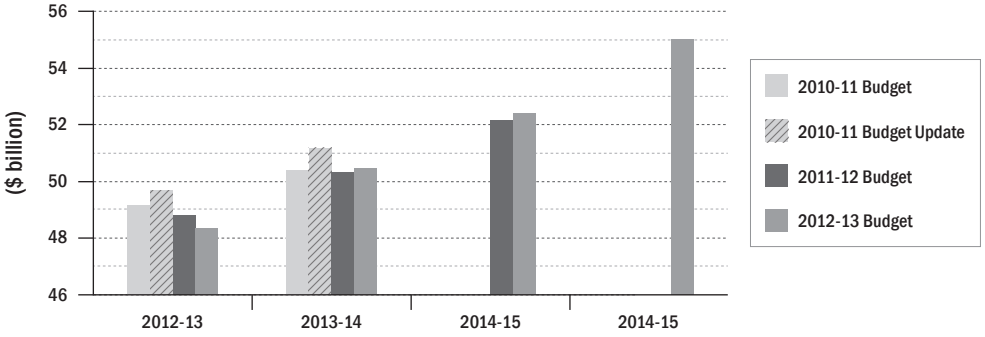
Each budget or budget update includes a new set of figures forecasting revenue amounts for the next four years. These predictions are revised to take into account changed economic conditions facing the State or new strategies the Government has adopted.

Figure 3.6 shows different projections that have been made for revenue since the 2010-11 Budget. Details of the differences between projections are set out in Appendices A3.1-3.2.

Comparison to the 2011-12 Budget

The amount of revenue for 2012-13 is expected to be $450.2 million (1 per cent) less than the estimate made in the 2011-12 Budget. This is primarily due to a lower-than-expected GST pool, resulting in a lower expected revenue from general purpose grants (see Section 3.4.1).[88] In addition, the European economy did not recover as expected,[89] and poorer economic conditions in the domestic housing and labour markets have both led to lower-than-expected State taxation revenue for 2012-13.[90]

Figure 3.6 Revenue: comparison to previous forward estimates



Sources: Budget Paper No.5, *2010-11 Statement of Finances*, May 2010, p.10; Department of Treasury and Finance, *Victorian 2010-11 Budget Update*, December 2010, p.15; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.9; Budget Paper No. 5, *2012-13 Statement of Finances*, May 2012, p.5

In contrast, the Government has revised its estimates for revenue in 2013-14 upwards by $147.9 million, and in 2014-15 upwards by $214.1 million. These revisions are due to raised expectations in these years for specific purpose grants (due to rescheduling of existing grants and a suite of anticipated new grants),[91] as well as the effects of the Government's revenue initiatives.[92] In these years, these increases have outweighed the lower expectations of general purpose grants.

FINDING: As part of the 2012-13 Budget, the Government has revised its expectation for revenue in 2012-13 downwards by $450.2 million compared to the forecast made in the 2011-12 Budget. In contrast, the Government has revised its revenue forecasts for 2013-14 and 2014-15 upwards by $362.0 million.

Comparison to the 2010-11 Budget Update

A number of places in the budget papers compare the current estimates of revenue to the estimates made in the 2010-11 Budget Update.[93]

88 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.44

89 ibid., pp.11-12

90 ibid., p.43

91 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.24

92 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.43; Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.114

93 Examples include: Budget Paper No.1, *2012-13 Treasurer's Speech*, May 2012, p.2; and Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.1-3

The revenue estimates for 2012-13 in the current budget are $1.3 billion (3 per cent) lower than the estimates for 2012-13 that were made in the 2010-11 Budget Update. For 2013-14, current revenue estimates are $0.7 billion less than earlier. These figures are a large proportion of the 'reductions' in revenue cited by the Government (see Section 3.3.1).

The Committee notes that the forecasts for 2012-13 and 2013-14 that were made as part of the 2010-11 Budget Update were noticeably higher than the forecasts for these years that were made before and after. The high estimates made in the 2010-11 Budget Update were a result of expectations at the time that, while the overall GST pool would decrease, an increase in Victoria's share of that pool would outweigh this decrease.[94] However, these expectations proved to be optimistic. This was realised within six months, as can be seen in the lower forecasts made in the 2011-12 Budget.

The Committee discussed the reasons for these changes of estimates in its previous budget estimates report.

Most of the decreases in expected revenue for 2012-13, and all of the expected decreases for 2013-14 had been anticipated in the 2011-12 Budget (see Figure 3.6). The Government's action in response was detailed in the 2011-12 Budget, including new revenue-raising initiatives[95] and savings initiatives including '*Measures to Offset the GST Reduction*' for each department.[96]

Given that the 2010-11 Budget Update forecasts were overly optimistic, and that this was realised and revised in the 2011-12 Budget, the Committee considers that the comparison of the current estimates to 2010-11 Budget Update forecasts is of limited value.

FINDING: The Government has identified that current revenue forecasts for 2012-13 and 2013-14 are significantly lower than the forecasts made in the 2010-11 Budget Update. This is due to the estimates in the 2010-11 Budget Update being overly optimistic. This was realised at the time of the 2011-12 Budget.

3.4 Components of revenue over time

The budget papers break expected revenue down into a number of components.[97] By comparing the amount of revenue from these components over time, it is possible to understand in greater detail:

- why revenue has grown; and
- on what factors the Government has based its expectations for revenue growth.

94 Department of Treasury and Finance, *Pre-Election Budget Update*, November 2010, p.22. The forecasts for general purpose grants were not altered for 2012-13 and 2013-14 in the subsequent 2010-11 Budget Update (Department of Treasury and Finance, *2010-11 Budget Update*, December 2010, p.22).

95 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.148

96 ibid., Chapter 2

97 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, Chapter 4

The components of revenue are affected by a number of different factors, including:

- the economic environment, which is largely out of the control of the Government (such as changes in land values or business activities);
- the Government's own actions, such as increasing tax rates or altering the group of contributors (for example, by changing concession eligibility); and
- the timing of payments from government business enterprises.[98]

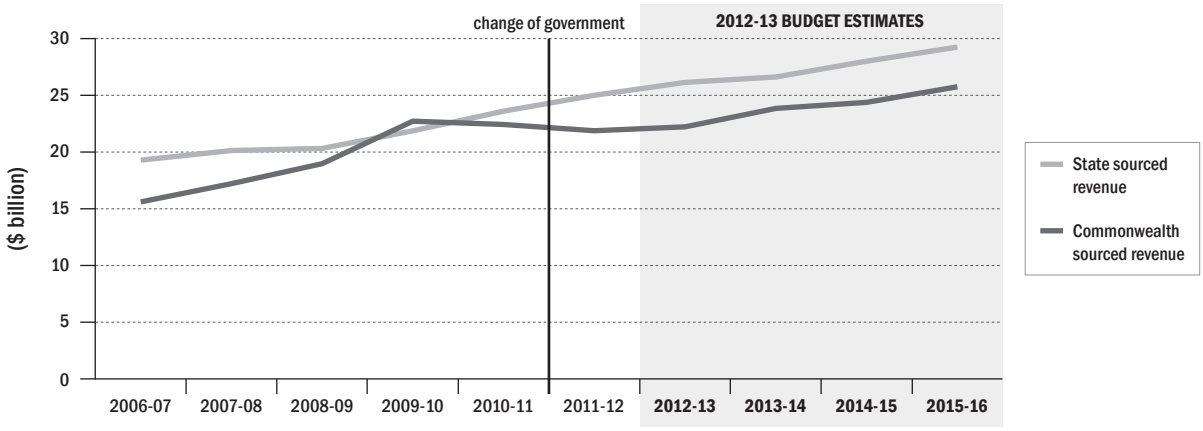
The Committee has grouped the various components of revenue into four broad groups, based on what the Government expects will cause the amount of revenue to change from one year to the next:

- grants determined by the Commonwealth Government;
- State-sourced revenue that is mostly determined by economic activity;
- State-sourced revenue that has been affected by revenue initiatives announced in the 2012-13 Budget; and
- State-sourced revenue that is influenced by other factors.

The following section discusses the main components of Victoria's revenue. Appendix A3.3 details these and other revenue components.

Figure 3.7 shows Commonwealth-sourced revenue (that is, Commonwealth grants) and State-sourced revenue since 2006-07 and over the forward estimates period. These sources are broken down and discussed further in later parts of this chapter.

Figure 3.7 Components of revenue: Commonwealth and State sources, 2006-07 to 2015-16



Source: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/OperatingStatementGG2012-13BU1May2012/$File/OperatingStatementGG2012-13BU1May2012.XLS>, accessed 17 May 2012

Figure 3.7 shows the increase in Commonwealth-sourced revenue in 2009-10 and 2010-11. This was primarily the Commonwealth funding received as part of the *Nation Building – Economic Stimulus Plan* that has now ended.[99] State-sourced revenue has grown at a more stable rate.

98 Changing the timing can alter the amount of revenue from one year to another, but the annual fluctuations even out over time.

99 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.175-6

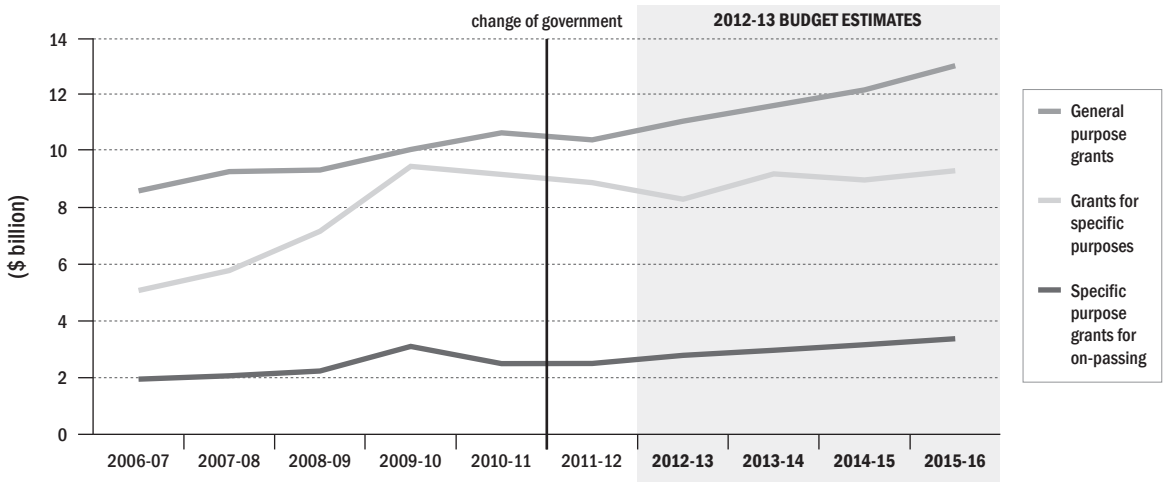
Over the forward estimates period, the Government expects the rate of growth of State-sourced revenue to be similar to that of Commonwealth-sourced revenue.

FINDING: The Government expects State-sourced revenue and Commonwealth-sourced revenue to grow at similar rates over the forward estimates period.

3.4.1 Commonwealth grants

There are three main types of Commonwealth grants that flow to the State. These are shown in Figure 3.8 below.

Figure 3.8 Commonwealth grants, 2006-07 to 2015-16



Sources: Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.24, 173; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.159; Budget Paper No.4, *2010-11 Statement of Finances*, May 2010, p.217

General purpose grants

General purpose grants are primarily the portion allocated to Victoria of the revenue from the Commonwealth's Goods and Services Tax (GST).[100] These grants make up nearly one quarter of the State's revenue. Because of this large share, factors that affect these grants have a large impact on overall revenue for the State.

General purpose grants for 2012-13 are expected to be $11.0 billion. This is an increase of $658.8 million compared to the latest estimate for 2011-12, making this the largest single contributor to growth in revenue between 2011-12 and 2012-13 (see Appendix A3.3). Over

100 The budget papers do not define 'general purpose grants' but simply equate it with revenue from GST (e.g. Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.44; cf. Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.173-4). The Committee notes that a small amount of additional general purpose grants also come from 'Snowy Hydro Ltd tax compensation' ($9.4 million in 2010-11, or 0.1 per cent of general purpose grants for that year – Commonwealth Government, *2010-11 Final Budget Outcome*, 2011, p.87).

the forward estimates period, the Government expects general purpose grants to rise each year, reaching $13.0 billion in 2015-16.[101]

The Treasurer has spoken of declining GST grants affecting Victoria in 2012-13.[102] The budget papers also discuss GST revenue decreasing.[103] As with the discussion of total revenue declining (see Section 3.3.1), however, the 'decrease' in grants is only relative to previous estimates,[104] rather than a decrease from the previous year. The only recent year in which there was a decrease in general purpose grants was 2011-12, following the change in relativity (see below).

FINDING: General purpose grants for 2012-13 are expected to be $11.0 billion. This in an increase over the previous year. General purpose grants are forecast to rise in each year of the forward estimates.

Each year, the Commonwealth Grants Commission makes recommendations to the Commonwealth Government about the share of the overall GST pool that flows to each state.[105] These recommendations are in the form of weights (or 'relativities') to be placed on each state's population. The State's population multiplied by its relativity determines its share of the overall GST pool. The final relativities are included in the Commonwealth budget,[106] and are shown in Table 3.2.

Table 3.2 Victoria's GST relativities, 2006-07 to 2012-13

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Relativity	0.89559	0.90096	0.92540	0.91875	0.93995	0.90476	0.92106[(a)]

(a) The figure recommended by the Commonwealth Grants Commission in the 2012 Update was 0.92135 (Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities - 2012 Update*, February 2012, p.123).

Sources: Commonwealth Government, Budget Paper No.3, *2012-13 Australia's Federal Relations*, May 2012, p.123; Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities - 2012 Update*, February 2012, p.123

The relativity for 2011-12 was the lowest level seen by the State since 2007-08. This is reflected in the low point for that year in the general purpose grants line in Figure 3.8. The 2012-13 relativity is a significant increase. This accounts for part of the growth in general purpose grants. In addition, the GST pool as a whole is expected to grow from $45.6 billion for 2011-12 to $48.2 billion for 2012-13.[107]

101 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.24, 173

102 For example: '*The weaker economic outlook has impacted heavily on Victoria's taxes and GST revenue*' (Hon. K. Wells MP, Treasurer, 2012-13 budget estimates hearing, transcript of evidence, 4 May 2012, p.3)

103 For example: '*diminished GST revenue*' is cited as one of the challenges facing the Government (Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.4)

104 Most notably, the amount of general purpose grants forecast for 2012-13 in the 2010-11 Budget Update was $12.6 billion (Department of Treasury and Finance, *2010-11 Victorian Budget Update*, December 2010, p.44).

105 Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities - 2012 Update*, February 2012, p.123

106 Commonwealth Government, Budget Paper No.3, *2012-13 Australia's Federal Relations*, May 2012, pp.3, 123

107 ibid., p.125

The budget papers forecast that after a 6.3 per cent increase for 2012-13, general purpose grants will increase by about 5 per cent in both 2013-14 and 2014-15.[108] However, an increase of 7.0 per cent ($853.0 million) is forecast for 2015-16. There is no specific reason given for the large increase in growth rate forecast for the last year of the forward estimates period.[109]

FINDING: After two years of growth by around 5 per cent, the State Government expects general purpose grants to rise by 7.0 per cent in 2015-16. The budget papers do not give a reason for this sudden increase.

RECOMMENDATION 7: In future budget papers, the Department of Treasury and Finance provide explanations when significant variations for revenue components are predicted over the forward estimates period.

The Commonwealth Budget was presented shortly after the Victorian Budget. The Committee compared the Commonwealth's estimates for 'distribution of the GST entitlement pool' to the State's forecasts for general purpose grants (see Table 3.3). These figures differ considerably across the forward estimates period, varying by $562.2 million for 2015-16.

Table 3.3 Comparison of general purpose grant estimates,

	Distribution of the GST entitlement pool[(a)] ($ million)	General purpose grants[(b)] ($ million)	Difference ($ million)
2012-13	11,072.6	11,041.7	-30.9
2013-14	11,376.5	11,592.4	215.9
2014-15	11,811.7	12,144.3	332.6
2015-16	12,435.1	12,997.3	562.2

Sources:

(a) Commonwealth Government, Budget Paper No.3, *2012-13 Australia's Federal Relations*, May 2012, p.126

(b) Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.24, 173

The Victorian forecast for general purpose grants exceeds the Commonwealth's forecast by a total of $1.1 billion between 2012-13 and 2015-16. For 2013-14 and 2014-15, these differences amount to over a quarter of the expected operating surplus. If the State's forecasts for this funding turn out to be unrealistic, that would place significant pressure on the Government's ability to carry out its plans.

These budgets were prepared largely concurrently, and released one week apart. It is not clear to the Committee why these estimates differ. Possible reasons include that:

- the Commonwealth and State governments may use different methods of estimating and determining Victoria's share of the GST pool or the size of the total pool; and

108 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.24

109 The budget papers only note that '*GST revenue is growing at 5.6 per cent a year on average across the forward estimates, which is broadly consistent with historical growth rates*' (Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.40).

- the State Government may be anticipating large general purpose grants from sources other than GST revenue.[110]

If either of these possibilities has occurred, the Committee considers that this needs to be clearly detailed and explained. If there is a risk that the State's methodology for estimating this large portion of the State's revenue may not be best available, this must be identified and rectified as a matter of urgency.

The Committee has noted similar discrepancies between State and Commonwealth estimates for Commonwealth funding previously.[111]

FINDING: Forecasts for general purpose grants in the State budget papers are $1.1 billion higher over the forward estimates period than Commonwealth forecasts. These forecasts were prepared at nearly the same time.

RECOMMENDATION 8: The Department of Treasury and Finance and the Commonwealth explore ways of more effectively liaising with each other when preparing forecasts for general purpose grants.

RECOMMENDATION 9: If the Department of Treasury and Finance uses a different method for estimating future GST grants (such as predicting different relativities or different GST pool sizes) compared to the Commonwealth Government, the differences in these methods should be explained in the budget papers.

RECOMMENDATION 10: If the Department of Treasury and Finance is expecting large amounts of funding through general purpose grants from sources other than GST revenue, these sources should be detailed and quantified.

Grants for specific purposes

Grants for specific purposes are received from the Commonwealth through National Specific Purpose payments, National Partnership payments and National Health Reform payments.

110 As noted above, the State Government equates general purpose grants and GST revenue, although the Committee is aware of some minor differences. When looking at historic results for payments, the Committee observed that there are always some discrepancies between the Commonwealth's figure for 'distribution of the GST entitlement pool' and the State's 'general purpose grants'. These discrepancies are generally very small, although they reach $110.0 million in one year (Commonwealth Government, *2009-10 Final Budget Outcome*, 2010, p.80).

111 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, pp.206-7

Grants for specific purposes are expected to decrease in 2012-13 compared to 2011-12. This is mainly due to the lapsing of a series of Commonwealth stimulus grants.[112] Funding for a series of projects was also rescheduled from 2012-13 into 2011-12.[113] This resulted in an increase in grants in 2011-12 and a decrease in 2012-13.

Over the forward estimates period, the Government expects grants for specific purposes to grow, from $8.3 billion in 2012-13 to $9.3 billion in 2015-16.[114]

Specific purpose grants for on-passing

The Commonwealth also provides grants that the State Government passes on to other bodies, such as non-government schools and local government.

As can be seen in Figure 3.8, these grants are forecast to grow steadily over the forward estimates period.

3.4.2 State-sourced revenue

Components growing in line with the wider economy

The three largest State-sourced components of revenue are:[115]

- land transfer duty;
- taxes on employers' payroll and labour force; and
- sales of goods and services.

The Government has forecast that each of these will increase over the forward estimates period at a steady rate, in line with the growth of the general economic environment (see Figure 3.9). This is because these components of revenue are generally:

- largely beyond the control of the Government; or
- not significantly affected by any current revenue initiatives.

Revenue received through land transfer duty is largely determined by activity within the property market. This has been unstable in the past (as seen in Figure 3.9). Following a significant slowdown in 2011-12, the market is forecast to stabilise and recover steadily over the forward estimates period. The Government has released a revenue initiative that affects the amount of revenue from land transfer duty, shortening the period of time in which the duty is payable after the transaction.[116] The impact predicted was a one-off increase in 2011-12, which was less than 1.5 per cent of the revenue raised.

112 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.175-6

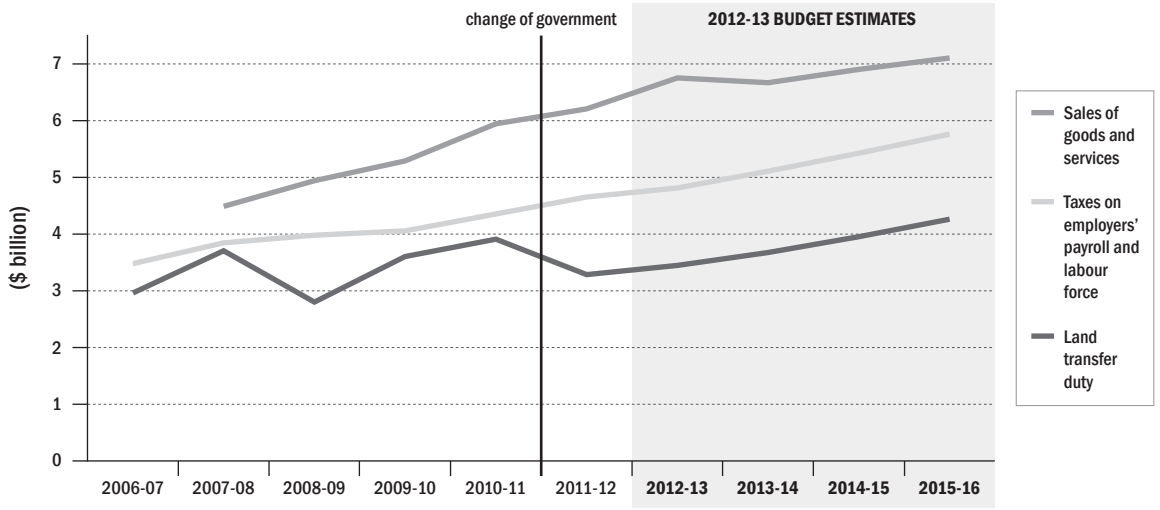
113 ibid., p.175

114 ibid., p.24

115 As components of revenue can be aggregated in different ways, this is more correctly put as the two largest components of the taxation revenue line item, and the sales of goods and services item in the comprehensive operating statement.

116 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.114-5

Figure 3.9 Revenue sources determined by economic factors, 2006-07 to 2015-16



Note: The 'sales of goods and services' subtotal was presented on a slightly different basis in 2006-07 compared to following years. The 2006-07 figure has therefore not been included in the graph above.

Sources: Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.5, 23, 164; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp.145, 148; Budget Paper No.4, *2010-11 Statement of Finances*, May 2010, pp.203, 206

Revenue raised by payroll tax is also determined largely by the general economic environment (in this case, employment levels). No changes to payroll tax rates have been announced as part of the 2012-13 Budget, and as such, the Government anticipates revenue to rise steadily over the forward estimates period.

The Government expects revenue from the sale of goods and services to grow at a relatively constant rate. However, for 2012-13, revenue from the provision of services is expected to increase by $459.1 million.[117] This is primarily due to the commencement of operations of the Victorian desalination plant. The water from the plant will firstly be purchased by the Department of Sustainability and Environment, which will then sell it to the Melbourne Water Corporation.[118] The income from this sale is included in the 'sales of goods and services' line in the financial statements. This income will be offset by expenditure on buying the water from the desalination plant.[119]

For 2013-14 the Government expects a slight decrease in the sales of goods and services.[120] This is primarily a decrease in revenue for the Department of Sustainability and Environment,[121] but no details of this have been provided.

117 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.171

118 According to advice received from the Treasurer, '*the financing of the Victorian desalination project with AquaSure Pty Ltd has been structured as a back-to-back finance lease arrangement between the government represented by the Department of Sustainability and Environment (DSE) in the general government sector, and Melbourne Water Corporation (MWC) in the Public Non-Financial Corporations sector*' (Hon. K. Wells MP, Treasurer, response to questions on notice, correspondence received 6 July 2012, Attachment 2, p.6). On 'commercial acceptance' of the desalination plant, a change in accounting treatment will occur. This will increase revenue from Melbourne Water flowing to the Department of Sustainability and Environment (Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.172).

119 Cf. Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.55

120 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.24

121 Department of Treasury and Finance, Disclosure of provision of services, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/OperatingStatementGG2012-13BU1May2012/$File/OperatingStatementGG2012-13BU1May2012.XLS>, accessed 17 May 2012

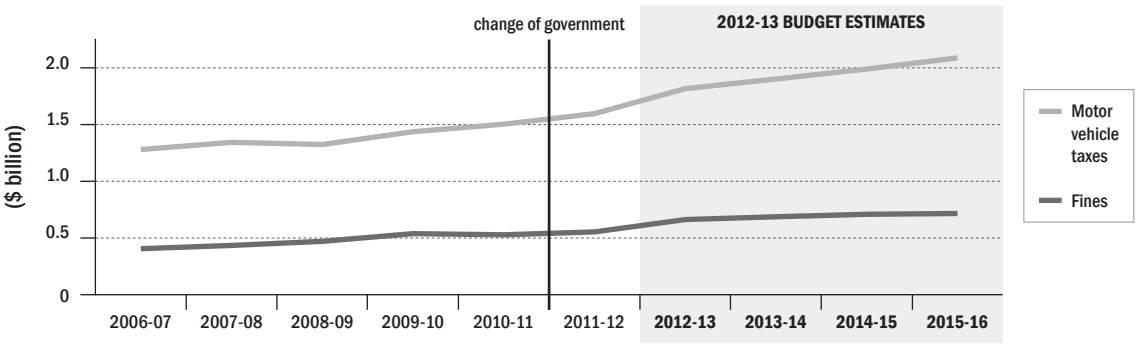
FINDING: The three largest State-sourced components of revenue are: payroll tax; land transfer duty; and sales of goods and services. The Government expects that, over the forward estimates period, these will grow approximately in line with the wider economy.

Components affected by revenue initiatives

Revenue initiatives are released in budgets (and budget updates) in order to change the amount of revenue received. The 2012-13 Budget included a number of initiatives designed to bring in an additional $805.7 million of revenue over the forward estimates period (see Section 3.5). The largest of the affected revenue streams are shown in Figure 3.10.

The revenue from motor vehicle taxes comes from vehicle registration fees and duty on vehicle registrations and transfers. This is mostly determined by the market for motor vehicles. However, the Government released a pair of revenue initiatives in the 2011-12 Budget Update that raised the registration fee and the duty on new passenger vehicles.[122] For 2012-13, the Government expects motor vehicle taxes to contribute $1.8 billion in revenue. This is a $220.8 million jump from 2011-12. Revenue from these sources is expected to increase to $2.1 billion in 2015-16.[123]

Figure 3.10 Largest revenue sources affected by initiatives, 2006-07 to 2015-16



Sources: Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.23, 164; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.148; Budget Paper No.4, *2010-11 Statement of Finances*, May 2010, p.206

Fines provide a revenue stream that is primarily affected by crime rates. Specific fines are expressed as penalty units in legislation. Each year, the penalty unit is adjusted for general price changes. According to the Treasurer, '*…indexation is important to maintain pace with expenditure. … That money is needed to protect the revenue base .*'[124]

The Government's 2012-13 Budget contains an initiative to increase the penalty unit value above the annual adjustment.[125] The Government expects to raise the level of revenue from fines from $553.6 million in 2011-12 to $662.5 million in 2012-13.[126] Following this, the

122 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.114-5

123 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.23

124 Hon. K. Wells MP, Treasurer, 2012-13 budget estimates hearing, transcript of evidence, 4 May 2012, p.14

125 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.79-80

126 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.172

smaller annual adjustments will continue the upward trend in fines revenue. The Government expects revenue from fines to increase to $715.9 in 2015-16.[127]

The 2012-13 Budget anticipates that fines will grow at a faster rate than had been estimated in the 2011-12 Budget.[128] In his budget estimates hearing, the Minister for Police and Emergency Services remarked that:[129]

> *That increase is mainly due to the increase in the value of the penalty units, CPI indexation and to various road safety initiatives. It is also the result of the turning back on of the fixed camera sites on the Western Ring Road following the roadworks, the recommissioning of the cameras on the Hume Freeway and an increase in the volume of infringements as enforcement methods improve.*

Other revenue initiatives have had smaller impacts on the amount of revenue. These include:

- an initiative extending the environmental contribution levy (applied to water authorities) for an additional four years from 2012-13;[130]
- the abolition of stamp duty exemption for grants of Crown land, closing a loophole for certain large commercial lease arrangements;[131]
- cost recovery for Working with Children Check applications for employees;[132] and
- a revenue foregone initiative for liquor control, which is expected to contribute a small decrease to revenue.[133]

FINDING: Initiatives announced in the 2012-13 Budget have increased the amount of revenue expected from a number of revenue components.

Other changes in revenue components

Figure 3.11 shows estimates for revenue from interest, dividends and assets received free of charge (or for nominal consideration).

Interest revenue arises from financial assets including cash and deposits held by the Government. A large (and sustained) increase in interest revenue is expected during 2012-13 as a result of the Victorian desalination plant.[134] This is a result of the back-to-back contractual arrangements, which mean that money for the desalination plant flows through the general government sector, even though the desalination plant is outside the general government sector. This revenue stream will be offset by an increased cost in finance lease interest payments.[135]

127 ibid., p.25

128 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.26; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.25

129 Hon. P. Ryan MP, Minister for Police and Emergency Services, 2012-13 budget estimates hearing, transcript of evidence, 10 May 2012, p.21

130 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.79

131 ibid.

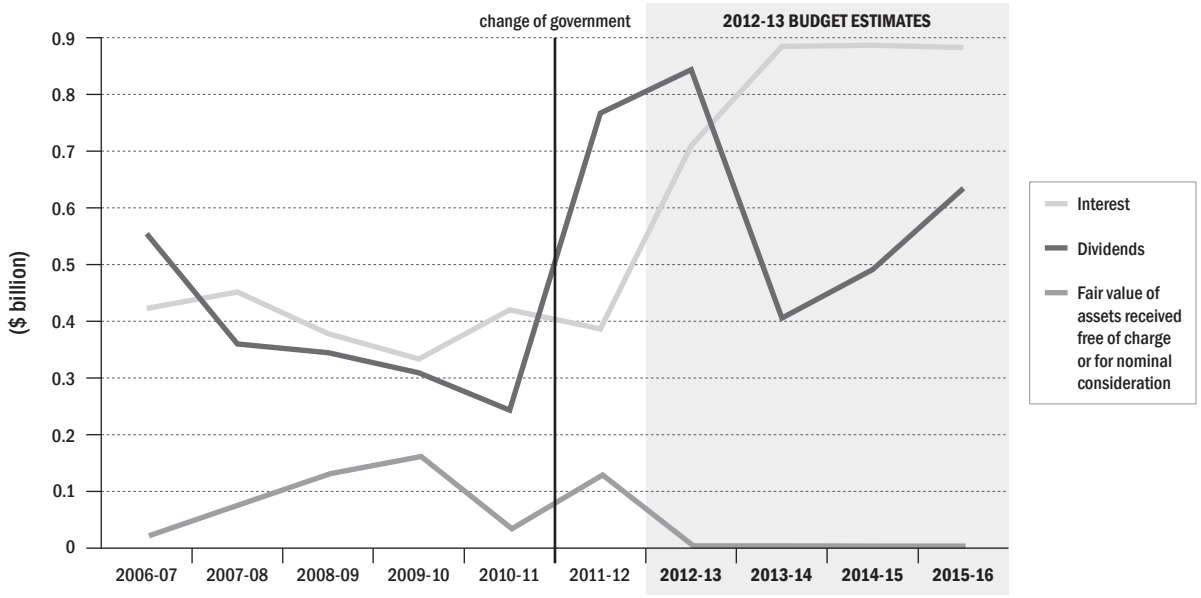
132 ibid., pp.79-80

133 ibid.

134 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.170

135 ibid.

Figure 3.11 Revenue sources affected by other changes, 2006-07 to 2015-16



Sources: Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.23-4, 164, 171; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011 pp.148, 157; Budget Paper No.5, *2010-11 Statement of Finances*, May 2010, pp.206, 215.

Dividends are received from time to time from a number of authorities in the public non-financial corporation sector, such as the State Electricity Commission of Victoria, various water authorities and the Transport Accident Commission. The level of dividends required are negotiated between the Department of Treasury and Finance and each government business enterprise (GBE). This negotiation is based on a number of factors including the entity's profit and retained earnings, working capital requirements, as well as individual circumstances.[136] Further:[137]

> *The Victorian Government budget position will also be considered in determining a GBE's dividend payment.*

The Committee notes the Government is expecting significantly higher dividend payments for 2011-12 and 2012-13 than for any other year over the period 2006-07 to 2015-16. The Committee also notes that in both of these years, the budget papers show that the amount of revenue received in dividends is greater than the operating surpluses.[138]

As can be seen in Figure 3.11, the revenue from dividends is the most variable of all components of revenue, with some annual fluctuations being over $500 million. A number of factors have combined to create this 'lumpiness':

- changing profitability of the authorities;
- changing dividend payout rates;
- changes to the group of authorities paying dividends; and
- the timing of dividend payments.

136 Department of Treasury and Finance, *Corporate Planning and Performance Reporting Requirements - Government Business Enterprises*, October 2009, pp.15-16

137 ibid.

138 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.171; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.38

Increased profitability in the water sector led to high dividends being paid by water authorities in 2011-12.[139] However, increased costs associated with the new desalination plant are expected to decrease profitability for some authorities from 2012-13.[140] The budget papers do not specify the effect that this lower profitability will have on dividends.

The Government increased the amount of revenue required from metropolitan water businesses and the Transport Accident Commission at the time of the 2011-12 Budget Update.[141]

The Government has also introduced a new policy to require dividends from the Victorian WorkCover Authority.[142] At the same time, the WorkCover Board has also recommended a 3 per cent reduction in the premium.[143] The WorkCover Authority has therefore experienced both a reduction in its potential revenue, and a new requirement to provide dividends to the Government. The effect of these premium reductions on the community has been widely discussed.[144] However, no discussion of the effect that these changes will have on the Victorian WorkCover Authority has been included in the budget papers.

FINDING: The Government has changed the amount of dividends required to be paid to it from a number of authorities. The effects these changes are expected to have on authorities are not discussed in the budget papers.

RECOMMENDATION 11: Future budget papers include a discussion of the effects that changes to dividend requirements are expected to have on contributing agencies.

Changes in the timing of dividend payments from agencies to the Government have also contributed to the 'lumpiness' of this revenue component. In particular, payments from the State Electricity Commission of Victoria have been 'rephased' on two occasions. According to the 2011-12 Budget Update:[145]

> *The increase in 2012-13 largely reflects the impact of a rephasing of the dividends associated with a reassessment of the SECV's projected cash flow that is assessed to be surplus to its operational requirements.*

139 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.171; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.38

140 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.171

141 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.23

142 ibid., p.114

143 Hon. G. Rich-Phillips MLC, Assistant Treasurer, 2012-13 budget estimates hearing, transcript of evidence, 18 May 2012, p.5

144 For example, '*There is no doubt that the WorkCover premium reduction will be of significant assistance to the wider community*' (Hon. T. Baillieu MP, Premier, 2012-13 budget estimates hearing, transcript of evidence, 4 May 2012, p.4).

145 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.23

In contrast, one of the factors identified in the 2012-13 Budget contributing to lower expected dividends for 2013-14 and 2014-15 was:[146]

> *… a rephasing of projected dividends from the State Electricity Commission of Victoria (SECV) consistent with a reassessment of the SECV's projected cash flow that is assessed to be surplus to its operational requirements.*

The Committee is unable to determine from the budget papers whether these 'rephasings' bring the payments from 2013-14 into 2012-13, or are some other rescheduling. The Committee is also unable to determine if the alteration has changed the total amount expected as well as the timing of the payments. This is because the discussion identifies when the payments are expected, but not when the dividends were expected before the rescheduling. Further, in neither case is an explanation provided for why the dividends were 'rephased'. Overall, the Committee considers there to be an inappropriate level of transparency regarding these charges.

FINDING: Dividend payments from agencies have been rescheduled from one year to another, significantly affecting the amount of revenue from dividends. The budget papers do not identify the periods from which dividends are rescheduled, or the reasons for changing the schedule of payments.

RECOMMENDATION 12: The Department of Treasury and Finance include a disaggregation of dividends revenue showing, for each year:

(a) which authorities contribute dividend payments for the year;

(b) the period the dividend payment relates to; and

(c) reasons for any alteration to dividend payments or schedules.

Finally, the Committee notes that the 'fair value of assets received free of charge or for nominal consideration' component has fluctuated considerably since 2006-07. Assets worth $129.0 million were expected to be received free of charge in the last quarter of 2011-12.[147] Estimates for this component over the forward estimates period, however, are less than $1.5 million.[148]

The Committee approached the Treasurer for an explanation of the increase in 2011-12. The Treasurer responded that:[149]

> *This increase is partly attributable to the centralisation of insurance arrangements with the Victorian Managed Insurance Authority (VMIA). $103 million of non-centralised insurance liabilities were transferred from the Department of Health to the VMIA in 2011-12. This resulted in a one-off revenue ($103 million) being included in the General Government (GG) sector's net result from transactions in the period that the liabilities are transferred to the VMIA.*

146 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.44

147 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.235

148 ibid., p.25

149 Hon. K. Wells MP, Treasurer, response to a question on notice, correspondence received 6 July 2012, Attachment 1, p.1

The Committee notes that this has historically been a highly variable item (see Figure 3.11).

3.5 Revenue and revenue foregone initiatives

Revenue initiatives are policy alterations that are made by the Government that increase the amount of revenue received. Revenue foregone initiatives are policy alterations that reduce the amount of revenue. Revenue and revenue foregone initiatives are released as part of the annual budget, and also as part of budget updates.

The budget papers do not discuss how the revenue initiatives released since the Government came to office have fit into the overall budget strategy. However, as noted in Section 3.3.2, they have raised the growth rate of revenue, which is compatible with the strategy of keeping revenue growth greater than the growth of output expenditure.

Revenue initiatives worth $805.7 million (over five years) and revenue forgone initiatives worth $4.8 million (over five years) were released as part of the 2012-13 Budget.[150] These are on top of revenue initiatives totalling $1.2 billion (over five years) that were released in the 2011-12 Budget Update.[151]

Figure 3.12 compares revenue and revenue foregone initiatives since the 2006-07 Budget. The figure shows that revenue initiatives over the 57th Parliament have been significantly larger than those released previously.

These revenue increases were partly offset by $0.8 billion of revenue foregone initiatives which were released in the 2011-12 Budget.[152] These were driven by election commitments.

The revenue initiatives and revenue foregone initiatives affect different components of revenue. The overall effect of the initiatives is therefore to slightly shift where Victoria's revenue comes from.

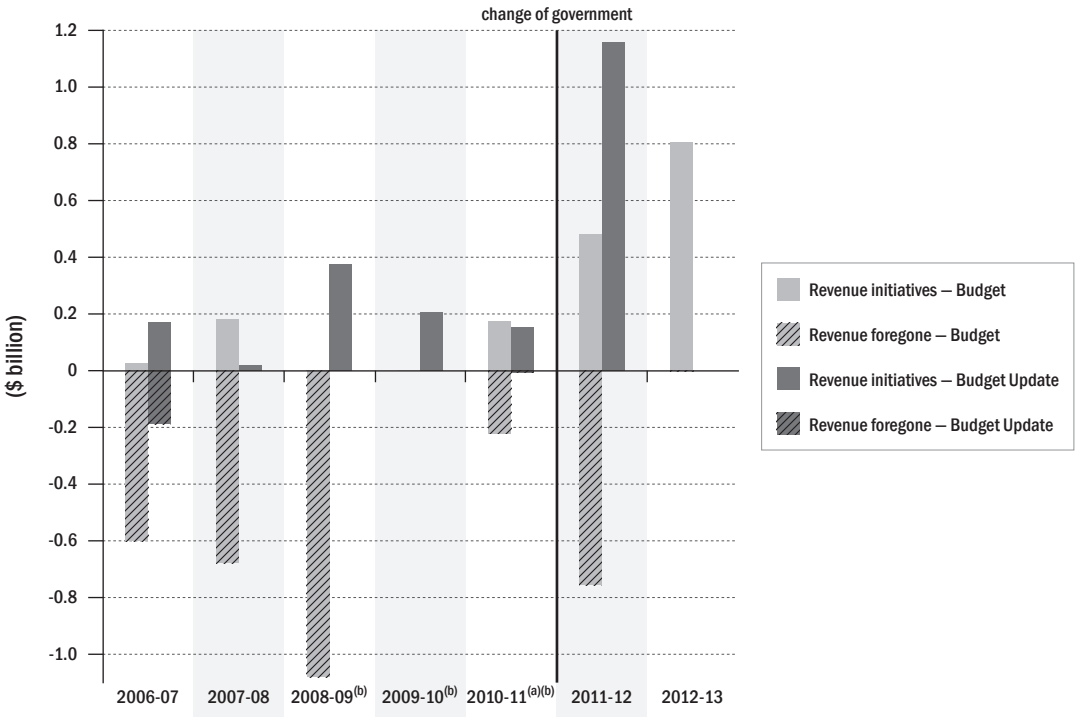
FINDING: Revenue initiatives worth $2.0 billion (over five years) have been released since the 2011-12 Budget. These support the Government's strategy of increasing revenue growth faster than operating costs in order to increase the operating surplus.

150 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.79. While initiatives last in perpetuity, for the purposes of this discussion they are aggregated only over the four-year forward estimates period, and the prior year (where applicable).

151 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.114

152 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.91

Figure 3.12 Revenue and revenue foregone initiatives (five-year totals), 2006-07 to 2012-13 Budgets



(a) The Budget Update initiatives for this year are from the Pre-Election Budget Update rather than the 2010-11 Budget Update.

(b) Initiatives included in prior years' budget updates have been removed from the totals given in Budget Paper No.3 for 2006-07 to 2010-11 to avoid double counting.

Sources: Budget Paper No.3, 2006-07 to 2012-13; Victorian Budget Update 2005-06 to 2011-12; Department of Treasury and Finance, *2010-11 Pre-Election Budget Update*, November 2010

3.5.1 Enhanced compliance

An initiative to improve compliance for payment of State tax has been included in the 2012-13 Budget. This *Enhanced Revenue Compliance* initiative is expected to increase revenue by $42.9 million over the next four years.[153] This will refocus existing State Revenue Office staff to monitoring and enforcement activities.

This follows a similar *Enhanced Tax Compliance* initiative included in the 2011-12 Budget.[154] Unlike the 2012-13 initiative, which refocused existing staff, the 2011-12 initiative created '*50 additional Investigator/Compliance positions*'.[155]

153 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.79. The Committee notes that this initiative increases output costs by $5.4 million (Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.76).

154 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.148

155 Department of Treasury and Finance, response to the Committee's 2012-13 budget estimates questionnaire, received 3 May 2012, p.32

According to the Treasurer:[156]

> *Protecting our revenue base is very important. We have made a conscious decision in last year's budget and again in this year's budget to improve that by putting more dollars into the SRO* [State Revenue Office]. *That will mean more people will be in the units of compliance.*

The total impact of the two initiatives is expected to be in excess of $75 million in revenue each year from 2012-13.[157]

3.5.2 Revenue foregone initiatives

There has been only one explicit revenue foregone initiative since the 2011-12 Budget. This is the *Liquor Control Reform* initiative, that is expected to result in revenue falling by $4.8 million over five years.[158]

The Committee has recommended in the past that revenue foregone initiatives be separated from revenue initiatives in budget papers.[159] The Government's response was that the '*Department of Treasury and Finance supports classifying revenue forgone to the Government in future budget papers.*'[160] The Committee notes that so far this has not occurred.

3.5.3 Other revenue initiatives

There have been two changes in policy that have affected revenue items in the 2012-13 Budget but have not been discussed as revenue initiatives:

- a 3 per cent decrease in the WorkCover premium; and
- a new $75 million port licence fee.

The Committee notes that in past budget papers, when changes in the WorkCover premium rate have been discussed, these changes have not constituted a revenue (or revenue foregone) initiative.[161] Adjustments to payroll tax rates, however, have been discussed as revenue initiatives.[162]

The port licence fee is payable by the Port of Melbourne Corporation. This is an annually indexed payment,[163] starting with $75 million in 2012-13.[164] The port licence fee is not discussed as an initiative in Budget Paper No.3 (or in the 2011-12 Budget Update), although it is expected to raise new revenue.

156 Hon. K. Wells MP, Treasurer, 2012-13 budget estimates hearing, transcript of evidence, 4 May 2012, p.6

157 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.148; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.79

158 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.79-80

159 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 49, p.142

160 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.26

161 For example: Budget Paper No.3, *2010-11 Service Delivery*, May 2010, p.10

162 Budget Paper No.3, *2010-11 Service Delivery*, May 2010, p.360

163 *Port Management Act 1995*, Sections 44I and 44J

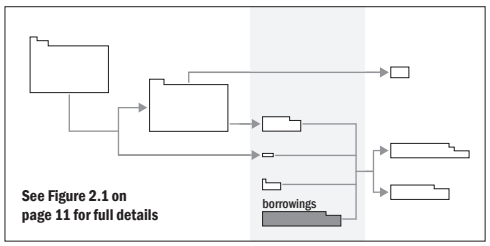
164 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.164

FINDING: Changes in government policy have been introduced in the 2012-13 Budget or the 2011-12 Budget Update that affect revenue. However, these changes have not been discussed as revenue (or revenue foregone) initiatives in the budget papers.

RECOMMENDATION 13: The Department of Treasury and Finance clarify under which circumstances a change in policy that affects revenue estimates is discussed as a revenue (or revenue foregone) initiative.

RECOMMENDATION 14: In the section of Budget Paper No.3 that lists revenue initiatives, the Department of Treasury and Finance include cross-references to any initiatives not listed in that Section that have an impact on revenue.

3.6 Net debt and borrowings



As noted in Sections 2.6.1 and 2.6.3, when the level of asset investment exceeds the funding available from revenue and other sources, borrowings are required. The full value of principal payments required for projects delivered through public private partnerships is also included in borrowings by the Government. These borrowings are the main components of the Government's liabilities.

Borrowings attract interest costs, and therefore the amount of borrowing is important. By 2015-16, the Government estimates that interest expenses associated with borrowings will have risen to $2.3 billion per year, or approximately 4.4 per cent of output expenditure.[165] Should more turbulence be experienced in global financial markets, interest expense may rise.

3.6.1 The Government's strategy to reduce net debt

The Government's medium-term fiscal strategy has been discussed in Section 2.4.2 of this report. One of the strategy's targets is that general government net debt will be reduced as a percentage of gross state product over the decade to 2022.

Net debt is defined in the budget papers as:[166]

> *The sum of borrowings and deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.*

165 ibid., p.5

166 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.51

Because 'deposits held and advances received' is small in relation to borrowings (only around 1 per cent[167]), net debt can be seen as the Government's borrowings less its liquid assets.

The Committee notes that it will not be possible to fully evaluate the Government's target until 2022. Without shorter-term interim targets, the Government cannot demonstrate concrete progress towards this target in the life of the 57th Parliament. In fact, it will not be possible to fully assess this target until the end of the 59th Parliament.

The Committee has discussed the need for reporting on the progress towards these targets each year in Section 2.4.2 of this report.

FINDING: The Government's target for net debt is to reduce net debt as a share of gross state product by 2022. This target can be partly but not fully evaluated during the 57th Parliament.

RECOMMENDATION 15: The Government produce interim targets for net debt, which will assist in monitoring progress over time.

The Government's plans for net debt

Figure 3.13 shows the Government's estimates for financial liabilities (that is, primarily borrowings) and net debt over the forward estimates period, and compares this to the trends since 2006-07.

The 2012-13 Budget forecasts that net debt (as a share of GSP) will peak at 6.5 per cent in 2013-14, before declining for the rest of the forward estimates period. This is consistent with the Government's target.

Despite net debt falling as a share of GSP, the Government expects net debt in dollar terms to rise to 2014-15, before reducing marginally in 2015-16. The reduction in the last year, however, is a result of an anticipated increase in the value of financial assets (mostly cash and deposits), rather than a reduction in financial liabilities.[168] The Government forecasts that financial liabilities will increase throughout the forward estimates period (see Figure 3.13).[169]

The Department of Treasury and Finance advised the Committee that '*there are no specific plans to reduce net debt in nominal dollar terms.*'[170] Further, '*the Government has no specific policy on the reduction of the General Government sector's total liabilities over time*.'[171]

167 ibid.

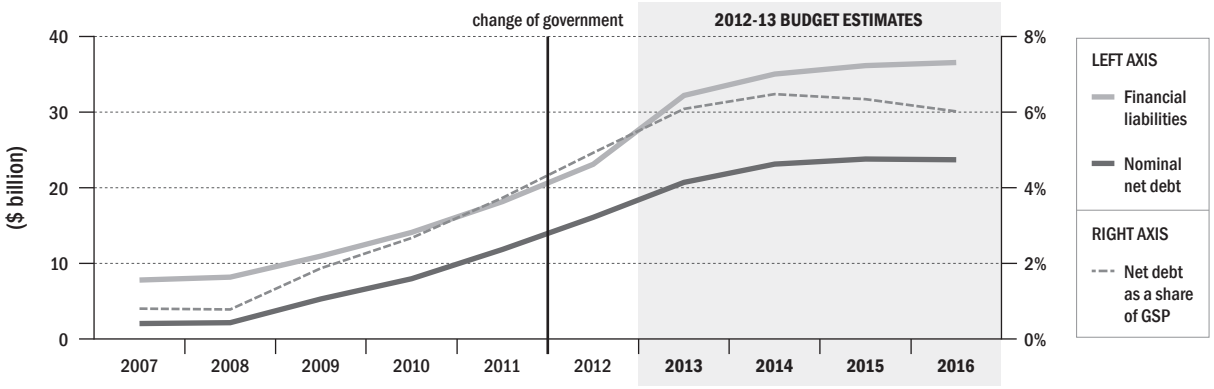
168 ibid.

169 ibid.

170 Department of Treasury and Finance, response to the Committee's 2012-13 budget estimates questionnaire, received 3 May 2012, p.26

171 ibid., p.27

Figure 3.13 Financial liabilities and net debt, 2007 to 2016



Note: All values are as at 30 June for each year. 'Financial liabilities' are the sum of 'deposits held and advances received' plus 'borrowings'.

Sources: Department of Treasury and Finance, 'Macroeconomic Indicators 2012-13' data set, <www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BU1May2012/$File/Macroeconomicindicators2012-13BU1May2012.xlsx>, accessed 2 July 2012; Department of Treasury and Finance, 'Consolidated Balance Sheet 2012-13' data set, <www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/BalanceSheetGG2012-13BU1May2012/$File/BalanceSheetGG2012-13BU1May2012.XLS>, accessed 16 July 2012

As can be seen from Figure 3.13, net debt as a proportion of GSP can decrease in years where the amount of net debt increases, as long as GSP grows at a higher rate. The Committee considers that Parliamentarians and the wider community are more likely to be interested in the level of debt, rather than its share of GSP. If debt increases, the amount of repayments required will increase and interest payments will increase, regardless of whether debt becomes a larger or smaller proportion of GSP.

FINDING: Net debt as a share of GSP is forecast to decline in 2014-15 and 2015-16. This is consistent with the Government's medium-term fiscal strategy. However, net debt in dollar terms will increase in 2014-15. The total value of the Government's liabilities (primarily borrowings) will increase in both years.

CHAPTER 4 OUTPUT EXPENDITURE

4.1 Introduction

The Government divides its expenditure into two main categories:

- output expenditure, which is primarily[172] the delivery of goods and services (outputs); and
- asset investment, which covers expenditure on infrastructure (such as roads and hospitals) and other physical assets (such as computers).[173]

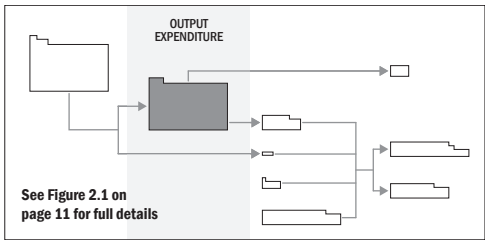
This chapter looks at the Government's strategy for output expenditure in 2012-13 and the forward estimates to 2015-16. It will do this through answering a series of questions:

- What are the Government's plans for output expenditure? (Section 4.2)
- How much has the Government budgeted for output expenditure between 2012-13 and 2015-16? How does that compare to the Government's plans? (Section 4.3)
- What does this level of expenditure mean for Victoria? (Section 4.4)
- What new initiatives have been announced in 2012-13? (Section 4.5)
- What savings targets are expected to be achieved over the forward estimates? How well informed are we about those targets? (Section 4.6)
- What are we told about funding that has been 'reprioritised' from existing programs to new programs? (Section 4.7)
- What goods and services will be delivered with the output funding? (Section 4.8)

Asset investment is discussed in Chapter 6.

4.1.1 Initiative funding and base funding

The Government expects to spend $48.2 billion on outputs in 2012-13.[174] Most of this money is passed to departments. They either deliver the outputs themselves or pass the money to agencies (such as hospitals or the Police) who deliver the outputs on their behalf.



The money provided to each department for output expenditure consists of:

- funding for specific programs or projects (called 'initiatives') that generally only last for a limited period; and
- 'base funding', which is provided for goods and services that are delivered every year (such as teaching in schools, support for people with disabilities and the legal system).

172 As discussed in Section 2.2 of this report, portions of output expenditure also go to public private partnerships (see Section 6.6.3) and to 'depreciation and similar', which fund asset investment (see Section 6.4).

173 Excluding projects delivered through public private partnerships (see Section 6.6.3).

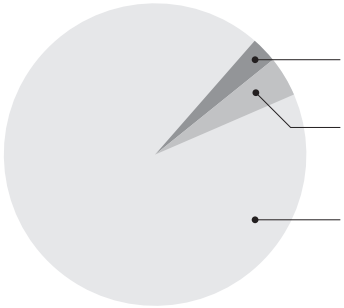
174 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.5

The budget papers detail the new initiatives announced each year.[175] These details include the amount of funding provided and how long the funding will be supplied for (usually between one and five years). In some cases, funding is ongoing (that is, funding is provided indefinitely).

Adjustments may also be made to the level of base funding with each budget. These adjustments are based on factors such as variations in Government policy and changes to the cost of delivering the outputs.[176] Neither the amount of base funding nor the adjustments are generally detailed in the budget papers.[177]

In 2012-13, 93 per cent of departments' output funding was from base funding or ongoing initiatives released in previous budgets (see Figure 4.1). The initiatives announced in the 2012-13 Budget account for only 3 per cent of output expenditure in 2012-13.

Figure 4.1 Sources of Government funding for output expenditure, 2012-13



	($ million)	(%)
Funding for initiatives released in the 2012-13 Budget	1,191.9	3
Funding for non-ongoing initiatives released in previous budgets	1,845.2	4
Base funding/ongoing initiatives	39,999.4	93
TOTAL	43,036.4	100

Note: The total funding described in Figure 4.1 is less than the total expenditure for the general government sector, as Figure 4.1 has been constructed from departmental data. Certain expenses in the general government sector are not allocated to departments and departments' reporting standards differ from those of the general government sector as a whole (see Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, pp.177-8 for further information). Departments also detailed some limitations to the data in their questionnaire responses.

Source: Departmental responses to the Committee's 2012-13 Budget Estimate Questionnaire

The Committee previously recommended that a break-down similar to Figure 4.1 be included in the budget papers.[178] The Government's response did not support this recommendation, based on the difficulty of identifying changes to initiatives announced in previous budgets.[179] However, the Committee notes that base funding is the main component of output expenditure. For the sake of transparency, therefore, the Committee considers that the amount of base funding or ongoing funding for each department should be disclosed in the budget papers, and explanations should be given for any significant variances between one year and the next.

175 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

176 Department of Treasury and Finance, *Budget and Financial Management Guidances*, 'BFMG-06 Departmental Funding Model – Output Pricing', October 2007, pp.133-6

177 The exception to this is where changes to base funding occur through new ongoing initiatives. However, even for these initiatives, only four years of funding is quantified and this information is only supplied once. The amount of funding for these initiatives may be adjusted in future years without any disclosure of this fact (see Section 4.7 of this report).

178 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 13, p.61

179 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.9

FINDING: Approximately 93 per cent of departments' output funding is base funding or ongoing funding. This funds the goods and services that are delivered every year. However, departments' base funding is not quantified in the budget papers and changes to base funding are not generally detailed or explained.

RECOMMENDATION 16: Future budget papers detail each department's base funding, explaining any significant variances in the amount of base funding from one year to the next.

4.2 Government plans for output expenditure

Each year, a number of factors can cause the total output expenditure to increase. These factors may include:

- increases to the costs of delivering services (e.g. due to wage and price rises);
- increased demand for services (e.g. larger numbers of people needing health or aged care services); and
- Government decisions to provide new or additional services.

As a result of factors such as these, expenditure growth has increased every year since 1998-99, though by varying amounts.[180]

In both the 2011-12 and 2012-13 Budgets, the Government indicated that it intends to restrain the amount by which expenditure will grow.[181] The Government has not set any specific maximum limit for growth. However, the Government has indicated that it intends to grow the operating surplus over the forward estimates.[182] To do this, it will be necessary for output expenditure to grow by less each year than revenue.

Consistent with this intention, the 2012-13 Budget estimates that expenditure growth will be less than revenue growth between 2012-13 and 2015-16. As a result, the operating surplus is expected to grow from $154.9 million in 2012-13 to $2,527.8 million in 2015-16 (see Section 4.3.3).[183]

This will be partially achieved though initiatives to increase the amount of revenue (see Chapter 3). It will also be achieved by measures to offset the growth in expenditure which will result from increased costs, increased demand and additional services (see below).

180 Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-financial-statements>, accessed 13 June 2012

181 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.25; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.4

182 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.6; Hon. K. Wells MP, Treasurer, 2012-13 budget estimates hearing, transcript of evidence, 4 May 2012, pp.10-11, 17

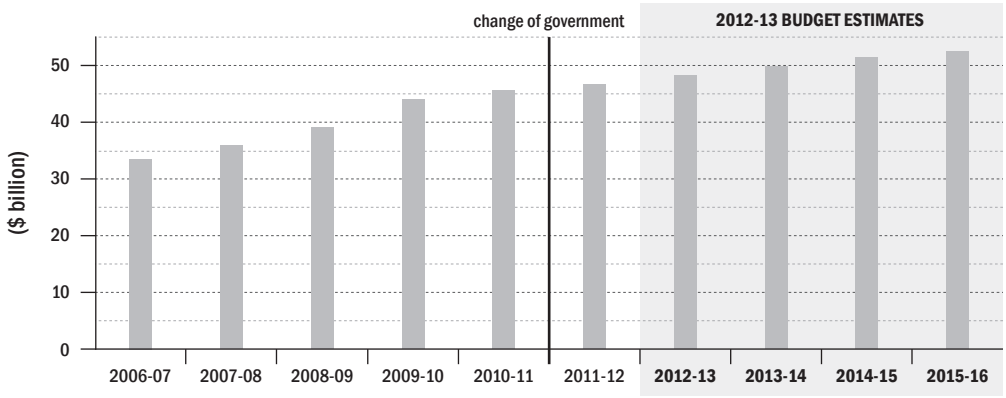
183 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.5

4.3 Output expenditure over the forward estimates

4.3.1 The trend in output expenditure

The Government's total output expenditure between 2006-07 and 2015-16 can be seen in Figure 4.2. The total output expenditure has increased every year since 2006-07 and is expected to continue increasing through to 2015-16.

Figure 4.2 Output expenditure, 2006-07 to 2015-16



Source: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-financial-statements>, accessed 13 June 2012

Although the total expenditure is expected to increase each year, the annual growth rate is not expected to be as large in future years as it was previously (see Table 4.1).

Table 4.1 Output expenditure, 2006-07 to 2015-16

	2006-07 actual	2007-08 actual	2008-09 actual	2009-10 actual	2010-11 actual	2011-12 revised estimate	2012-13 Budget	2013-14 estimate	2014-15 estimate	2015-16 estimate
Total expenditure ($ billion)	33.6	35.7	39.0	43.9	45.5	46.7	48.2	49.6	51.3	52.5
Growth from previous year (per cent)	7.7	6.4	9.4	12.6	3.6	2.7	3.1	2.9	3.4	2.3

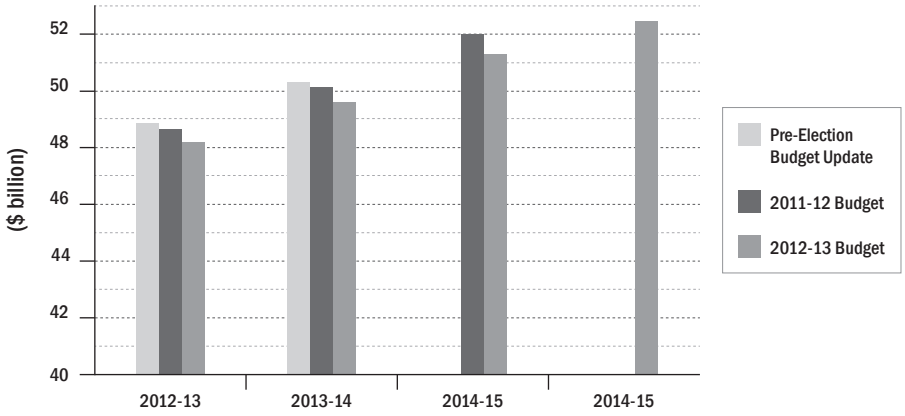
Source: 'Total expenditure' based on Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-financial-statements>, accessed 13 June 2012

FINDING: Output expenditure is expected to increase each year between 2012-13 and 2015-16. However, the growth rate is expected to be less than it was in previous years.

4.3.2 Comparison to previous plans

The Government's plan in the 2012-13 Budget is for lower levels of output expenditure than had been planned in previous budgets. Figure 4.3 compares the forward estimates made in the 2010-11 Pre-Election Budget Update (which was made at the end of the 56th Parliament immediately before the change of Government) with the estimates made in the 2011-12 Budget and 2012-13 Budget.

Figure 4.3 Expenditure across the forward estimates period, 2012-13 Budget compared to previous budgets



Sources: Department of Treasury and Finance, *Victorian 2010-11 Pre-Election Budget Update*, November 2010, p.30; Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.26; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.38

Additional expenditure in a variety of areas has been announced since the 2010-11 Pre-Election Budget Update. However, the total amount of expenditure has gone down, because the additional expenditure has been offset by:[184]

- savings initiatives;
- 'reprioritisation and adjustment' of funding previously allocated to departments;
- the release of contingency funds (that is, money put aside in the Budget for expenditure without being allocated to specific programs); and
- other administrative variations (such as superannuation-related expenses, changes to the timing of projects and changes to expenditure on demand-based services[185]).

Table 4.2 provides a break-down of how the Government has achieved the reduction in total expenditure for 2012-13 compared to the estimates in the 2010-11 Pre-Election Budget Update.

The Table shows that large amounts of savings initiatives and reprioritisations have been released in the 2011-12 Budget and Budget Update and the 2012-13 Budget. As shown in Section 4.6.1 of this report, the savings initiatives released since the change of Government are significantly greater than in earlier years. Section 4.7 discusses reprioritised funding further.

184 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, pp.30, 48, 51-2: Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, pp.22, 24-6; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, pp.42, 45-7

185 Demand-based services are those where the quantity of services delivered is determined by the number of people requiring the services (e.g. schools or emergency medical care).

Table 4.2 Changes to expenditure estimates as a result of the 2011-12 Budget, 2011-12 Budget Update and 2012-13 Budget[a]

Change	2012-13 ($ million)	2013-14 ($ million)	2014-15 ($ million)
Estimated expenditure, 2010-11 Pre-Election Budget Update	48,855.2	50,310.2	n/a
ADD			
New initiatives	2,901.0	2,723.1	2,858.3
Other additional expenses[b]	444.3	465.1	361.0
Other policy decision variations[c]	9.2	34.4	61.8
LESS			
Savings	-1,157.2	-1,447.2-	-1,747.5
Reprioritisation and adjustments	-528.8	-267.8	-187.2
Release of contingencies[d]	-1,785.1	-1,789.9	-2,046.9
Other administrative variations[d]	-1,157.2	-1,447.2	-1,747.5
RESULT			
Net impact[e]	**-653.4**	**-712.6**	**-846.7**
Estimated expenditure, 2012-13 Budget	**48,201.8**	**49,597.6**	**51,308.4**

(a) Figures are aggregates of the 2011-12 Budget, the 2011-12 Budget Update and the 2012-13 Budget.

(b) Includes items such as the passing on of Commonwealth grants and expenses associated with additional services for which the State receives revenue (e.g. health services).

(c) Represents the difference in the 2011-12 Budget Update between: the net of new initiatives and savings measures (Appendix A); and the total expense 'policy decision variations' (p.22). The nature of this expense is not explained.

(d) The total for these two items is derived from the budget papers, but the break-down has been calculated by the Committee's Secretariat and may be approximate.

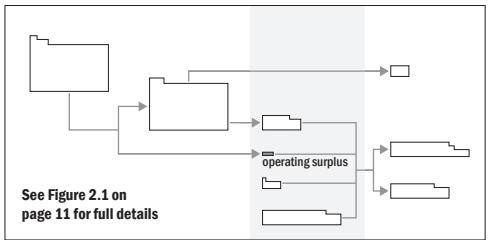
(e) These figures vary marginally from the sum of the above due to rounding.

Sources: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011; Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012

FINDING: The Government has reduced the forecast level of expenditure in 2012-13, 2013-14 and 2014-15 compared to previous estimates.

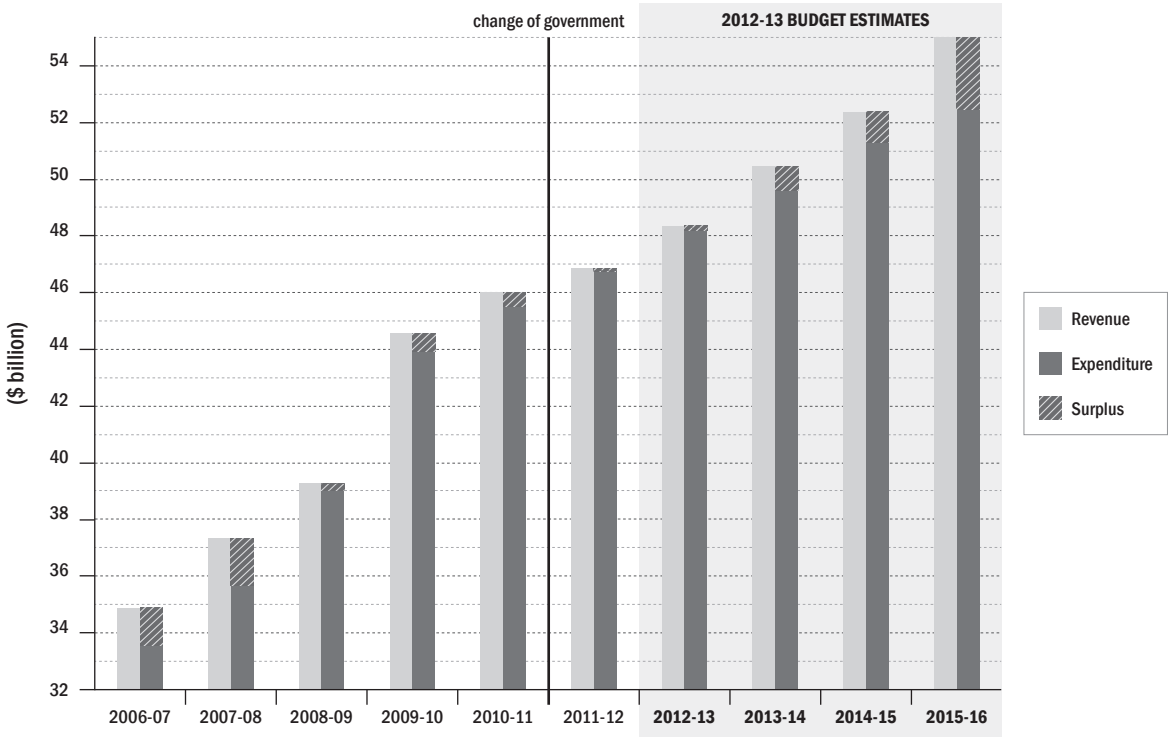
4.3.3 Operating surplus

As noted above, it is not the growth in expenditure by itself that matters, but how the growth in expenditure compares to the growth in revenue (see Section 4.2). The difference between the revenue and the expenditure is the operating surplus.



Between 2012-13 and 2015-16, the Government plans to grow output expenditure by significantly less than revenue will grow. This is expected to increase the operating surplus from $154.9 million in 2012-13 to $2,527.8 million in 2015-16 (see Figure 4.4).

Figure 4.4 Growth in revenue and output expenditure compared, 2006-07 to 2015-16



Source: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-financial-statements>, accessed 13 June 2012

At the budget estimates hearings, the Treasurer explained the purpose of this strategy to increase the surplus:[186]

> *We have said that building up a surplus is very important. It is about living within our means and it is being able to deliver those surpluses across the forward estimates to be able to protect us from future revenue shocks. It is about delivering front-line services. It is about building infrastructure.*

As further discussed in Section 6.4 of this report, the larger operating surplus is expected to fund asset investment with less reliance on debt.

4.4 Understanding the level of expenditure

The Committee has used two indicators to better understand the Government's output expenditure. These indicators provide context to the amount of expenditure by comparing it to the gross state product and population growth.

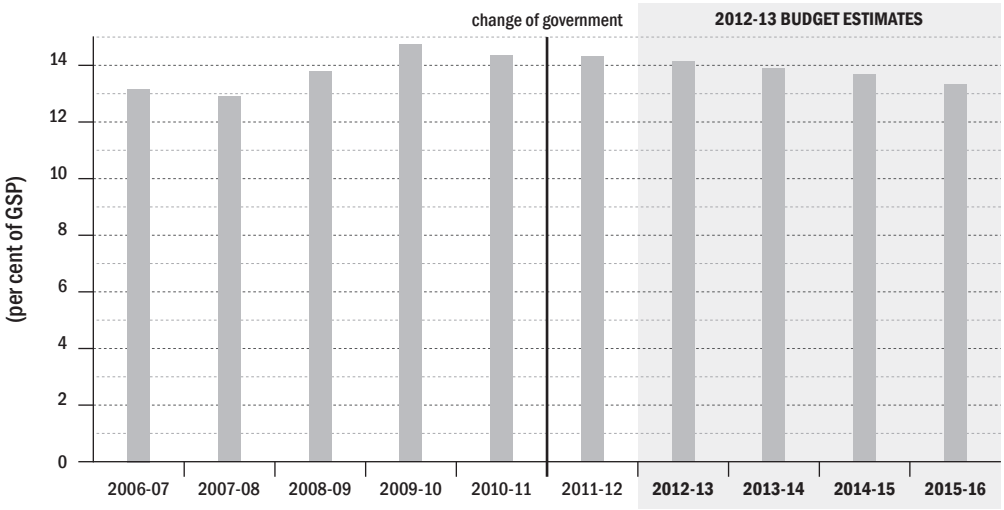
4.4.1 Output expenditure and gross state product

Gross state product (GSP) is a measure of the total value of goods and services produced in Victoria in a year. Goods and services produced by the Government (that is, outputs) are included within GSP. By looking at the Government's expenditure on outputs as a proportion

186 Hon. K. Wells MP, Treasurer, 2012-13 budget estimates hearing, transcript of evidence, 4 May 2012, p.17

of GSP (Figure 4.5), it is possible to see how the growth in government services compares to the overall growth in Victoria's economy.

Figure 4.5 Output expenditure as a proportion of GSP, 2006-07 to 2015-16



Sources: Calculated by the Committee's Secretariat based on: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-financial-statements>, accessed 13 June 2012; Department of Treasury and Finance, 'Macroeconomic Indicators 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-macroeconomic-indicators>, accessed 13 June 2012

This figure shows that the Government's output expenditure as a share of GSP is expected to decrease in the years to 2015-16. That is, the Victorian economy as a whole is predicted to grow at a faster rate than the Government's expenditure on outputs.

This is part of a trend of decline since 2009-10. In 2009-10, expenditure was a particularly large proportion of GSP because of the Global Financial Crisis. During the Crisis, GSP growth slowed and Government expenditure increased. As a result of these two factors, expenditure as a proportion of GSP increased significantly in 2009-10.

The proportion of GSP in 2015-16 is more in line with proportions prior to 2009-10, as can be seen in Figure 4.5. Looking back further, expenditure averaged 13.2 per cent of GSP in the five years prior to 2009-10. Expenditure in 2015-16 is expected to be 13.3 per cent of GSP.[187]

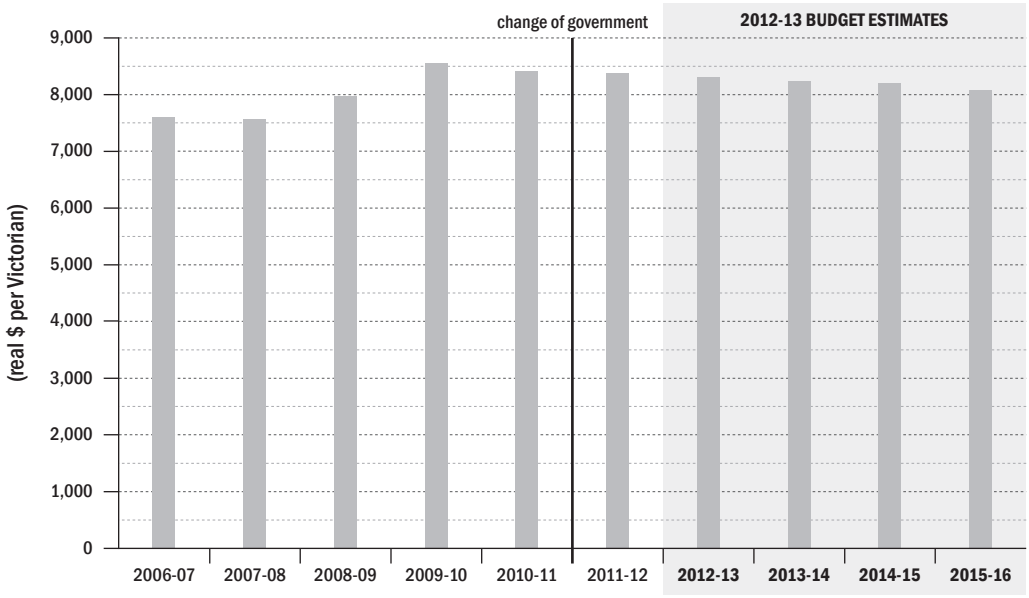
FINDING: The Government's expenditure on outputs will decrease as a proportion of gross state product between 2012-13 and 2015-16. This decrease returns the level of expenditure to the levels seen before the Global Financial Crisis.

187 Calculated by the Committee's Secretariat based on Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-financial-statements> and 'Macroeconomic Indicators 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-macroeconomic-indicators>, accessed 13 June 2012

4.4.2 Output expenditure per Victorian

The Committee's second indicator looks at the output expenditure per Victorian. The amount of expenditure has been adjusted for price changes, so that amounts are provided equivalent to their buying power in 2012-13 (that is, amounts are provided 'in real terms'). This analysis indicates whether or not expenditure is growing or reducing compared to the size of the population and the cost of delivering services. The results can be seen in Figure 4.6.

Figure 4.6 Output expenditure per Victorian in real terms, 2006-07 to 2015-16



Note: Real output expenditure is calculated using the price deflator implicit in the Department of Treasury and Finance's calculation of real and nominal GSP.

Sources: Calculated by the Committee's Secretariat based on: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-financial-statements>, accessed 13 June 2012; Department of Treasury and Finance, 'Macroeconomic Indicators 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-macroeconomic-indicators>, accessed 13 June 2012

This indicator shows a very similar pattern to expenditure as a proportion of GSP. Expenditure per Victorian is expected to decline in real terms over the forward estimates. As with expenditure as a proportion of GSP, expenditure per Victorian peaked in 2009-10 following the Global Financial Crisis and has been slowly declining since then. The estimate for 2015-16 is for expenditure to return to a similar level to what was seen before 2009-10.

FINDING: The amount that the Government is planning to spend per Victorian (in real terms) is expected to decline in future years. As with expenditure as a proportion of gross state product, this decline returns the level of expenditure to a level similar to what was seen before the Global Financial Crisis.

4.4.3 Conclusion – increasing efficiency

As discussed in Section 4.3.1, the amount of money that the Government plans to spend delivering outputs is expected to increase each year between 2012-13 and 2015-16. This follows a trend of increase each year which has continued since 1998-99.[188]

However, the Committee's analysis shows that output expenditure is decreasing as a proportion of GSP. Similarly, the average amount of expenditure per Victorian is decreasing when adjusted for price changes. Both indicators show a return to the levels of expenditure which were typical before the Global Financial Crisis, but show a reduction compared to recent years.

Despite these reductions, the Government's economic reform strategy (see Section 2.4.2 of this report) is designed to deliver '*higher quality public services*' and '*provide better services for Victorians*'.[189] The Government has also stated that the 2012-13 Budget gives priority, among other things, to '*keeping pace with a growing population*.'[190]

To improve services and cater to a larger population while reducing costs requires increased efficiencies. The Government has acknowledged this, identifying '*improving efficiency across government*' as one of this budget's priorities.[191] The Government has also stated that it is:[192]

> *… acting to ensure public sector services are planned, governed, commissioned and delivered more efficiently.*

The Government has described at a high level its overall strategies to increase efficiency. The Government has indicated that the 2012-13 Budget takes initial steps towards:[193]

- *improving the governance and focus of government agencies;*
- *addressing areas of duplication with the Commonwealth;*
- *increasing the transparency of government operations and outcomes achieved; and*
- *modernising service delivery and providing more choice.*

The Government has also indicated that future budgets are likely to include:[194]

- *streamlining non departmental government entities to improve their governance and the services they deliver to Victorians;*
- *removing barriers to decision making and efficient operations by service providers and holding them to account for delivery of the services that Victorians most often use, such as schools and hospitals;*
- *wider adoption of good practice in all parts of service delivery, including commissioning to deliver outcomes of well defined services, and greater use of price signals and other market approaches; and*

188 Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/pages/financial-data-sets-financial-statements>, accessed 13 June 2012

189 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, pp.24, 31

190 ibid., p.8

191 ibid.

192 ibid., p.31

193 ibid.

194 ibid.

- *reducing duplication with Commonwealth responsibilities.*

Individual departments have also described in the budget papers the areas where they will seek efficiencies as part of savings initiatives (see Appendix A4.1).[195] These descriptions vary considerably in the amount of detail, but are generally quite high-level. In three cases, no more detail is given than that the department will deliver savings '*through operational efficiencies*.'[196]

The Committee sought further detail from departments in the 2012-13 Budget Estimates Questionnaire. Departments' responses can be seen in Appendix A4.1.

FINDING: The Government plans to implement a number of efficiency initiatives in this budget and future budgets. The Government anticipates that these will provide improved services while reducing the amount of expenditure per Victorian in real terms.

The realisation of these planned efficiencies will be integral to the Government achieving its aims of improving service delivery while reducing expenditure per Victorian in real terms. The Committee therefore considers it important that the Government report on how successful these strategies have been at actually achieving efficiencies.

In particular, it will be important for measures to be established which can clearly indicate whether the Government's actions:

- achieve efficiencies (that is, find ways to deliver the same amount of services at a lower cost); or
- reduce costs by ending programs or reducing their size (for example, by changing the eligibility for grants or concessions).

Information which clearly distinguishes which of these has occurred will be essential for understanding the Government's achievements. If genuine efficiencies are achieved, then the Government's aim will have been met. However, if the expenditure reductions simply lead to reduced service levels for Victorians, then the aim will not have been met. The Committee considers that this information is in the public interest and will be important for the Parliament and community in assessing the Government's performance.

The amount of information currently available about the Government's intentions is not sufficient to make this assessment. Similarly, the amount of information currently provided about the Government's performance at the end of each year is not sufficient for this task. The output descriptions and performance measures in the budget papers provide high-level information about key service delivery. However, they are not comprehensive enough to identify whether savings have been achieved without impacting on services. As discussed in Section 5.6.3 of this report, not all programs are reflected in the performance measures. This means that programs could be cut or reduced without that being apparent in the performance measures.

195 Budget Paper No.3. *2012-13 Service Delivery*, May 2012, Chapter 1

196 Department of Premier and Cabinet, Department of Treasury and Finance and the Parliamentary Departments – Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.53, 77-8

Therefore the Committee considers that the Government should develop a set of new measures through which it can assess and report on whether its initiatives are providing efficiencies or resulting in reductions to services. Ideally, these measures should also quantify the savings achieved by the efficiency initiatives.

FINDING: The strategies to achieve efficiencies are only detailed at a high level in the budget papers. The Government has not publicly set out any measures that will be reported on to indicate whether or not its strategies have actually achieved efficiencies.

RECOMMENDATION 17: The Government establish a suite of measures to identify whether or not efficiency initiatives have actually achieved efficiencies. Actual results for these measures should be publicly reported each year. Among other things, these measures should clearly identify whether savings targets have been achieved though:

(a) efficiencies (that is, through delivering services at a reduced cost per unit); or

(b) reduced service delivery.

A key component of the Government's plan to achieve efficiencies rather than just make cuts is the Better Services Implementation Taskforce. The Secretary of the Department of Treasury and Finance provided the Committee with information about this Taskforce:[197]

> *When implementing the staffing reductions, in order to make sure the opportunity is taken not just to salami-slice across the public service but to implement a program which drives efficiency, the government set up the Better Services Implementation Taskforce …*
>
> *The concept is to get this task force to sit across the reform processes that are happening across government so that as staffing reductions are implemented, not only can we protect front-line services but we can implement reform across a range of areas to enhance their delivery. Some of the lessons we are learning from around the world in terms of public sector delivery are around the success of devolved versus centralised approaches to policy rollout. A lot of work has gone on in the UK in particular, but also in New Zealand, which has led to the conclusion that you can actually get better service delivery outcomes if you put accountability and frameworks in place which give a lot more authority on the ground to schools and hospitals et cetera. You get your central public service to ration down to focus on the accountability side of service delivery and not so much on oversight and telling people what to do, which will leave a lot more control in that process.*

Given this role, the Committee considers that it will be important for the strategies of the Taskforce to be publicly disclosed as they are developed. This will enable both the Parliament and the community to better understand the Government's approach.

197 Mr G. Hehir, Secretary, Department of Treasury and Finance, Treasurer's 2012-13 budget estimates hearing, transcript of evidence, 4 May 2012, p.23

FINDING: The Better Services Implementation Taskforce has been established to assist departments in achieving efficiencies.

RECOMMENDATION 18: **Regarding the Better Services Implementation Taskforce, the Government should publicly disclose:**

(a) the strategies developed by the Taskforce;

(b) how the strategies will be implemented;

(c) accountability frameworks established to monitor the success of these strategies; and

(d) the relationship between the Taskforce's strategies and the Government's published savings initiatives.

4.5 New initiatives

As discussed in Section 4.1.1 above, most of the expenditure on outputs in any year is made through departments' base funding or ongoing funding. As also discussed in that section, each budget also provides funding for new initiatives (mostly fixed-term). This section is focused on new initiatives funded in the 2012-13 Budget.

4.5.1 The trend in new initiatives

The 2012-13 Budget provides $4.1 billion of funding for new output initiatives. Of that, $1.2 billion is to be spent in 2012-13. Of the remaining funding, $43.1 million was to be spent in 2011-12 and the rest between 2013-14 and 2015-16.[198]

As discussed in Section 2.4.3 of this report, most of the funding for these initiatives has come from reprioritising existing funding, savings initiatives and releasing contingency funds.

Figure 4.7 compares the total funding for new initiatives in the 2012-13 Budget to previous budgets and budget updates.

The figure shows that the 2012-13 Budget provided substantially less funding for new initiatives than the 2011-12 Budget. However, the 2011-12 Budget was the first budget of the new government, and was particularly large because of election commitments. The value of new initiatives funded in 2012-13 is more in line with historic trends.

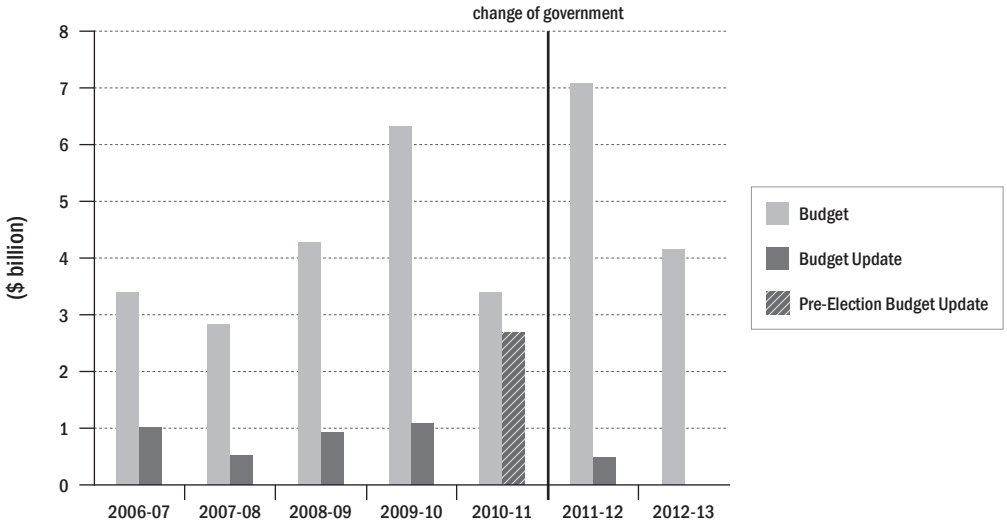
However, the figure shows that the amount of funding for new initiatives each year is highly variable. In its previous report on the budget estimates, the Committee noted this and recommended that these variations be explained.[199] The Government indicated that it supported this recommendation, although the commitment to further action suggested that

198 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.47; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

199 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 14, p.66

no additional disclosure would be made.[200] No specific explanation for the variation between 2011-12 and 2012-13 was provided in the 2012-13 budget papers.

Figure 4.7 Funding for new initiatives, 2006-07 to 2012-13



Note: Funding released in prior years' budget updates has been removed from the totals given in Budget Paper No.3 for 2006-07 to 2010-11 to avoid double counting.

Sources: Budget Paper No.3, *2006-07 to 2012-13*; Victorian Budget Update, 2005-06 to 2011-12; Department of Treasury and Finance, *2010-11 Pre-Election Budget Update*, November 2010

FINDING: The 2012-13 Budget provides $4.1 billion of funding for new output initiatives (over five years). This is less than was provided in 2011-12 but more in line with historic levels. No specific explanation is provided in the budget papers for the reduction compared to 2011-12.

4.5.2 What the initiatives fund

Regarding the new output initiatives, the Government stated:[201]

> *Many of the new spending and investment measures aim to promote productivity, thereby contributing to the quality of life of all Victorians and protection against future economic shocks. These initiatives include reforming the vocational education and training system to build a better educated and skilled workforce – a key element of improving productivity. This budget also continues the Government's commitment to the priority areas of health, transport and public safety, and includes a large commitment to enhance Victoria's child protection system.*

Most of these priority areas are reflected in the largest initiatives in the 2012-13 Budget (see Table 4.3).

200 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.9

201 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.1

Table 4.3 Initiatives over $100 million in the 2012-13 Budget

Department	Initiative	2012-13 ($ million)	2013-14 ($ million)	2014-15 ($ million)	2015-16 ($ million)	Total ($ million)
Education and Early Childhood Development	*Refocusing Vocational Education in Victoria*	359.6	225.3	224.3	224.3	1,033.5
Health	*Sustaining Hospital Performance - Patient Demand Growth*	145.3	149.0	152.7	156.5	603.5
Health	*Sustaining Hospital Performance - Ongoing Elective Surgery*	36.1	37.0	37.9	38.8	149.8
Justice	*Increased Prison Capacity*	10.2	15.6	61.4	62.1	149.3
Business and Innovation	*Investment Support Program*[(a)]	37.1	32.1	32.1	32.1	133.4
Justice	*Victoria Legal Aid*[(a)]	26.3	26.6	27.0	27.3	107.2
Justice	*Specialist Response to the Management of Serious Sex Offenders*	25.5	25.9	26.3	26.7	104.4
Health	*Victorian Innovation, E Health and Communications Technology Fund*	25.0	25.0	25.0	25.0	100.0

(a) These initiatives are continuations of previous (lapsing) initiatives – see: Budget Paper No.3, *2010-11 Service Delivery*, May 2010, p.323; Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.103

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

Regarding child protection, the Government has provided funding for 25 output initiatives which it has grouped under the heading 'Protecting Victoria's vulnerable children'. These initiatives are distributed across a number of departments. In total, $310.7 million has been provided for these initiatives, for expenditure between 2011-12 and 2015-16.[202] They are accompanied by a further $25.4 million of asset initiatives.[203]

The Government explained that these initiatives are expected:[204]

> *… to deliver frontline service improvements across the health, education, justice and human services portfolios to help meet the needs of Victorian children and families in crisis.*
>
> *This includes three new Multi-Disciplinary Centres where police, child protection workers and specialist counsellors will be colocated and work closely together to address the needs of victims.*

202 ibid., pp.3-9

203 ibid., p.10

204 Budget Paper No.1, *2012-13 Treasurer's Speech*, May 2012, p.12; see further: Budget Information Paper No.2, *2012-13 Victorian Families*, May 2012, pp.9-13

> *Reform of child protection court processes to be less adversarial and more child friendly is also a priority. In addition the Government is funding a new Children's Court at the Broadmeadows Court.*
>
> *Helping vulnerable families and children before they reach crisis point is a priority for the Government, with ongoing support for early intervention, community based care and education programs.*

Transport is also listed as a priority area by the Government. The largest new output initiative for which figures are provided is the *Metcard Continuation*, which totals $60.0 million over two years. However, there are two additional output initiatives within the Department of Transport (the *Port of Hastings Development* and *Regional Rolling Stock*), for which the Government has not been able to provide complete figures in the budget papers.[205]

Further details of individual initiatives are provided in Budget Paper No.3 (*2012-13 Service Delivery*).

FINDING: The largest output initiatives in the 2012-13 Budget focus on vocational education, health and public safety. A suite of initiatives have also been funded for 'protecting Victoria's vulnerable children'.

The funding for these initiatives does not necessarily involve new money, but may come from other programs which are changed or discontinued (see Section 4.7). Similarly, new initiatives may continue or replace programs that were only funded for a limited time previously and whose funding has run out (referred to as 'lapsing initiatives').

As a result, the fact that an area has new initiative funding does not necessarily mean that the Government is doing more in that area. For example, the *Victoria Legal Aid* initiative is a continuation of a previous initiative which lapsed in 2011-12. The funding in this initiative is not substantially larger than the previous initiative.[206] Therefore, the amount of money that the Government expects to spend in this area is kept the same rather than increased by this initiative.

A similar situation can be seen with the *Refocusing Vocational Education in Victoria* initiative. This initiative provides an additional $359.6 million to the *Higher Education and Skills* output in 2012-13. Despite the additional funding, the impact of other factors means that the 2012-13 budget for this output is less than is expected to be spent in 2011-12.[207]

The analysis of expenditure in Section 4.8 of this report provides clearer information about how much the Government is funding different areas, as the data there include the impact of all relevant factors (including new initiatives, reprioritised funding and lapsing initiatives).

205 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.66-7

206 $25.6 million in 2011-12 compared to $26.3 million in 2012-13. Budget Paper No.3, *2010-11 Service Delivery*, May 2010, p.323; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.40

207 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.114

4.6 Savings initiatives

Savings initiatives identify amounts that the Government expects departments to reduce their output expenditure by. As discussed in Section 4.4.3 of this report, there are two main ways that savings are achieved:

- by ending programs or reducing their size (e.g. changing the eligibility for grants or concessions); or
- by introducing efficiencies (that is, finding ways to deliver the same amount of services for less cost).

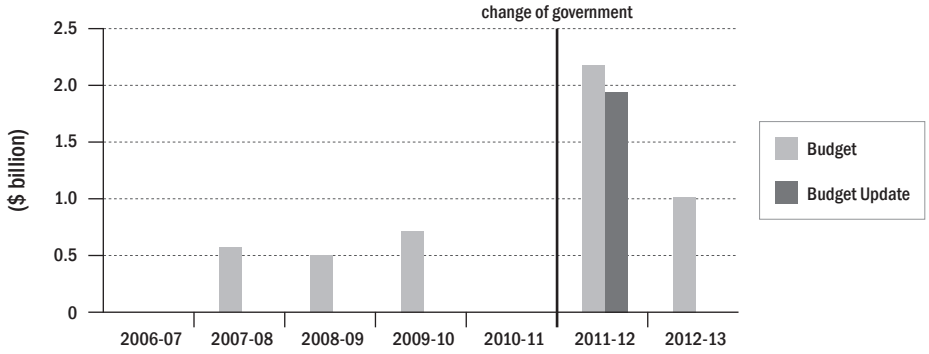
The savings initiatives in the 2012-13 Budget rely on both of these methods to achieve their targets (see Appendix A4.1).

It is important to note that the targets in savings initiatives do not take account of other elements that may change a department's expenditure, such as the additional costs of new initiatives. Having a savings target does not, therefore, necessarily mean that a department's total expenditure will reduce. It will only reduce if the total value of the savings initiatives is greater than the impact of other factors that increase expenditure.

4.6.1 The trend in savings initiatives

The Government has introduced a number of savings initiatives since it came to office. The value of these initiatives has been significantly larger than savings initiatives in previous budgets (see Figure 4.8).

Figure 4.8 Savings initiatives, 2006-07 to 2012-13 Budgets



Sources: Budget Paper No.3, *2006-07 to 2012-13*; Victorian Budget Update, 2005-06 to 2011-12; Department of Treasury and Finance, *2010-11 Pre-Election Budget Update*, November 2010

The total value of the savings announced since the Government's election is estimated by the Government to be almost $1.2 billion in 2012-13, rising to $2.0 billion in 2015-16. The Government expects $6.4 billion in total to be saved across the forward estimates period.[208]

In a number of budgets before 2010-11, larger revenue growth (including Commonwealth stimulus funding) each year provided more capacity to fund new initiatives without such large savings measures. The slower rate of revenue growth in recent years, however, has reduced the Government's capacity to fund new initiatives by this means (see Chapter 3 of this report).

208 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.5

Savings initiatives have become essential to allow the Government to:

- provide a significant amount of funding for new initiatives (see Section 4.5); and also
- constrain the growth in expenditure (see Section 4.2).

As can be seen from Table 4.2, in each year of the forward estimates, the value of savings initiatives is significantly less than the value of new initiatives. Over the forward estimates period, the new initiatives released since the Government came to office are expected to cost $9.5 billion.[209] The Government therefore does not expect the savings initiatives to reduce expenditure compared to the previous year, but only to partially offset the cost of the new initiatives. That is, the money saved is used to fund new projects and overall expenditure is not reduced.

FINDING: Since the Government was elected, it has announced a series of savings initiatives. These have been much larger than savings initiatives in earlier budgets. The Government expects these initiatives to save $6.4 billion between 2012-13 and 2015-16. This is expected to partially offset the new initiatives released since the Government was elected, which are expected to cost $9.5 billion over the same period.

The Government has provided varying levels of detail about the savings initiatives that have been released since it came to power.

4.6.2 Disclosure of savings initiatives

Initiatives in 2011-12 Budget

Two savings initiatives were released in the 2011-12 Budget – the *Government Election Commitment Savings* and the *Measures to Offset the GST Reduction*. For the *Government Election Commitment Savings* initiative, the budget papers detailed 11 areas in which savings would be made (such as 'supplies and consumables' and 'Government advertising'). The value of savings expected for each area was detailed.[210] Departments' shares of the total savings target were identified, though only in aggregate – that is, the share of savings in each of the 11 areas was not detailed on a departmental basis.[211]

The total savings for each department for the *Measures to Offset the GST Reduction* initiative were listed in the budget papers, and the strategies to be employed to achieve these measures were detailed in a separate document.[212]

209 Calculated by the Secretariat based on: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.30; Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, pp.116-9; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.47

210 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.92

211 ibid., Chapter 2

212 ibid.; Department of Treasury and Finance, *Efficiency Savings Background Brief*, n.d.

In its *Report on the 2011-12 Budget Estimates*, the Committee raised concerns about the presentation of savings measures in the budget papers. The Committee considered that the budget papers should also disclose:[213]

- each department's share of the individual components of the *Government Election Commitment Savings* initiative; and
- the methodology used for quantifying savings.

Initiatives in the 2011-12 Budget Update

In the 2011-12 Budget Update, two additional savings initiatives were released – *Capping Departmental Expenditure Growth* and *Maintain a Sustainable Public Service*. The Budget Update provides high-level summaries of these initiatives.[214] The summaries identify what sort of areas will be targeted for savings (for example, '*streamlining administrative structures*' and reductions in staff undertaking '*head office administrative functions*'). However, no details were provided about:

- the break-down of the savings according to the various identified areas; or
- the savings target for each department.

That is, substantially less information was provided about these initiatives than had been provided for initiatives in the 2011-12 Budget. As the impact of these two initiatives rises to $943.0 million in 2014-15,[215] the Committee considers that an inadequate level of disclosure may lead to a serious lack of transparency.

FINDING: In the 2011-12 Budget Update, the Government announced two savings initiatives which will have almost $1 billion of impact in 2014-15. The Budget Update provides overall descriptions of the strategies to achieve the savings. However, it does not break down the savings targets by either area of expenditure or department.

No additional information about these initiatives is provided in the 2012-13 budget papers. A media release was published in June 2012 which breaks down by department the 3,600 jobs to be lost as part of the *Maintain a Sustainable Public Service* initiative.[216]

The Committee sought further data through its budget estimates questionnaire, asking each department to identify its portion of the savings for both initiatives. However, the sum of the departments' portions as provided to the Committee varies significantly from the total value in the Budget Update (see Table 4.4).

It is not clear to the Committee why these figures vary so widely, particularly the figures for the *Capping Departmental Expenditure Growth* initiative. In the questionnaire, the Committee specifically asked departments to explain any variations between their target and what was originally set in the Budget. No department provided any explanations.

This situation further highlights the need for targets to be clearly set out in the budget papers.

213 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, pp.18-21

214 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, pp.113-4 (cf. pp.5-8)

215 ibid., p.113

216 Hon. T. Baillieu MP and Hon. K. Wells MP, 'Sustainable Government Initiative Update', media release, 22 June 2012

Table 4.4 2012-13 savings targets for savings initiatives from the 2011-12 Budget Update

Initiative	Total of departments' shares of savings initiatives as provided in response to the Committee's questionnaire ($ million)	Total value as indicated in the Budget Update ($ million)
Capping Departmental Expenditure Growth	131.7	227.0
Maintain a Sustainable Public Service[(a)]	192.4	177.0

(a) Rather than providing the total target for 2012-13, two departments provided the value of the difference between the 2011-12 target and the 2012-13 target. This may account for some of the discrepancy between the figures for the *Maintain a Sustainable Public Service* initiative. However, this does not explain the difference for the *Capping Departmental Expenditure Growth* initiative, as this commences in 2012-13 and therefore the total target and difference between 2011-12 and 2012-13 are identical for this initiative.

Sources: Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.113; departmental responses to the Committee's 2012-13 Budget Estimates Questionnaire

FINDING: Figures provided by departments for their shares of the savings initiatives from the 2011-12 Budget Update do not reconcile with figures in the Budget Update.

Initiatives in 2012-13 Budget

A further round of savings was announced in the 2012-13 Budget. These aim to save an average of $254.1 million per year between 2012-13 and 2015-16.[217]

In his budget speech, the Treasurer explained:[218]

> *The 2012-13 Budget delivers further targeted departmental efficiencies. In addition, savings will be made in a range of program areas. These savings will lead to a further reduction in staff numbers by around 600. The Government will continue to protect frontline service delivery.*

Further description of the savings is provided in Budget Paper No.3:[219]

> *In order to meet the needs of a growing population, in the context of reduced GST and other revenues* [compared to earlier estimates], *further efficiencies and better targeting of public services are being implemented. In this budget the Government is implementing total savings of $1.0 billion over four years. The savings are necessary to ensure that the State's finances are strong into the future while still providing the capacity for additional expenditure in priority areas. The savings and the ongoing reforms to the way that government services are planned, governed, commissioned and delivered will ensure that Victorians benefit from choice and access to high quality, lower cost services.*

217 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

218 Budget Paper No.1, *2012-13 Treasurer's Speech*, May 2012, p.3

219 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.2

Each department's share of the savings is included as a single line item in its list of new output initiatives. In addition, high-level details of the strategy for realising the savings are included for each department.[220] These vary significantly in the level of detail, as can be seen in Appendix A4.1.

This disclosure is welcomed by the Committee and is an improvement on disclosure in the 2011-12 Budget Update. However, some information that was disclosed for the savings initiatives in the 2011-12 Budget was not provided for the initiatives in the 2012-13 Budget. Specifically, there was no:

- table comparing departmental allocations; or
- dissection of the savings according to the different targeted areas of expenditure.

The Committee considers that there remains room for improvement in the disclosure of savings initiatives.

FINDING: The 2012-13 Budget announces further savings, averaging $254.1 million per year. The disclosure of these initiatives is improved compared to the initiatives in the 2011-12 Budget Update but does not include some information that had been provided for initiatives in the 2011-12 Budget.

Improved disclosure

Given the magnitude of the savings targets announced since 2011-12 (see Section 4.6.1), the Committee considers that more disclosure than is currently provided would be appropriate. In particular, the Committee believes that the budget papers should clearly identify, in addition to the total value of each savings initiative:

- the specific areas targeted for savings;
- a quantified break-down of the savings targets according to those specific areas; and
- the level of expected savings for each identified source for each department.

The Committee considers that this information should be provided in a table that enables the reader to easily compare the departmental allocations.

FINDING: Despite the size of the savings initiatives released in recent budgets, relatively little concrete information about how these savings will be realised has been included in the budget papers.

220 ibid., Chapter 1

RECOMMENDATION 19: When announcing savings initiatives, the Department of Treasury and Finance provide additional information in the budget papers. This should include, where available:

(a) the specific areas targeted for savings;

(b) a quantified break-down of the savings targets according to those specific areas; and

(c) the level of expected savings for each specific area for each department.

4.6.3 Expansion of savings initiatives

A table in Budget Paper No.2 (*2012-13 Strategy and Outlook*) identifies the estimated value of savings and revenue initiatives between 2012-13 and 2015-16. Part of that table has been reproduced in Table 4.5 below.

Table 4.5 Value of savings initiatives, 2012-13 to 2015-16

	2012-13 ($ million)	2013-14 ($ million)	2014-15 ($ million)	2015-16 ($ million)
2011-12 Budget savings	511	520	537	545
2011-12 Budget Update savings	404	661	943	1,215
2012-13 Budget savings	242	266	268	240
Total	**1,157**	**1,447**	**1,748**	**2,000**

Source: Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.5

This table includes values for 2015-16 for the savings from the 2011-12 Budget and the 2011-12 Budget Update. These have not previously been disclosed.

In the case of the 2011-12 Budget savings, the value of the savings in 2015-16 is marginally more the 2014-15 value. Essentially, this represents a continuation of the savings achieved in previous years. This is what one would normally expect to occur.

In contrast, the value of the 2011-12 Budget Update savings is $272 million (29 per cent) higher in 2015-16 than in the previous year. That is, the Government is expecting an additional $272 million of savings to be realised in 2015-16 in the areas targeted by the savings initiatives in the 2011-12 Budget Update (see Section 4.6.2 of this report).

This new target has appeared in the 2012-13 budget papers without any explanation of how these additional savings are expected to be realised, in which areas they will be realised or what the impact will be. As $272 million is a significant amount of additional savings to be made in one year, the Committee considers that details of this should have been provided in the budget papers.

FINDING: The 2012-13 budget papers extend the 2011-12 Budget Update savings initiatives into 2015-16. The budget papers anticipate that these initiatives will provide an additional $272 million of savings in that year. The budget papers provide no details of how these savings are expected to be realised or what the impacts will be.

RECOMMENDATION 20: When previously announced savings initiatives are continued and increased in later budgets, the budget papers should detail how the additional savings are expected to be realised, in which departments they will be realised and what the impacts will be.

4.6.4 Basis for savings targets

The Committee noted last year that the Government had not revealed the methodology it used to calculate the savings targets for the *Government Election Commitment Savings* initiative.[221] The Committee undertook further investigation during the Inquiry into the 2009-10 and 2010-11 Financial and Performance Outcomes. During that inquiry, departments indicated that:[222]

- in some cases, they had been set savings targets for areas in which they historically had no expenditure;
- in other cases, the savings targets were not practicable (e.g. because the targeted expenditure was a statutory requirement); and
- for a number of the targeted areas, departments did not have information systems in place to track their expenditure.

These facts raise serious concerns about how the Government determined that the targets for its savings initiatives were practicable. No details were provided in the 2011-12 Budget Update or the 2012-13 Budget of how the Government calculated the savings targets set out in those budget papers.

Previously, when departments have not been able to make savings in the areas specified by the Government, they have made cuts to other areas.[223] As a result, there is a mismatch between the information provided to the Parliament and community about the savings initiatives and what actually occurs. There is currently nothing in place requiring departments to disclose which areas these cuts were made in or what the impact of those cuts has been, other than the Committee's questionnaire.

To provide assurance that the savings targets are likely to be met through the measures detailed in the budget papers, the Committee believes that the Government should detail its methodology for formulating savings targets. The Committee considers the budget papers to be the most appropriate place for this methodology to be published.

To provide information about whether the savings were actually achieved in the areas targeted by the Government, the Committee believes that departments should report on how they achieved their savings targets and the impact of the savings targets at the end of each year. The departmental annual reports are the appropriate place for this disclosure.

221 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, pp.20-1

222 Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, pp.150-2; similar comments were made by some departments in response to the Committee's 2012-13 Budget Estimates Questionnaire (question 4.3)

223 Departmental responses to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire; cf. also Department of Human Services, response to the Committee's 2012-13 Budget Estimates Questionnaire, received 4 May 2012, pp.15-17

The Committee has previously recommended that any impacts from savings initiatives on service delivery be detailed in annual reports.[224] The Government indicated that it supported the principle of that recommendation. However, the Government considered that the impact of savings initiatives is reflected in changes to performance measures and targets, and therefore '*no further action is required*.'[225] However, the Committee considers that the performance measures:

- are not sufficiently detailed to clearly indicate all impacts of savings initiatives;[226] and
- change because of a large number of factors, of which savings initiatives are only one.

It is therefore not possible to specifically identify the impact of savings initiatives from the performance measures.

In the current environment, the sort of detail that the Committee would expect to see in a report on the implementation of savings initiatives would include, for each department:

- the number of reductions in head office administrative staff and back office positions compared to targets;
- the magnitude and cost of achieved voluntary redundancies and a comparison of these figures to targets;
- changes in staff numbers in key front-line service delivery areas compared to targets;
- measures introduced to increase efficiency, the cost of introducing these measures and the estimated savings as a result;
- programs terminated or modified as a consequence of savings initiatives; and
- any areas where savings were achieved other than those specified in the budget papers.

FINDING: Evidence presented to the Committee in previous inquiries about the *Government Election Commitment Savings* initiative raised concerns about how the savings targets were set. No details have been supplied about the processes used to set the savings targets in the 2011-12 Budget Update and the 2012-13 Budget.

RECOMMENDATION 21: In future budget papers, the Department of Treasury and Finance provide details of the methodology used to calculate savings targets and to calculate their impacts on service delivery.

FINDING: In some cases where targets in previous initiatives were not practicable, departments made savings cuts in different areas to those specified by the Government. The current reporting arrangements will not require departments to provide details of whether they implement the latest savings initiatives in the way specified by the Government or by other means.

224 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 20, p.91

225 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.12

226 See further discussion of this in Section 5.6.3 of this report.

RECOMMENDATION 22: The Department of Treasury and Finance amend the guidance for annual reports to require departments to disclose their actual achievements compared to targets for savings initiatives and the impacts of savings measures. The required disclosure should include, as a minimum, the information suggested in Section 4.6.4 of this report.

4.7 Reprioritised funding

As indicated in Table 4.2, $528.8 million worth of funding that had been allocated to specific purposes in 2012-13 has been 'reprioritised or adjusted' since the Government came to office. That is, the reprioritised funding can no longer be spent in the way that had been anticipated in earlier budgets. This is in addition to savings or efficiencies achieved through savings measures.

Of that money, $144.4 million was reprioritised in the 2012-13 Budget.[227]

The Committee recommended previously that additional detail be supplied about this reprioritisation, including specifying any programs which have had their funding reduced and the impacts.[228] This recommendation was not supported by the Government, which indicated that:[229]

> *If the reprioritisation of funding has a significant impact on service delivery this is reflected in the changes to output performance measures and is required to be appropriately footnoted in Budget Paper No.3 Service Delivery.*

As discussed in Section 5.6.3 of this report, the performance measures are not sufficiently detailed to indicate all changes to departments' service delivery. They are also influenced by many factors, making it impossible to understand the effect of any one change by simply looking at the performance measures.

In addition, only one footnote in Budget Paper No.3 specifically identifies reprioritisation as impacting on a performance measure in 2012-13. That footnote identifies a $400,000 increase.[230] In other words, only $0.4 million of the $144.4 million reprioritised with the 2012-13 Budget is explicitly detailed in footnotes to the performance measures. Moreover, the only details provided about that money are where it goes to, and not where it comes from.

Despite the Government's response, it is clearly not possible to readily see the impact of reprioritisations through the performance measures and accompanying footnotes.

The Committee therefore maintains that the existing system does not provide sufficient details for the Parliament or community to see the impact of reprioritisations. As previously recommended, additional details should be included in the budget papers about which programs will be affected and what impacts are expected as a result.

227 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.47

228 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 24, p.95

229 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.14

230 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.238. A number of other measures also identify reprioritisations in 2011-12 as impacting on the 2011-12 result.

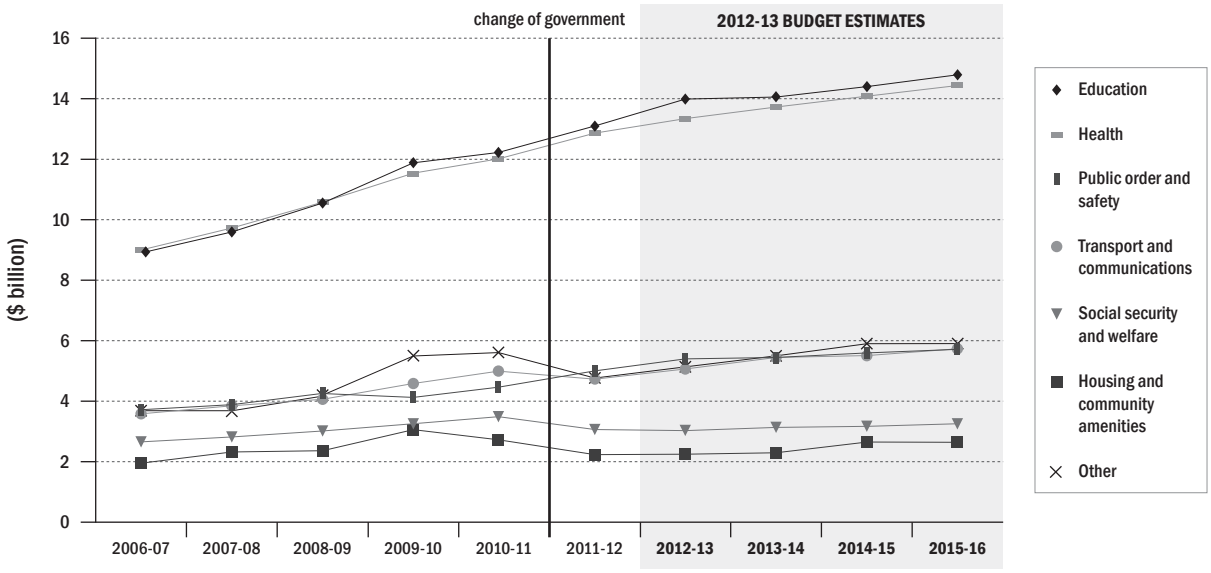
FINDING: Although the 2012-13 Budget reprioritises or adjusts $144.4 million of funding from previously specified purposes in 2012-13, no details are supplied in the budget papers about what areas this money has been reprioritised from.

RECOMMENDATION 23: Future budget papers provide additional details about the line item 'funding from reprioritisation and adjustments', including which programs or services have been affected and what impacts are expected.

4.8 Goods and services provided

Figure 4.9 looks at what sorts of goods and services are expected to be delivered between 2012-13 and 2015-16, and compares this to previous years.

Figure 4.9 Output expenditure by type, 2006-07 to 2015-16



Source: Department of Treasury and Finance, 'Consolidated Government Purpose Classification Data' data set, <www.dtf.vic.gov.au/CA25713E0002EF43/pages/publications-data-sets-financial-statements>, accessed 10 July 2012

Expenditure in all categories is expected to increase over the forward estimates period. However, the different categories increase at substantially varying rates (see Table 4.6).

Education and health are predicted to increase by the largest dollar amounts over the forward estimates period. The funding allocations for 2012-13 indicate that the increases in these areas for 2012-13 are spread across a range of services within these areas.[231] However, as can be seen from Table 4.6, the growth rates for these categories are less than the growth rates for

231 See total output costs in Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 2.

other categories. As a result, expenditure in these areas is expected to become a slightly smaller proportion of the total expenditure in 2015-16 compared to 2012-13.[232]

Table 4.6 Growth of different expenditure categories, 2012-13 to 2015-16

	Growth, 2012-13 to 2015-16	
	($ million)	(average per cent per annum)
Education	803.5	1.9
Health	1,094.8	2.7
Public order and safety	315.9	1.9
Transport and communications	667.7	4.2
Social security and welfare	227.3	2.4
Housing and community amenities	393.5	5.5
Other	769.4	4.8
Total output expenditure	**4,272.0**	**2.9**

Source: Calculations by the Secretariat based on Department of Treasury and Finance, 'Consolidated Government Purpose Classification Data' data set, <www.dtf.vic.gov.au/CA25713E0002EF43/pages/publications-data-sets-financial-statements>, accessed 10 July 2012

The three categories with the smallest growth in dollar terms are:

- 'public order and safety';
- 'social security and welfare'; and
- 'housing and community amenities'.

The Government plans to increase expenditure on 'public order and safety' and 'social security and welfare' at relatively small rates. However, it expects expenditure on 'housing and community amenities' to grow at the fastest rate of any category. Most of this growth is expected between 2013-14 and 2014-15 (see Figure 4.9). The budget papers do not explain what will cause this growth in that year.

The slow-down in the growth rate for expenditure on 'public order and safety' follows substantial increases in this area between 2009-10 and 2012-13.

FINDING: The Government plans to increase expenditure on health and education by the largest dollar amounts over the forward estimates to 2015-16. However, in percentage terms, those increases are less than is planned for other areas. Expenditure on 'public order and safety' is expected to grow at one of the slowest rates over the forward estimates period following substantial increases in recent years.

232 Funding for education is estimated to decline from 29.0 per cent of the budget to 28.2 per cent, and health from 27.7 to 27.5 per cent – Calculations by the Secretariat based on Department of Treasury and Finance, 'Consolidated Government Purpose Classification Data' data set, <www.dtf.vic.gov.au/CA25713E0002EF43/pages/publications-data-sets-financial-statements>, accessed 10 July 2012

The amounts of funding for 'social security and welfare' and 'housing and community amenities' are expected to be almost identical in 2012-13 compared to 2011-12 (see Figure 4.9). In line with the Government's emphasis on 'Protecting Victoria's vulnerable children' (see Section 4.5.2), funding for the *Child Protection and Family Services* output has increased by over 5 per cent compared to the previous year.[233] However, other outputs within the Department of Human Services have grown at smaller rates, while some outputs have received less funding than previously. In particular, reductions have been made to the funding for:

- the *Housing Assistance* output group (which includes social housing and support for people who are homeless); and
- the *Empowering Individuals and Communities* output group (which includes youth affairs, women's policy, the Office for Disability and community participation programs).

As part of the *Maintain a Sustainable Public Service* savings initiative, the Department of Human Services is expected to reduce its number of public service staff by 500, the largest cut of any department.[234] That is in addition to any reductions that may come through other savings initiatives.

For the Housing portfolio, the Minister for Housing indicated that $10.8 million would be saved in 2012-13 through:[235]

> *$4 million from feasibility studies; $1 million from the insurance savings on burnt-out properties; $1 million from the gutter-cleaning program; $2 million from the discretionary maintenance budget; and $2.8 million from the social housing advocacy support program.*

The Minister provided additional details about how she considered that the savings in these areas would be achieved without affecting front-line services.[236] The Minister for Women's Affairs provided similar information about efficiencies that would be realised.[237] The Minister for Youth Affairs told the Committee that '*the capacity for the public service to deliver the programs we have in place and to help us deliver on the priorities of our youth statement will be maintained.*'[238] However, the Minister for Youth Affairs did also list a number of programs within the portfolio that ceased in the last year.[239]

The Ministers have indicated their intentions to reduce costs by achieving efficiencies, rather than cutting services. This mirrors the intention in other areas too (see Section 4.4.3 of this chapter). As recommended in that section, it will be important for the Government to establish reporting mechanisms that will indicate whether it is successful in achieving efficiencies or whether service delivery is impacted instead.

233 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.149

234 Hon. T. Baillieu MP and Hon. K. Wells MP, 'Sustainable Government Initiative Update', media release, 22 June 2012

235 Hon. W. Lovell MLC, Minister for Housing, 2012-13 budget estimates hearing, transcript of evidence, 16 May 2012, p.8

236 ibid., pp.7-8

237 Hon. M. Wooldridge MP, Minister for Women's Affairs, 2012-13 budget estimates hearing, transcript of evidence, 17 May 2012, p.5

238 Hon. R. Smith MP, Minister for Youth Affairs, 2012-13 budget estimates hearing, transcript of evidence, 18 May 2012, p.4

239 ibid., pp.6-7

FINDING: The Government has not provided any significant overall funding increases for 'social security and welfare' or 'housing and community services' between 2011-12 and 2012-13. Some areas within these categories have received increased funding (most notably child protection and family services), while others have received reduced funding. Several ministers indicated their intention to introduce efficiencies rather than reduce services as a result of the funding reductions.

CHAPTER 5 PERFORMANCE MEASUREMENT

5.1 Introduction

As recently stated by the Commonwealth Auditor-General:[240]

> *The ultimate objective in preparing performance information is to inform stakeholders and decision-makers of the extent to which Australian Government resources are being used efficiently and effectively in improving the outcomes for the community.*

The ability to fully consider the use of resources in achieving outcomes relies on access to high quality, robust and timely performance information. This information needs to relate the Government's financial decision-making to its impact on the community.

This chapter examines the Government's performance information set out in the 2012-13 budget papers. In particular, it considers whether the information clearly shows the goods and services being delivered with the resources allocated. This chapter also looks at the effectiveness of the performance information in showing how these goods and services are contributing to the achievement of objectives and outcomes.

It does this by examining the following matters:

- What is the framework for performance information in Victoria's budget papers? (Section 5.2)
- What has changed in the 2012-13 Budget? (Section 5.3)
- Does the performance information clearly identify the objectives that the Government intends to achieve? Is it clear what goods and services are being delivered to achieve each objective? (Section 5.4)
- Are the goods and services that the Government intends to deliver clearly set out? (Section 5.5)
- Are appropriate performance measures in place to understand how successful the Government was at delivering the goods and services it intended to deliver? (Sections 5.6.1-2)
- Is the full range of programs delivered represented by the performance measures? (Section 5.6.3)
- How does the Government manage the performance management framework? What improvements could be made? (Section 5.7)

5.2 Background

As discussed in Chapter 4 of this report, the budget papers detail the amount of funding to be provided to departments to deliver goods and services each year. The goods and services are aggregated together in the budget papers into groups referred to as outputs.

240 Australian National Audit Office, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework.* September 2011, p.19

For each department, the budget papers set out:

- a performance statement identifying:
  - the portfolios the department supports;
  - the department's objectives;
  - the key activities it performs;
- descriptions of the outputs to be delivered;
- a series of performance measures to monitor the quality, quantity, timeliness and cost of services delivered through each output; and
- targets for each measure.

Departments are required to report on their actual achievements compared to the performance targets at the end of each financial year in annual reports.

Both Budget Paper No.3 (*Service Delivery*) and the departmental annual reports are part of the Government's performance reporting framework. The two documents provide a link between the money the Government plans to spend and what it hopes to achieve, and its effectiveness in achieving its intentions.

Figure 5.1 illustrates the key requirements and expectations for performance information in Budget Paper No.3 (*Service Delivery*). As can be seen from the diagram, the framework comprises five key components:

- priorities and outcomes that are established by the Government;
- objectives identified by departments that support the achievement of the Government's priorities and outcomes;
- objective performance indicators to demonstrate the achievement of objectives;
- outputs that contribute to the achievement of objectives and through which the delivery of goods and services are funded; and
- output performance measures and targets that are used to measure and report on the quantity, quality, timeliness and costs of the goods and services delivered.

Details of the sources of these requirements are set out in Appendix A5.1.

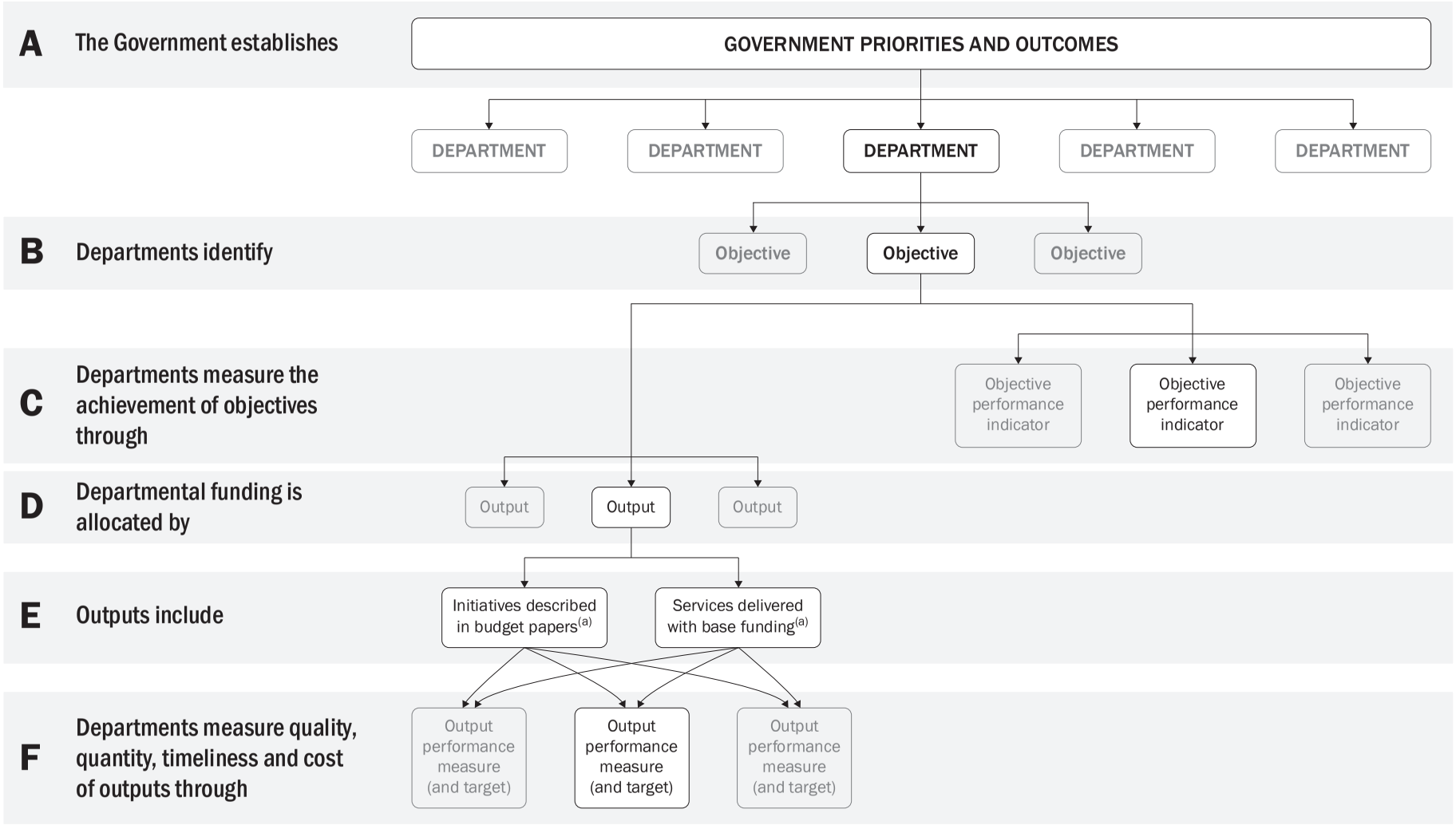
The Committee has reviewed the Government's performance measures and reporting system in some detail in several recent reports.[241] In those reviews, the Committee determined that a number of important elements of the performance management and reporting framework required strengthening and that a number of additional elements needed to be added.

The Government has issued a number of new requirements for performance information since those reports, including some after the 2012-13 budget papers.[242] The Government appears to be in a state of transition regarding the development and use of performance information. The Committee notes that a number of elements in the performance reporting framework are being re-developed and re-released at the time of writing this report.

241 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Two*, June 2011; Public Accounts and Estimates Committee, *Review of the 2009-10 and 2010-11 Annual Reports*, February 2012

242 Examples include updated requirements in the *Budget and Financial Management Guidances* and new guides for service planning and evaluation.

Figure 5.1 Requirements for performance information in the budget papers



(a) See Section 4.1.1 of this report for more details on initiatives and base funding.

Source: Public Accounts and Estimates Committee Secretariat, based on information in Appendix A5.1 of this report.

The Committee considers that the new requirements have the potential to greatly enhance the transparency and accountability of budget decisions. However, the investigation in this chapter suggests that some of the requirements that were set before the 2012-13 budget papers were not successfully implemented in the 2012-13 budget papers.

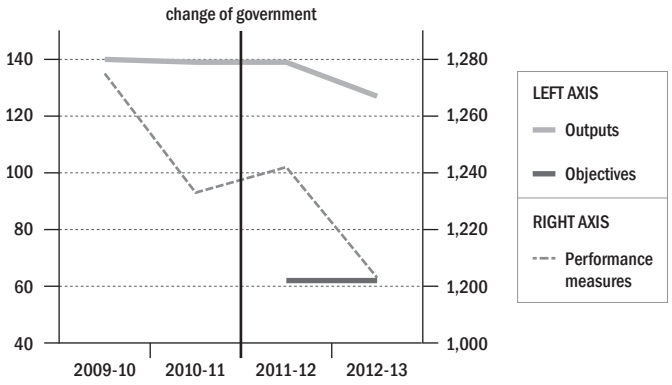
The Committee believes that this may indicate a weakness in the performance reporting system which may prevent the full realisation of the benefits of recent changes (see Section 5.7). The Committee has also identified several other areas where changes would bring benefits, which are detailed in this chapter.

FINDING: Problems with the public sector performance management reporting framework have been identified by the Committee in previous reports. The Government is currently in the process of improving the framework.

5.3 Changes in the 2012-13 Budget

Figure 5.2 shows the trends in budget paper performance information from 2009-10 to 2012-13.

Figure 5.2 Trends in objectives, outputs and performance measures 2009-10 to 2012-13 Budgets



Note: Explicit definition of departmental objectives in performance statements commenced in 2011-12.
Source: Public Accounts and Estimates Committee

The total number of objectives in the 2012-13 budget papers is 62. This is unchanged from the previous year. However, the total number of outputs has been reduced from 139 to 127.[243]

This reduction is primarily due to a significantly decreased number of outputs for the Department of Business and Innovation, the Department of Education and Early Childhood Development and the Department of Transport (see Table 5.1).

243 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.84

Explanations for the changes provided in budget papers are:[244]

- *'To better reflect reform requirements'*;
- *'To better reflect Departmental objectives and reform requirements'*;
- *'Better alignment with organisational structure'*;
- *'To represent the current service model including changes in services to more self-directed approaches'*; and
- *'Restructure'*.

Table 5.1 Departments with a decreased number of outputs in 2012-13

Department	Outputs (2011-12)	Outputs (2012-13)	Variance
Business and Innovation	10	6	-40%
Education and Early Childhood Development	11	7	-36.4%
Human Services	16	15	-6.3%
Transport	14	10	-28.6%

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.84

The establishment of a new output for the Office of the Victorian Government Architect has increased the number of the Department of Premier and Cabinet's outputs from 12 to 13. This was the only department to increase the number of its outputs.

As can be seen in Figure 5.2, the number of performance measures has also been reduced in the 2012-13 budget papers from 1,242[245] to 1,203[246]. This is largely due to the proposed discontinuation of 36 performance measures by the Department of Business and Innovation. The proposed discontinuation of almost 50 per cent of the Department of Business and Innovation's performance measures is discussed in detail in Part One of this report.[247] Part One also discusses the proposed discontinuation of performance measures more broadly.

In contrast, though, the Department of Justice increased its performance measures from 112 to 152. This is due to an additional 5 quality measures, 21 quantity measures and 14 timeliness measures.

FINDING: The total number of 62 objectives in the budget papers is unchanged from 2011-12. However, the total number of outputs has decreased from 139 to 127. The total number of performance measures has also decreased, from 1,242 in 2011-12 to 1,203 in 2012-13.

244 ibid., pp.87, 97,148, 276

245 Including 1,233 performance measures published in Budget Paper No.3, *2011-12 Service Delivery*, May 2011, plus 9 performance measures re-instated following review by the Committee.

246 This figure excludes the 25 performance measured proposed for discontinuation in 2012-13 but recommended for re-instatement by the Committee (see Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part One*, June 2012, pp.26-31).

247 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part One*, June 2012, pp.32-7

5.4 Objectives and objective performance indicators

The 2012-13 budget papers state that the Government is committed to reforming its services. The Government has indicated that one of the keys to achieving this is '*increasing the transparency of government operations and outcomes achieved*'.[248]

The Committee notes that the Government has introduced a number of new requirements related to departmental objectives in the 2012-13 budget process. These requirements would significantly improve the transparency of budget decisions and their impact on service delivery.

However, in many cases, these requirements were not fully implemented. As a result, there remains significant potential for improvement in the budget papers.

5.4.1 Identifying objectives

The previous Government established a suite of overall outcomes for the community that expenditure was directed toward, called *Growing Victoria Together*. Budget Paper No.3 (*Service Delivery*) included a chapter linking these desired outcomes to the specific outputs supporting their achievement. This arrangement documented the relationship between output funding decisions and the impact that those decisions were intended to have.

Instead of having an overarching suite of outcomes in the budget papers, the current Government identifies objectives at the departmental level in performance statements. In the absence of a defined set of outcomes that apply across all departments, it is essential that the departmental objectives clearly state what outcomes the Government is seeking to achieve.

However, a number of departmental objectives in the 2012-13 budget papers focus on actions that departments will perform, rather than outcomes they will achieve. Notable examples of this include:[249]

- '*assist businesses in accessing skilled workers to align with Victoria's industry needs*'; and
- '*respond to an ageing population.*'

Where objectives do not identify what impacts or changes (outcomes) related programs and services are designed to deliver, the reason for allocating resources to them is not transparent. In fact, they can give the appearance that resources are being allocated to 'do things', rather than 'achieve things'.

In July 2012, the Department of Treasury and Finance released an updated version of Budget and Financial Management Guidance-08 that sets out the requirements for objectives in budget papers. Specially, the Guidance explains that departmental objectives should '*represent the change Government wishes to deliver for Victorians*' and recommends that departments:[250]

> *Express the objective as the impact on the community that a group of outputs can reasonably achieve. … They should clearly identify what is to be achieved, rather than what outputs are delivered or what processes are followed.*

248 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.31

249 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.86, 118

250 Department of Treasury and Finance, *Business and Financial Management Guidances*, 'BFMG-08 Departmental Objective and Departmental Objective Indicators', July 2012, p.104

Earlier in the Guidance, however, it is explained that, '*A useful departmental objective should clearly articulate "what is being delivered, to whom, to what standard, and by when".*'[251] This description of an objective indicates that it should detail the outputs delivered and makes no mention of describing their impact on the community. The Committee considers that departments may experience some confusion when comparing this description to the one cited earlier.

The Committee hopes that the newly articulated requirements in Budget and Financial Management Guidance-08 will lead to improved objectives. However, the Committee considers that their effectiveness may be hampered by the confusion about whether the objectives should be focussed on outputs or their impact on the community. For objective descriptions to be a useful addition to the other performance information in the budget papers, it is important that they focus on intended outcomes and do more than simply restate the information in the output descriptions and output performance measures.

FINDING: A number of departmental objectives focus on the activities that the department will perform (outputs) rather than the outcomes they are funded to deliver. This may continue due to unclear advice in the related Budget and Financial Management Guidance.

RECOMMENDATION 24: The Department of Treasury and Finance update Budget and Financial Management Guidance—08 so that it consistently advises that objectives should indicate the intended outcomes of outputs and does not advise that objectives should detail 'what is being delivered, to whom, to what standard and by when'.

5.4.2 Measuring the achievement of objectives

In its *Report on the 2011-12 Budget Estimates*, the Committee identified the difficulties of determining the effectiveness of programs in achieving objectives when only outputs are measured. In particular, the Committee recommended that future budget papers clearly indicate the links between policy objectives, inputs, outputs and expected outcomes.[252]

In the 2012-13 budget papers, departments were required to incorporate 'objective performance indicators' into performance statements.[253] The indicators are required to demonstrate progress toward the achievement of the related objective.

251 ibid.

252 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Two*, June 2011, Recommendation 5, p.13

253 Department of Treasury and Finance, *Information Request No.11-23, 2012-13 Departmental Performance Statements for Publication in the Budget Papers*, December 2011, pp.2-3; note also (released after the Budget) Department of Treasury and Finance, *Business and Financial Management Guidance,* 'BFMG-08 Departmental Objective and Departmental Objective Indicators', July 2012

The Committee considers that including objective performance indicators would be a positive step. They would allow the Parliament and community at the end of the year to understand whether or not the departments' actions did achieve the desired objectives. However, despite the requirements, such indicators do not actually appear in the 2012-13 budget papers.

It is the Committee's opinion that defining what the Government intends to achieve (objectives and outcomes) and measuring that achievement are the basic building blocks of a transparent budget process. It is of little value to measure the amount, timeliness and cost of a service if the improvements it is intended to deliver have not been established and are not measured.

Where the impact of the Government's spending is unknown, accountability for that expenditure is reduced.

FINDING: The Department of Treasury and Finance introduced a new requirement in 2011 that objective performance indicators should be included in the budget papers. This would increase departments' ability to show the impact of funding choices on the achievement of objectives. However, the performance indicators do not appear in the 2012-13 budget papers.

RECOMMENDATION 25: The Department of Treasury and Finance ensure that future departmental performance statements include objective performance indicators.

5.4.3 The link between objectives and outputs

With regard to performance information, perhaps the most significant change in the 2012-13 budget papers is the improved line of sight between departmental objectives and the outputs funded to support their achievement. This is a welcome improvement that more clearly shows the relationship between the Government's spending decisions and the specific impacts they are designed to have.

In the 2011-12 budget papers, the descriptions of departmental outputs and output groups included the particular objectives or priorities that they contributed to.[254] In some cases, the descriptions identified specific objectives, while in others they stated that the output or outputs contributed to all of the department's objectives.

Consequently, the reader was tasked with analysing many pages of output descriptions to understand the links between objectives and related funding commitments. The absence of a consolidated view of which outputs supported which objectives made developing a clear picture of these links challenging.

254 Budget Paper No. 3, *2011-12 Service Delivery*, May 2011 Chapter 3

For the 2012-13 budget papers, the Government issued new requirements, stating:[255]

- *in 2011-12 Budget Paper No.3 Service Delivery, reference was made under each output description of the contribution of the output to departmental objectives;*
- *this requirement has been strengthened for 2012-13; there must now be a clear and direct link between departmental objectives and outputs...*

With the exception of the Department of Health and the Parliament, all departmental performance statements now include tables with identified objectives. The tables also link the objectives to the outputs that departments intend to deliver to support their achievement.

The inclusion of these tables enables the reader to identify the amount of funding and planned services for each objective.

FINDING: The inclusion of tables linking outputs to objectives in departmental performance statements provides a clearer link between the Government's spending and its performance.

The Government's new requirements also include that '*each output should link to one departmental objective*'.[256] This helps the reader to understand which activities support what outcomes. This increases the Parliament's and the community's ability to 'follow the money' from expenditure to impact.

However, only seven of the 12 departments in the budget papers implemented this requirement. As a result, the intended increase in transparency and accountability for expenditure was not fully achieved.

Figures 5.3 and 5.4 demonstrate the clear path created when outputs are linked to one objective. Conversely, Figures 5.5 and 5.6 show how this transparency is reduced where outputs are linked to more than one objective.

FINDING: A new requirement to link each output to one objective reduces ambiguity about which activities support what outcomes. This increases the Parliament's and the community's ability to 'follow the money' from expenditure to impact. However, only seven out of 12 departments implemented this requirement in 2012-13.

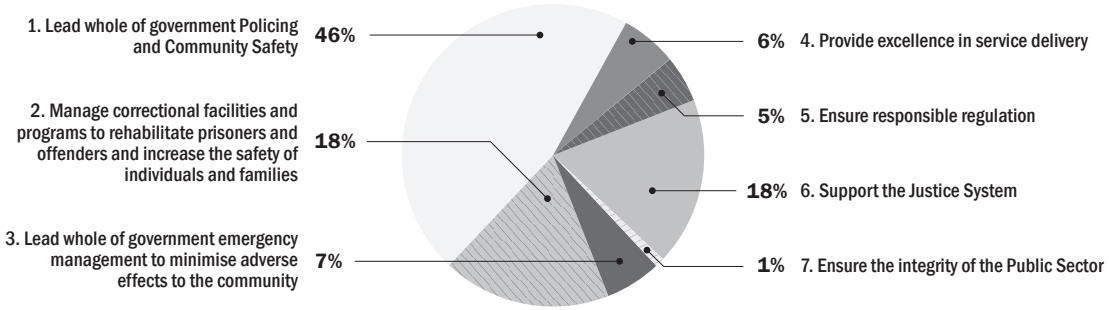
255 Department of Treasury and Finance, *Information Request No.11-23: 2012-13 Departmental Performance Statements for Publication in the Budget Papers*, December 2011, p.3

256 ibid.

Figure 5.3 Department of Justice performance statement, 2012-13

Source: Public Accounts and Estimates Committee, based on Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.170-204

Figure 5.4 Funding commitments to the Department of Justice's objectives, 2012-13



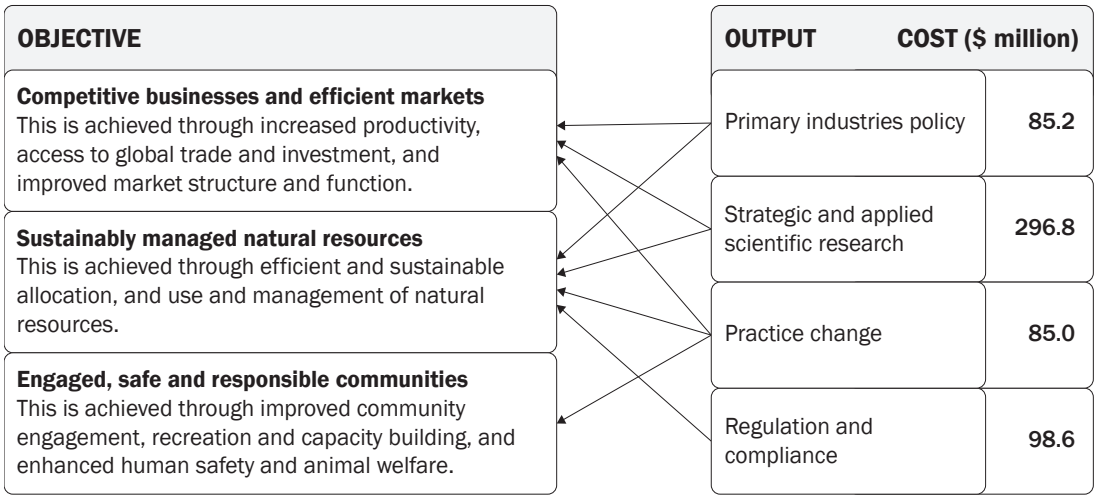
Source: Public Accounts and Estimates Committee, based on Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.170-204

Figure 5.5 Department of Human Services performance statement, 2012-13

OBJECTIVE	OUTPUT	COST ($ million)
Immediate support With its partners the Department supports people in crisis, and helps individuals and families get their lives back on track.	Housing support and homelessness assistance	222.8
	Statutory child protection services	190.8
	Specialist support and placement services	367.0
	Family and community services	181.4
	Youth justice custodial services	64.5
	Community-based services	66.0
Capabilities and participation With its partners, the Department works with families, individuals, young people and communities to improve their lives through building capabilities and resilience, supporting participation in work, education and the community.	Youth affairs	16.3
	Women's policy	8.5
	Office for disability	4.8
	Community participation	27.5
	Self-directed support	440.5
Quality of life With its partners, the Department provides services to support people in need to enjoy a positive life.	Client servies and capacity	292.4
	Accommodation support	744.3
	Concessions to pensioners and beneficiaries	518.1
	Social housing	177.3

Source: Public Accounts and Estimates Committee, based on Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.147-67

Figure 5.6 Department of Primary Industries performance statement, 2012-13



Source: Public Accounts and Estimates Committee, based on Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.241-53

5.5 Outputs

In addition to understanding the Government's desired objectives and what outputs are intended to contribute to their achievement, it is important to know exactly what goods and services are being delivered through the outputs.

In the opinion of the UK National Audit Office:[257]

> *Not having and using this information represents a failure to understand the basic relationship between what policy objectives are being sought (outcomes), what activities, projects and programmes supporting those objectives are meant to deliver (outputs) and the related cost (input) per standard unit of quantity or quality of product or service being provided. Without this information, it is conceptually and practically hazardous to try to assess value for money – i.e. the cost effectiveness of a given policy.*

Each output in a departmental performance statement includes an output description. The description is commonly a high-level narrative outlining the goods or services common to the activities included in the output. The description also identifies the objective that the output supports and often makes reference to the key mechanisms used to do so.

An output can include one specific program or a great number of different ones. However, because the descriptions are of such a general nature, they do not ordinarily identify the specific programs and services being funded.

Where only a single service or type of service is funded,[258] describing an output in general terms is not likely to reduce the clarity in what is being provided. However, this may not be the case for outputs where the programs and initiatives being funded are diverse in nature.

257 Comptroller and Auditor General (UK), *Taking the Measure of Government Performance,* July 2010, p.18

258 Such as dental services.

To facilitate a better understanding of the relationship between output funding and service delivery, the Committee previously recommended that the Government consider including a detailed commentary on each revenue and expense program in the budget papers.[259] The recommendation was intended to bring the budget papers into alignment with the Organisation for Economic Co-operation and Development's recommendations on better-practice performance budgeting.

The Government did not support the recommendation, stating that:[260]

> *Budget Paper No.3 Service Delivery provides information on all output initiatives including those additional to the Government's election commitments. It also details the goods and services (outputs) that each government department intends to deliver during the budget year.*

Table 5.2 includes key examples of output descriptions that the Committee considers lack sufficient detail to understand what is being provided. As can be seen in the descriptions, the intended achievements of the programs and services are clear, but the actual deliverables are described using terms such as 'a range of services', 'programs and resources', and 'providing access to information'. Using such generalities to describe the products of large amounts of funding reduces the transparency of what specifically the Government is spending its money on.

The Committee notes that the guidance from the Department of Treasury and Finance was updated in July 2012 to state that output descriptions should '*detail the range of goods and service provided and the programs and activities undertaken under the relevant output*'.[261]

The Committee commends this decision and considers that detailing an output's specific deliverables will significantly increase the transparency of the Government's funding decisions. The Committee hopes to see more detailed output descriptions in the 2013-14 budget papers.

The Committee recognises that Budget Paper No.3 (*Service Delivery*) is already a substantial document that would become more so with the addition of this information. However, the Department of Treasury and Finance's website is increasingly being used to disclose further details not practicable in the budget papers. The Committee considers that this website is also an ideal location for providing this additional detail about programs delivered under each output.

The Committee notes that the New South Wales Government has also recently taken steps to increase the transparency of what specific services it is funding. This is in response to a recent review of the New South Wales budget framework that found it was '*not possible to determine how particular funding commitments helped deliver services and achieve results*'.[262]

To enable a better understanding of the relationship between budget decisions, service delivery and the achievement of objectives, the New South Wales Government has moved to program-based budgeting in its Service Delivery budget paper.

259 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 11, pp.47, 49

260 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the Budget Estimates — Part Three, tabled 14 March 2012, p.7

261 Department of Treasury and Finance, *Budget and Financial Management Guidances*, 'BFMG-09 Output Specification and Performance Measures', July 2012, p.11

262 New South Wales Government, Budget Paper No.3, *2012-13 Budget Estimates*, May 2012, p.i

Table 5.2 Output descriptions

Department	Output	2012-13 Output cost ($ million)	Description
Business and Innovation	Innovation and Technology	193.7	Supports innovation by providing access to information and building capacity for the development and effective use of new practices and technologies to support increased productivity and competitiveness in Victoria.
Health	Clinical Care	1,039.9	A range of inpatient, residential and community-based clinical services provided to people with mental illness and their families so that those experiencing mental health problems can access timely, high quality care and support to recover and live successfully in the community.
Human Services	Self-directed Support	440.5	This output provides programs and resources that enable clients with a disability to exercise choice and control through the use of packages of individualised funding.
Planning and Community Development	Regional Development and Regional Cities	175.2	Guide the development and implementation of regional plans and strategies to manage growth and change in regional and rural Victoria. Provide better infrastructure, facilities and services to strengthen the economic base of communities and to create jobs and improve career opportunities for regional Victorians.
Premier and Cabinet	Strategic Policy Advice and Projects	53.6	Provide strategic policy analysis and advice to the Premier on all matters affecting the Premier's role as head of Government; and assist the Premier in identifying emerging issues, carrying out practical forward planning, reviewing policy, and assessing the impact of government decisions and actions. On behalf of the Premier, lead and participate in policy projects including development and coordination of new initiatives; and manage the implementation of strategic policy initiatives.

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.92, 129, 151, 209, 226

FINDING: Output descriptions in the 2012-13 budget papers are very general and do not provide a complete picture of the goods and services being delivered. New requirements have recently been introduced to increase the detail included in output descriptions.

RECOMMENDATION 26: The Department of Treasury and Finance ensure that output descriptions in future budget papers meet the requirements set out in Budget and Financial Management Guidance-09 for output specifications.

5.6 Output performance measures

For each output, the budget papers provide a number of performance measures that detail the expected quantity, quality, timeliness and cost of the goods and services to be delivered.

The Minister for Finance advised the Committee that:[263]

> *The focus in this year's budget papers has been on enhancing performance measures tracking quality, improving the clarity of output descriptions and setting performance targets that better match and reflect output delivery.*

One notable advance in this respect is the provision of historical performance data on the Department of Treasury and Finance's website. Data on the website include performance measures and targets from 2007-08 onwards. Ready access to this information allows for a greater tracking and analysis of performance over time.

The Committee welcomes this undertaking and looks forward to any further advances in the provision of performance data online.

FINDING: The provision of online data sets with information about performance measures from 2007-08 onwards allows for greater tracking of performance over time and understanding of changes in performance.

As noted in Section 5.2 above, the Committee has made a number of recommendations recently about performance measures. As the Government has not yet had time to respond to all of these, the Committee has not undertaken a comprehensive assessment of the performance measures in the 2012-13 Budget. However, the Committee wishes to highlight three key issues:

- the number of quality measures;
- the transparency of performance measures; and
- the comprehensiveness of performance measures.

5.6.1 Measuring the quality of service delivery

The Committee considers that quality measures provide particularly valuable information about output performance. While quantity and timeliness are important aspects of service delivery, they do not necessarily fully reflect performance when in isolation.

For example, an agency may record the number of complaints it receives and its timeliness in responding to them. If quantity and timeliness targets are met or exceeded, this suggests high performance.

However, without including quality measures, the performance information will not show whether the complaints were satisfactorily resolved. This may then mask the fact that only a low proportion of complaints were resolved to the satisfaction of the complainant. As such, despite meeting or exceeding the quantity and timeliness measures, performance may actually be below desired standards.

263 Hon. R. Clark MP, Minister for Finance, correspondence received by the Committee, received 1 May 2012

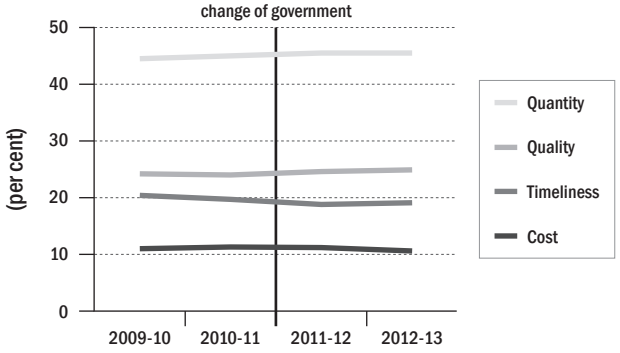
An added danger of excluding quality measures from performance assessment is the increased likelihood of creating 'perverse incentives'. A perverse incentive is created when performance drivers are geared to achieve one aspect of performance over another. In the example above, the absence of a quality measure conveys to complaints management staff that the number of complaints recorded and the speed of response are valued above achieving a satisfactory resolution. This creates an incentive to deal with many complaints quickly and potentially at the cost of providing the actual service – that is, complaints resolution.

In its *Report on the 2011-12 Budget Estimates,* the Committee raised concerns about the over-reliance on quantity measures in departmental output performance measurement. To reduce the risk of presenting a 'skewed' reflection of performance and perverse incentives, the Committee made a number of recommendations aimed at improving the use of quality measures by departments.[264]

The Government supported all of these recommendations. However, overall, the proportion of quality measures has only increased from 24.6 per cent to 24.9 per cent between 2011-12 and 2012-13 (see Figure 5.7).

As Figure 5.7 shows, quantity measures continue to be the most prevalent type of performance measure.

Figure 5.7 Trends in performance measure type 2009-10 to 2012-13



Source: Public Accounts and Estimates Committee

FINDING: As in previous years, departments continue to rely heavily on quantity measures in assessing their performance.

In its *Report on the 2011-12 Budget Estimates*, the Committee identified that the Department of Business and Innovation and the Department of Primary Industries had the lowest proportions of quality measures. The Committee specifically recommended that the Department of Treasury and Finance work with these departments to examine the scope for increasing their proportions of quality measures.[265]

264 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Two*, June 2011, Recommendations 6-8, pp.19-21

265 ibid., Recommendation 6, p.19

The Government supported this recommendation, stating among other things, that '*the Department of Treasury and Finance will work with departments to ensure that the suite of performance measures for each output is a relevant indicator of the quantity, quality and timeliness components of the activities delivered through that output*'.[266]

Since the Committee's recommendation, both departments have proposed reducing the proportion of their quality measures. The Department of Primary Industries has reduced the proportion of its quality measures by 35 per cent, from 14 per cent to 9 per cent. As a result, the *Strategic and Applied Scientific Research* output, which represents 53 per cent of total departmental funding, has no quality measures.[267]

The Committee noted in Part One of this report that the Department of Business and Innovation's performance measurement and reporting framework has significantly worsened in 2012-13 and that it is not adequate.[268] Factors contributing to this opinion are:

- a reduction by almost 50 per cent of its performance measures;[269]
- no quality measures for services representing 49 per cent of the total departmental funding;[270] and
- the sole quality measure for an output representing a further 42 per cent of the total departmental funding reflecting only one component of the output, and this measure not providing meaningful information.[271]

The Committee also notes that the quality measure for the *Employment and Industrial Relations* output, '*Victoria represented in major industrial relations cases and inquires*' (per cent)[272] provides no meaningful information as to the quality of the representation, nor the Department's contribution to it.

These deficiencies indicate that the Department of Business and Innovation's performance information runs contrary to the Government's aim of enabling '*greater scrutiny of service delivery and performance*'.[273] The Committee made recommendations relating to this in Part One of this report.[274]

FINDING: The two departments with the lowest proportion of quality measures in the 2011-12 budget papers both reduced their proportions of quality measures in the 2012-13 Budget.

266 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the Budget Estimates — Part Two, tabled 7 February 2012, p.3

267 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.250-2

268 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part One*, June 2012, pp.32-8

269 ibid., p.32

270 The three outputs *Innovation and Technology*, *Tourism and Marketing* and *Trade and Export Facilitation* have no quality measures.

271 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part One*, June 2012, p.35

272 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.90

273 ibid., p.83

274 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part One*, June 2012, Recommendations 3-5, pp.34-8

As well as the outputs identified in the Department of Primary Industries and the Department of Business and Innovation, eight additional outputs without quality measures can be found in other departments. Table 5.3 lists all outputs without quality measures in the 2012-13 budget papers.

Table 5.3 Outputs without quality measures in the 2012-13 Budget

Department	Outputs	Output funding ($ million)
Business and Innovation	Innovation and Technology	193.7
	Tourism and Marketing	81.8
	Trade and Export Facilitation	32.2
Health	Acute Training and Development	313.0
	Aged Care Assessment	51.0
	Public Health Development, Research and Support	5.6
	Small Rural Services—Home and Community Care Services	30.9
	Small Rural Services—Primary Health	16.6
Human Services	Social Housing	177.3
Primary Industries	Strategic and Applied Scientific Research	296.8
Transport	Integrated Transport Planning and Sustainable Transport Development	43.3
	Specialist Transport Services	266.1
Total		**1,508.3**

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012

Eight of the 12 outputs listed in Table 5.3 were previously identified as not having quality measures by the Committee.[275] Of the remaining outputs in Table 5.3, three have been newly created in the 2012-13 budget process and one which previously did have quality measures now has none.

This situation has occurred despite the Government committing to '*aim to ensure that there is at least one measure that assesses the quality of service delivery in each of its output categories for 2012-13*'.[276]

The mismatch between the Government's statement and actions raises doubts as to:

- the accuracy of commitments in response to recommendations; and
- the processes in place to ensure that supported recommendations are implemented.

These issues are discussed in detail in Chapter 7 of this report.

275 Public Accounts and Estimates Committee, *Report on the 2011-12 Estimates — Part Two*, June 2011, pp.20-1

276 Victorian Government, Government Responses to the recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Two, Tabled 7 February, 2012, Recommendation 7, p.4

FINDING: Despite a commitment to aim for all outputs to contain quality performance measures, this has not occurred. In total, there are 12 outputs (representing $1.5 billion of funding) with no quality measures in the 2012-13 budget papers.

5.6.2 Transparency of performance measures

To provide meaningful information about the Government's performance, the meaning of performance measures used must be transparent.

As discussed at the beginning of this chapter, the Committee has reviewed the Government's performance measures and reporting system in some detail in several recent reports.[277] In doing so, the Committee identified a number of instances where poorly designed performance measures did not provide for a clear and full understanding of departmental performance.

In its review of the 2012-13 budget papers, the Committee has observed that, to a large extent, these inadequacies still exist. However, the Committee notes that there has not yet been much time for the Government to implement the Committee's recommendations. As such, the Committee will consider undertaking a detailed examination of performance measurement in the future.

For some measures, however, the inability to understand what they represent is because of a lack of explanatory information rather than poor design. Such measures typically fall into two broad categories: standards-based measures and satisfaction measures.

Standards-based performance measures

Performance measures showing that service delivery has met a particular standard[278] can be an effective means of indicating the quality of performance. However, the usefulness of the measure is heavily reliant on the robustness of the standard and the degree to which compliance is scrutinised. The transparency and legitimacy of such measures are reduced where the nature of the standard and the method of collecting the data collected are not explained.

For example, the quality measure for the Department of Human Services' *Concessions to Pensioners and Beneficiaries* output is '*Percentage of Community Service Agreement performance targets that have been achieved by State Trustees*'.[279] However, a recent audit by the Auditor-General found that '*adherence to the CSA does not demonstrate either the quality or effectiveness of the management of represented persons' legal and financial affairs*'.[280] Further, the Auditor-General found that '*The Department of Human Services accepts that reporting against the CSA does not address the effectiveness or quality of services for represented persons*'.[281]

Other notable examples of standards-based performance measures in the budget papers include:

277 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Two*, June 2011; Public Accounts and Estimates Committee, *Review of the 2009-10 and 2010-11 Annual Reports*, February 2012

278 This group also includes performance agreements such as service-level and contract-based agreements.

279 Budget Paper No.3, *2012-13 Service Delivery*, p.162

280 Victorian Auditor-General's Office, *State Trustees Limited: Management of Represented Persons*, February 2012, p.viii

281 ibid., p.8. While the scope of the audit was restricted to represented persons, the scope of the Community Services Agreement extends to clients not under an Administration Order.

- '*Delivery of nominated Major Projects Victoria projects complies with agreed plans and contractual frameworks*';[282] and
- '*Policy services rating*'.[283]

The ambiguity of the first measure has been discussed by the Committee previously.[284] Overall, as these examples show, without information about the standards against which performance is being measured, it is not possible to accurately interpret departmental performance for such measures.

Satisfaction measures

Measuring the extent of client or stakeholder satisfaction with performance is a valuable method of performance measurement. This is because it represents the opinions of those who receive the service and are thus most aware of the standard to which it is delivered.

Examples of satisfaction-based performance measures include:

- '*Funded research and service development projects for which satisfactory reports have been received*';[285] and
- '*Clients are satisfied that services are accessible, timely and relevant*'.[286]

However, as with standards-based performance measures, the reliability of the measure is dependent on the underlying measurement process. In this case, transparency in how satisfaction is determined and the breadth of opinion sought would help to provide a fuller understanding of how the measure reflects performance.

A better-practice approach

The United Kingdom's Treasury has sought to resolve the transparency issues associated with performance measures like these by publishing 'measurement annexes'. Each performance measure[287] is accompanied by a measurement annex specific to it. The measurement annex sets out the contextual and technical information needed to fully understand what a performance measure represents. These details include, but are not limited to:[288]

- the technical definition of the measure;
- the rationale for using the measure;
- a description of what constitutes good performance;
- a description of the data sources used and the frequency of data collection;
- formulae and assumptions used in the measurement process; and
- any limitations in the data.

282 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.94

283 This appears in three different outputs – Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.22-8

284 Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, pp.227-8

285 Department of Health (*Aged Support Services* output): Budget Paper No.3, *2012-13 Service Delivery*, p.134

286 Department of Primary Industries (*Practice Change* output): Budget Paper No.3, *2012-13 Service Delivery*, p.253

287 Referred to as a 'performance indicator' in the UK.

288 Adapted from the United Kingdom Department for Work and Pensions, *Impact Indicators Measurement Annex*, July 2012.

Following the UK model, the New South Wales Government has also released a similar document, the *NSW 2021 Baseline Report*. Though still in development, it provides the technical information designed to explain for each performance measure in the *NSW 2021 Performance Report*:[289]

- how progress against each target is to be measured;
- the source and availability of the data;
- the baseline year and rate against which progress can be monitored;
- whether the measure is nationally comparable, and can be measured at a regional level or by other key demographic categories (including age, gender and Aboriginal status); and
- historical performance and projection information.

Similarly, for survey-based performance measures, the Commonwealth Government recommends that departments document:[290]

- the method used for selecting the sample;
- the sample size;
- response rates; and
- the margin of uncertainty in the reported level of performance.

The Committee considers that, by adopting a similar approach, the transparency of budget paper performance measures would be greatly enhanced. The lack of clarity for standards-based measures would be reduced. A number of other issues with performance measures identified in recent Committee reports would also be helped. In addition, this information would increase accountability for how service delivery performance is measured.

FINDING: There are a number of performance measures for which not enough information was provided to properly interpret them. As such, these measures did not provide a clear and full understanding of departmental performance.

RECOMMENDATION 27: The Department of Treasury and Finance require departments to publish supporting information for budget paper performance measures which explains the basis for the measures. In determining what information should be required, the Department of Treasury and Finance consider the United Kingdom's measurement annex as a model.

289 Department of Premier and Cabinet, *NSW 2021 Baseline Report*, December 2011, p.ii

290 Commonwealth Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010, p.3

5.6.3 Comprehensiveness of performance measures

It is important for a department's performance measures to reflect the full scope of its activities rather than just a portion of what the department does. When performance measures are not comprehensive, it can be difficult to properly understand a department's performance in a year. It can also be difficult to identify the impact of changes in Government policy or resource allocation.

The Government has recently not supported a number of the Committee's recommendations for additional disclosure because it considers that the changes can be seen through the performance measures (see Sections 4.4.3, 4.6.4 and 4.7 of this report).

However, the Committee has identified two issues which suggest that performance measures do not comprehensively describe the full range of services being funded through their outputs:

- departments have informed the Committee that a total of $1.4 billion worth of major new initiatives in the 2012-13 budget papers are not reflected by any performance measures other than cost measures; and
- ten outputs have had significant changes in funding, without that impacting on the performance targets.

Both of these factors suggest that large amounts of Government services are not reflected in the performance measures. This raises a serious issue of accountability.

The Committee notes that it can be particularly difficult to identify whether or not performance measures are comprehensive when the output descriptions are not comprehensive, as is currently the case (see Section 5.5). The Committee hopes that the new requirements for output descriptions recently introduced in the Budget and Financial Management Guidances will reduce that problem.

Major new initiatives with no related performance measures

As a part of the budget process each year, the Government funds specific output and asset initiatives that reflect the Government's service delivery priorities. These initiatives are presented in Chapter 1 of Budget Paper No.3 (*2012-13 Service Delivery*).

Because budget initiatives represent the Government's specific priorities, it is important that their performance is transparent and can demonstrate value for money. This is particularly so given the Government's advice that, to meet the costs of the 2012-13 Budget, it has re-directed funds away from existing service delivery (see Section 4.7 of this report).[291]

Many large initiatives released in the 2011-12 Budget did not have any performance measures associated with them.[292] The Committee recommended that the Department of Treasury and Finance ensure that there are output performance measures to enable the assessment of major initiatives in the future.[293]

291 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.1

292 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Two*, June 2011, pp.35-8

293 ibid., Recommendation 15, p.38

The Government supported the recommendation in principle, stating:[294]

> *As part of the budget process DTF will work with all departments to ensure that performance measures are created for an output that show the impact of a major initiative, where this impact is not reflected in existing measures and targets.*

In implementing this recommendation, the Department of Treasury and Finance required the departments to ensure that there were performance measures for every major initiative approved for the 2012-13 Budget.[295]

The Committee asked departments to identify the performance measures related to each 2012-13 Budget initiative with a total value of over $20 million. Departments were unable to identify any performance measures in the budget papers (other than costs) for 17 major initiatives worth a total of $1.4 billion. A complete list of these initiatives is found in Appendix A5.2.

FINDING: There are no performance measures in the 2012-13 budget papers for 17 major initiatives worth a combined value of $1.4 billion.

Outputs where changes in funding do not alter the performance targets

The Committee has recently made a number of recommendations related to inappropriate target setting in its *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*.[296] To allow the Government adequate time to respond, the Committee has not undertaken a comprehensive review of performance targets as part of this inquiry. However, the Committee has examined the performance targets in the outputs subject to substantial funding changes in 2012-13.

Section 4.7 of this report discusses the Committee's concerns about the lack of transparency associated with funding reprioritisation. It also notes the Government's opinion that where reprioritisation impacts on service delivery, it is reflected in output performance information.

To seek assurance that this is indeed the case, the Committee considered those outputs where funding in 2012-13 had either increased or decreased by more than 20 per cent from the expected cost for 2011-12.

The Committee identified 10 outputs where those significant funding changes occurred, but the non-cost performance measures did not appear to reflect the changes to services that resulted from the changes (see Appendix A5.3). This assessment is based on situations where:

- funding increased, but performance targets remained unchanged or were made less challenging; or

294 Victorian Government, Government Responses to the recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Two, Tabled 7 February, 2012, p.6

295 Department of Treasury and Finance, *Information Request No.11-23: 2012-13 Departmental Performance Statements for Publication in the Budget Papers*, December 2011, p.3

296 Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, pp.186-94

- funding decreased, but performance targets remained unchanged or were made more challenging.

There may be a number of reasons for this. One of the reasons would be that the performance measures are not sufficiently comprehensive to cover all of the activities funded through the output.

FINDING: Targets for 10 outputs did not appear to reflect the impact of substantial changes to output funding.

RECOMMENDATION 28: The Department of Treasury and Finance ensure that all outputs have performance measures that reflect the full scope of the output's activities, including all major programs, outputs and asset initiatives funded within the output.

RECOMMENDATION 29: The Department of Treasury and Finance ensure that all outputs have performance targets that reflect the impact of changes to funding.

5.7 Victoria's performance management framework

To understand the causes of these problems, the Committee examined Victoria's framework for designing, using and reporting performance information.

The Committee found that, while some improvements to performance measurement and reporting are contained in the 2012-13 budget papers, the Government's current approach does not include many of the oversight and validation processes considered to be better practice. These are discussed below.

5.7.1 Performance measurement guidance and advice

The Department of Treasury and Finance has overall responsibility for the business rules governing public sector performance measurement.[297] It is also responsible for the oversight and approval of the objectives, output structures and performance measures of all Victorian Government departments.[298]

Currently, the Government's performance management framework includes over 30 frameworks, policies, strategies, plans, guides, processes, templates and tools. While not exhaustive, Appendix A5.4 provides a list of the key documents with performance measurement requirements.

297 *Standing Directions of the Minister for Finance under the Financial Management Act 1994*, May 2012, pp.77-80

298 Department of Treasury and Finance, *Information Request No. 12-07: Requirements for the 2012-13 Budget Process*, March 2012, p.3

There is no one document that provides an overarching structure for these documents and the relationships between them are not always clear. Some documents seem to exist in isolation to the others, such as the *Strategic Management Framework*, while others, such as the *Budget and Financial Management Guidances*, may make only passing reference to the existence of additional requirements documented elsewhere. Others again make no reference at all to their place or purpose in the performance management framework.

As such, to apply the rules and meet the requirements of all performance management documents, one must first know that they exist and how to access them.

Unlike other Victorian frameworks,[299] there is no central portal or access point for performance management resources. This places the onus of their identification and location on departments. It relies on the departments undertaking an exhaustive search for all relevant documents and ensuring the requirements of each have been duly incorporated into their performance management systems and processes. This decreases the likelihood of all requirements being identified and applied.

Some public documents make reference to a *Performance Management Framework*[300] which may provide the necessary explanations and links between each different resource. However, the document itself does not appear to be publicly available and so the Committee was unable to examine it.

Ensuring the easy availability of all guidance and advice related to performance measures is likely to assist departments and other stakeholders in better understanding the Government's performance measurement requirements.

FINDING: Performance measurement requirements exist across multiple separate documents released over the last decade and located in a variety of places. The relationships between the documents are not always clear and there is no overarching structure to assist in navigating them.

RECOMMENDATION 30: The Department of Treasury and Finance establish a central access point for all documents and resources related to performance management.

FINDING: Some performance management resources make reference to a *Performance Management Framework*, but no such document appears to be publicly available.

299 Such as budget and financial management or investment management.

300 E.g. the Department of Business and Innovation's response to the Public Accounts and Estimates Committee 2012-13 Budget Estimates Questionnaire, question 10.2, p.23; Department of Treasury and Finance, Business Plan 2011-12 *Key Performance Indicator*, September 2011, p.29; and Department of Treasury and Finance, *Information Request No.11-23: 2012-13 Departmental Performance Statement for Publication in the Budget Papers*, December 2011, p.1

RECOMMENDATION 31: The Department of Treasury and Finance publish the *Performance Management Framework* on its website.

5.7.2 Validation of performance measures and targets

As described in Section 5.7.1, the Department of Treasury and Finance is responsible for the oversight and approval of the objectives, output structures and performance measures of all Victorian Government departments.

However, as detailed in this chapter, departmental performance information appears to have been approved despite not having met a number of newly-established requirements. The approval of performance information that does not meet explicit criteria indicates a gap in current quality assurance systems and processes.

A number of jurisdictions have sought to prevent such issues by implementing independent validation of performance measures and targets. For instance, British Columbia's Office of the Auditor General assesses the quality of government annual service plan reports and has publicised the findings in its series *Building Better Reports* and various other reports.[301]

In addition, Australia's Commonwealth guidelines for developing performance indicators and targets state:[302]

> *To ensure that performance information is sufficiently robust, the selection of KPIs and a sample of the data values should be reviewed periodically by independent and qualified performance measure specialists.*

FINDING: Departmental performance information has been approved despite not meeting explicit criteria, indicating a gap in quality assurance systems and processes.

RECOMMENDATION 32: The Department of Treasury and Finance implement independent validation of performance measures and targets.

5.7.3 Validation of performance information systems

As stated by the United Kingdom National Audit Office:[303]

> *A performance framework, however well-designed, can only be as good as the base data it is using and how well those data are reported.*

301 For example: Office of the Auditor General of British Columbia, *Providing "Fairly Presents" Assurance for Performance Reports: A Methodology Discussion Paper Focused on the Relevance Assertion*, November 2005; *How Are We Doing? The Public Reporting of Performance Measures in British Columbia*, December 2008

302 Commonwealth Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010, p.3

303 Comptroller and Auditor General (UK), *Taking the Measure of Government Performance,* July 2010, p.19

The independent validation of performance information systems is recommended but not mandated at the Commonwealth level.[304] However, performance information system audits have been in place in the United Kingdom since 2003. This was in response to a series of reports in the early 2000s criticising the lack of integrity of government performance reporting in the United Kingdom. Specifically, the Office of the Deputy Prime Minister (ODPM) Select Committee stated:[305]

> *We heard that the Department monitors its own progress against its targets. With PSA* [Public Service Agreement] *targets ODPM, like all government departments, both sets and marks its exam paper. This undermines the credibility of the Annual Report. The Annual Report should make clear whether reported progress against each target has been externally validated in any way. The National Audit Office will audit the systems used to validate targets from 2003-06.*

In the same manner that financial audits consider whether agencies have in place adequate financial systems, these audits provide assurance about the data systems that underpin government performance monitoring and reporting.

The New South Wales Government has also recently adopted independent data validation as part of its new approach to service delivery performance measurement. In addition to program-based reporting, it has also introduced annual auditing of its performance data. This responsibility has been assigned to the New South Wales Auditor-General, the Australian Bureau of Statistics and the New South Wales Chief Scientist and Engineer.[306]

The Committee believes that introducing a similar system in Victoria has the potential to prevent a number of the issues identified in this chapter and elsewhere by the Committee. The Victorian Auditor-General is empowered to audit whether the performance measures in annual reports fairly represent departments' performance.[307] Some audits have included the performance information systems for particular areas.[308] However, the Auditor-General does not currently look at performance information systems in a more systematic or comprehensive way.

FINDING: Government financial systems are regularly audited. However, there is no independent validation of the Government's performance information systems.

RECOMMENDATION 33: The Department of Treasury and Finance implement a system for having departments' performance information systems independently validated.

304 Commonwealth Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010, pp.3-4

305 Office of the Deputy Prime Minister: Housing, Planning, Local Government and the Regions Committee, *Departmental Annual Report and Estimates 2002*, March 2003, Vol. 1, p.11

306 New South Wales Government, *New South Wales 2021: A Plan to Make New South Wales Number One* , September 2011, p.4

307 *Audit Act 1994*, s.8(3)

308 E.g. Victorian Auditor-General's Office, *Public Transport Performance*, February 2012, Part 2; *Performance Reporting by Departments*, May 2010; *Access to Public Hospitals: Measuring Performance*, April 2009

RECOMMENDATION 34: The Auditor-General undertake regular audits of departments' performance information systems. These audits should ensure that the systems provide accurate and consistent data for reporting on performance measures.

CHAPTER 6 ASSET INVESTMENT AND PUBLIC PRIVATE PARTNERSHIPS

6.1 Introduction

Each year, the Government spends significant amounts of money on assets such as schools, roads and hospitals. The budget papers provide the Government's explanation to the Parliament and the wider community of its asset investment plans for the next four years.

The purpose of this chapter is to examine the Government's plans. The chapter also discusses how well this information has been presented and how useful it is for stakeholders. To do these things, this chapter explores a series of questions:

- What are the Government's targets and strategy for asset investment? (Section 6.2)
- How much is the Government spending on asset investment over the next four years? Will this meet the Government's targets? (Section 6.3)
- How is the Government funding asset investment? (Section 6.4)
- How do the commitments in this budget compare to previous budgets? (Section 6.5)
- How are these projects being delivered? (Section 6.6)
- What projects are currently in progress? (Sections 6.7)
- What are the major problems with asset investment reporting in the budget papers? (Section 6.8)

6.1.1 Traditional asset acquisition and public private partnerships

The Government acquires assets in two ways.

The traditional method is for the Government to fund and manage the construction of an asset itself. With this type of project, costs are paid out of the budget over the construction phase. The costs are fully paid by the time the project is completed (although borrowings may be made to fund the project which are repaid later).

The Government expects to spend $6.3 billion in this way in 2012-13.[309] This amount is referred to as 'annual asset investment'. As can be seen from Figure 2.1 in Chapter 2 of this report, this cost is separate to the Government's output expenditure.

The second method of acquiring assets is through public private partnerships (PPPs). In these arrangements, the Government enters into an agreement with a private sector partner. The private sector partner finances and constructs the asset (or, in some cases, upgrades it). Once constructed, the private sector partner often operates and maintains the asset for an agreed period of time, charging the Government for these services. The asset generally passes to Government ownership after that period of time.

Whereas the costs for traditional asset delivery are paid up-front, Government expenditure for PPP projects is paid over the agreed period of time following the construction. These payments are included in the Government's output expenditure (see Figure 2.1).

309 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48

In 2012-13, the Government expects to spend $0.7 billion on PPPs. Between 2012-13 and 2013-14, these payments are estimated to total $3.7 billion.[310]

Table 6.1 details the estimated levels of annual asset investment and PPP expenditure over the forward estimates period.

Table 6.1 Asset investment and PPP expenditure, 2012-13 to 2015-16

	2012-13 ($ million)	2013-14 ($ million)	2014-15 ($ million)	2015-16 ($ million)
Annual asset investment[(a)]	6,346.8	5,680.4	4,256.1	4,102.8
PPP expenditure[(b)]	727.7	1,010.1	986.4	980.4
Total	**7,074.5**	**6,690.5**	**5,242.5**	**5,083.2**

(a) This figure is before the impact of asset sales. This differs from the figure commonly used in the budget papers which is net of asset sales.

(b) 'Finance charges on finance leases' plus 'operating lease payments'

Source: Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.8, 28

6.1.2 Terminology and scope

The Committee has commented in the past on the confusing number of technical terms relating to asset investment in the budget papers.[311] The Committee has especially noted that there can be several terms used for the same figure. In other cases, varying terms may be used to indicate different concepts, but it is not always clear from the terms what the differences are. This issue is discussed further in Section 6.8.2 of this report.

Where possible, this chapter uses more intuitive terms instead of a range of technical ones. To help readers, Appendix A6.7 compares the terms used by the Committee to those used by the Government. To make things clearer, the value for 2012-13 has been included for each term, along with a reference to where it appears in the budget papers.

As with the rest of this report, this chapter is concerned with the general government sector. These are departments and agencies which receive most of their funding from the Government rather than charging users. Spending classified as 'investment through other sectors' in this report (see Section 6.6.2) is ultimately spent by bodies outside this sector. However, the funding for these investments comes from the general government sector. Because of this, it has been included in this report.

The Committee notes that the main figure used by the Government to describe asset investment is 'net asset investment'. This figure is net of income from asset sales. In contrast, the Committee's main figure is 'annual asset investment', which is gross of the income from asset sales. The Committee has used this figure as it provides a better indication of the total amount of asset projects currently being managed by the Government.

310 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.28

311 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2001, p.101

6.2 The Government's strategy for asset investment

The Government has indicated that asset investment is important, as '*high quality infrastructure is a key contributor to productivity growth*'.[312] The Government has described its current focus in asset investment as '*improving productivity, strengthening service delivery and enhancing safety and security*'.[313]

The Committee does not have a view on what an appropriate level of asset investment may be. However, the Government has set a target in its medium-term fiscal strategy (see Section 2.4.2).[314]

According to the Secretary of the Department of Treasury and Finance:[315]

> *The* [interim report of the] *independent review* [of State Finances] *came up with a number for net infrastructure spend of about 0.5 per cent of GSP which is essential for the maintenance of your infrastructure and to grow it with population, et cetera.*
>
> *What the government has done in its target is to transfer that to more the common definition of infrastructure, which is gross. … when you do that calculation you get to about 1.3 per cent of GSP as being the financial target if you want to keep investing in your infrastructure to meet its capacity.*

The target that the Government has therefore adopted is that net asset investment (as a five-year rolling average) should be at least 1.3 per cent of the average gross state product.

An alternative indicator of sustainable asset investment has been used by the Victorian Auditor-General, in reviewing asset investment for the public sector as a whole.[316] The Auditor-General compared asset investment to depreciation, which is a measure of the rate at which assets deteriorate.

Similarly, the Independent Review of the State's Finances explained in its *Interim Report* that:[317]

> *Spending sustainably entails maintaining the condition of existing assets, as well as acquiring new assets when needed to maintain or enhance service delivery.*

The Review identified depreciation as a measure of '*the need to replace the service capacity of the existing capital stock that is consumed each year.*'[318] In looking at the Government's plans and in recommending targets, the Review therefore considered the difference between asset investment and depreciation.[319]

The Committee will examine the Government's expected performance against its own target and this indicator in the following section.

312 Budget Paper No.1, *2012-13 Treasurer's Speech*, May 2012, p.4

313 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.1

314 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.9

315 Mr G. Hehir, Secretary, Department of Treasury and Finance, 2012-13 budget estimates hearing, transcript of evidence, 4 May 2012, p.20

316 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010-11*, November 2011, p.14

317 Independent Review of State Finances, *Interim Report*, April 2011, p.8

318 ibid., p.35

319 ibid., p.17

6.3 Annual asset investment between 2012-13 and 2015-16

6.3.1 Annual asset investment

Figure 6.1 shows the planned levels of asset investment between 2012-13 and 2015-16 and compares these to historical levels. The figure shows that expenditure in 2012-13 is slightly higher than the year before, but that the level of investment is expected to decline over the forward estimates period.

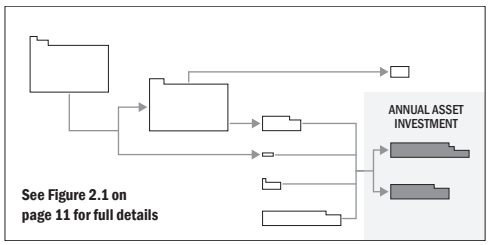
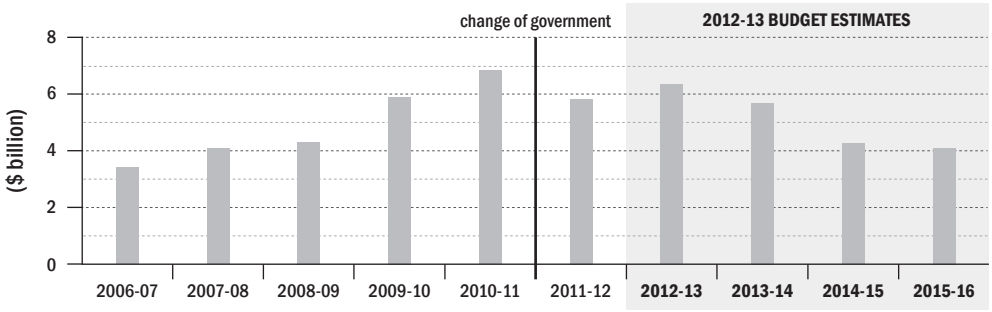


Figure 6.1 Annual asset investment, 2006-07 to 2015-16



Note: Annual asset investment is an aggregate of 'expenditure on approved projects' and 'capital provision approved but not yet allocated' in the budget papers.

Source: Department of Treasury and Finance, 'Consolidated Cash Flow Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/CashFlowHistoricalGG2012-13BU1May2012/$File/CashFlowHistoricalGG2012-13BU1May2012.XLS>, accessed 12 June 2012

Commonwealth stimulus funding in response to the Global Financial Crisis (such as the *Building the Education Revolution* program) was a major cause of the increased annual asset investment levels in 2009-10 and 2010-11.[320] Investment levels in 2014-15 and 2015-16 are expected to be more in line with the pre-stimulus levels last seen in 2008-09, as Figure 6.1 shows.

FINDING: The trend of annual asset investment is downwards over the forward estimates period from $6.3 billion in 2012-13 to $4.1 billion in 2015-16. The level of expenditure in 2014-15 and 2015-16 is similar to the levels prior to the Global Financial Crisis.

6.3.2 The Government's target

As noted in Section 6.2, the Government's target for asset investment is that average spending (after asset sales) should be at least 1.3 per cent of average gross state product (GSP).

320 Budget Paper No.2, *2009-10 Strategy and Outlook*, May 2009, p.10

The Government discusses its expected performance against this target in the budget papers:[321]

> *Although infrastructure investment* [i.e. 'net asset investment'[322]] *declines towards the end of the forward estimates, it averages 1.4 per cent of GSP over the five years to 2015-16, exceeding the Government's parameter of an average 1.3 per cent of GSP over a rolling five year period.*

This target is simple and transparent, with estimates for both GSP and depreciation being included in budget papers. Actual numbers are also published at the end of the year in the annual Financial Report for the State, meaning that it will be easy to monitor actual performance compared to the target.

The Committee considers that setting such a target is a move which supports Government accountability. The Committee hopes to see expected results against this target discussed in future budget papers. The Committee also hopes that actual results compared to the target will be discussed in the annual Financial Report for the State.

FINDING: The Government has set itself a target for infrastructure investment (net asset investment) of 1.3 per cent of gross state product based on a five-year rolling average. The current budget estimates predict that the Government will meet this target for each year to 2015-16.

RECOMMENDATION 35: The Government should detail its expected performance compared to its asset investment target each year in the budget papers. This should be followed by reporting actual results compared to the target in the annual Financial Report for the State. Any occasions on which the target is not met should be explained.

The budget papers show that the Government plans to meet its target in each year of the forward estimates period. However, as a result of the Government's plan to reduce the amount of annual asset investment in 2014-15 and 2015-16, a substantial increase in expenditure will be required in 2016-17 and beyond in order to meet the target.

Table 6.2 shows the expected results over the forward estimates period. The table also includes a further year showing the amount of infrastructure investment that will be required in 2016-17 for the target to be met in that year. Appendix A6.1 provides a more detailed break-down of the data.

Table 6.2 shows that, in order to achieve the target in 2016-17, net asset investment will need to rise significantly in 2016-17 to $5.7 billion. In addition, as can be seen in Appendix A6.1, net asset investment will have to average $6.4 billion per year between 2016-17 and 2018-19 to meet the target.

321 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.47

322 'Net asset investment' is related to other terms in Appendix A6.1.

Table 6.2 Rolling five-year average of net asset investment and GSP[(b)]

Year	Budget paper estimates				Committee calculations
	2012-13	2013-14	2014-15	2015-16	2016-17
Gross State Product ($ million)	340,305	357,120	375,187	393,722	413,408[(a)]
Net asset investment ($ million)	5,794.3	5,308.2	3,902.6	3,749.1	5,682.5[(c)]
Net asset investment as a share of GSP (per cent)	1.7	1.5	1.0	1.0	1.4
Five-year rolling average of net asset investment as a proportion of average GSP (per cent)	1.8	1.8	1.6	1.4	1.3

(a) GSP for 2016-17 is estimated by continuing the growth rate for the previous three years.

(b) See Appendix A6.1 for full calculations and further projections.

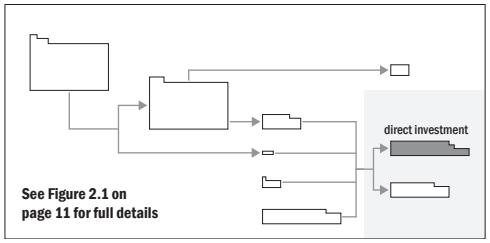
(c) Public Accounts and Estimates Committee calculation to maintain the five-year average of net asset investment as a proportion of average GSP at 1.3 per cent.

Sources: Department of Treasury and Finance, 'Macroeconomic indicators', <www.budget.vic.gov.au/CA2579B200132B63/WebObj/Macroeconomicindicators2012-13BU1May2012/$File/Macroeconomicindicators2012-13BU1May2012.xlsx>, accessed 7 June 2012; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48

This will be a challenge for the Government. To avoid additional borrowings, the Government would need to increase its operating surplus substantially, so that it averages approximately $1.4 billion more in 2016-17 to 2018-19 than is expected for 2015-16.[323] On the other hand, funding that level of asset investment through borrowings would be very difficult without increasing net debt as a proportion of GSP. This would go against the Government's medium-term fiscal strategy target for net debt (see Section 3.6).

FINDING: The Government currently plans to reduce annual asset investment in 2014-15 and 2015-16. As a result of this, the Government will have to significantly increase asset investment in 2016-17 and beyond in order to meet its target for asset investment. Funding this increase may be a challenge for the Government.

6.3.3 Asset investment and depreciation



As mentioned in Section 6.2, the Independent Review of State Finances and the Auditor-General both suggested that comparing asset investment to depreciation would be a useful indicator.

Depreciation is a cost figure appearing in the State's financial statements. The amount of depreciation set aside each year is the amount of investment that would be required to keep the State's assets in the same condition as they were

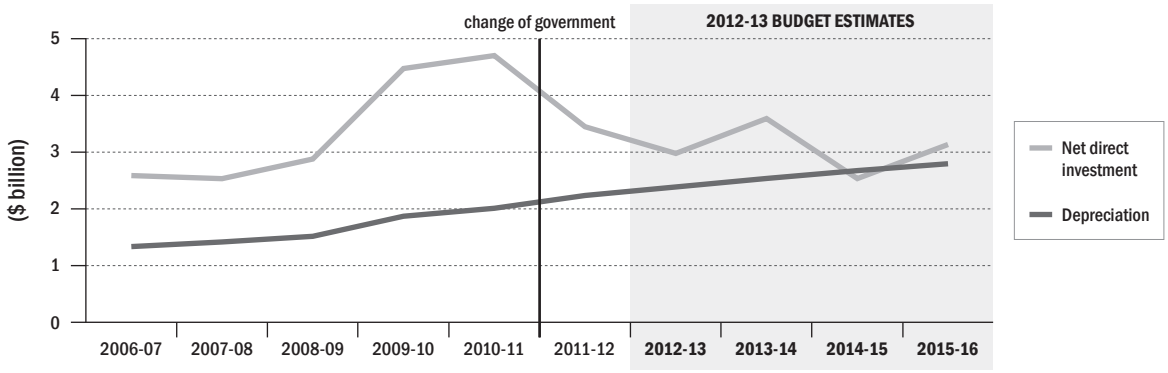
323 The total of the operating surplus plus 'depreciation and similar' is estimated at $5.0 billion in 2015-16 (see Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48 where it is referred to as 'Non-cash income and expenses (net)'). This would need to increase to $6.4 billion on average for 2016-17 to 2018-19 to fully fund the required level of annual asset investment (see Appendix A6.1) without borrowings.

in last year. If the Government saved each year's depreciation, it would have just enough to replace the asset with an identical one when the original asset wore out.

The Committee has compared the level of depreciation to net direct investment (that is, direct asset investment less asset sales).[324] Net direct investment is the amount by which the Government is increasing the value of assets in the general government sector in a year.

The comparison can be seen in Figure 6.2.

Figure 6.2 Net direct investment[(a)] and depreciation, 2006-07 to 2015-16



(a) Does not include investment through other sectors or expenditure on PPPs.

Sources: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2012-13' data set <www.budget.vic.gov.au/CA2579B200132B63/WebObj/OperatingStatementGG2012-13BU1May2012/$File/OperatingStatementGG2012-13BU1May2012.XLS>, accessed 17 May 2012; Department of Treasury and Finance, 'Consolidated Cash Flow Statement' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/CashFlowHistoricalGG2012-13BU1May2012/$File/CashFlowHistoricalGG2012-13BU1May2012.XLS>, accessed 12 June 2012

In 2014-15, depreciation is expected to be higher than net direct investment. As suggested by the *Interim Report* of the Independent Review of the State's Finances,[325] this means that the service capacity of the State's assets is not being maintained (see Section 6.2). The Victorian Auditor-General has identified this as potentially concerning.[326]

In addition, without an increase in asset investment beyond 2015-16, the level of asset investment would be likely to fall below the level of depreciation in future years.

The Committee notes that net direct investment is only expected to be less than depreciation in one year. However, given that this situation has been noted as one of potential concern, the Committee considers that the Government's strategy for managing this and the underlying trends should be discussed in the budget papers.

FINDING: In 2014-15, depreciation in the general government sector is expected to be higher than net direct investment. This means that the service capacity of the State's assets is not being maintained.

324 What the Committee refers to as 'net direct investment' (which is equal to the 'purchases of non-financial assets' less 'sales of non-financial assets') corresponds to what is termed 'infrastructure investment in the General Government sector' in the Independent Review of State Finances, *Interim Report*, April 2011, p.17. It is also termed 'Cash flows from investments in non-financial assets' in the 'Estimated cash flow statement for the general government sector' table in Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.8.

325 Independent Review of State Finances, *Interim Report*, April 2011, p.35

326 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010-11*, November 2011, p.14. It should be noted that the Auditor-General was looking at asset investment for the public sector as a whole and not just the general government sector.

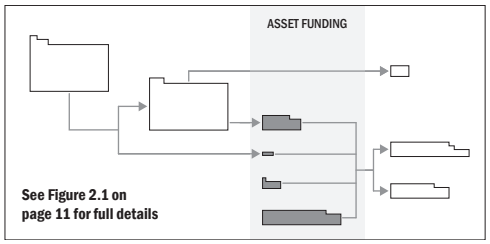
RECOMMENDATION 36: Future budget papers should include a comparison between net direct investment and depreciation in the general government sector.

RECOMMENDATION 37: In any year where net direct investment is expected to be less than depreciation in the general government sector, the budget papers should explain the Government's reasons for planning this and show the Government's strategy to manage the situation.

6.4 Sources of funding – where is the Government getting the money?

As indicated in Figure 2.1, in the 'asset funding' column, the Government can draw on four sources to pay for its annual asset investment:

- the operating surplus;
- depreciation and similar;
- asset sales; and
- borrowings.



The operating surplus is the Government's intended main source of investment funds by the end of the forward estimates period. It is the amount left over from revenue after deducting all output expenditure.

With depreciation and similar, a cost is entered into the State's finances, but no money changes hands, and no goods or services are received. Because no money has been spent, the cash equivalent to this amount is still available to the Government for investment use. The cash equivalent to this cost is therefore another major source of funding.

As can be seen from Figure 2.1, both of these sources of funding ultimately come from revenue.

The Government can also generate cash from asset sales by selling surplus or no-longer-used assets. Examples of such assets are fleet cars that have reached a certain age or surplus land. Asset sales for 2012-13 are predicted to be unusually high compared to recent years and predictions for the forward estimates period.[327] At the budget estimates hearings, the Committee noted that the sale of surplus land was expected to provide $176 million in 2012-13. This is a significant increase compared to recent years, in which approximately $50 million has been raised this way.[328] The Committee asked the Assistant Treasurer to explain the increase. He indicated:[329]

327 Department of Treasury and Finance, 'Consolidated Cash Flow Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/CashFlowHistoricalGG2012-13BU1May2012/$File/CashFlowHistoricalGG2012-13BU1May2012.XLS>, accessed 12 June 2012

328 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.317

329 Hon. G. Rich-Phillips MLC, Assistant Treasurer, 2012-13 budget estimates hearing, transcript of evidence, 18 May 2012, p.5

> *There is always an ongoing portfolio of properties that are sold. … some of them are ridiculously small. They are areas of land the size of this table, for example, which for one reason or another historically are on the government's books and they are disposed of, and there are a large number of very small properties which are disposed of through the course of this program.*
>
> *That said, there are also some significant properties disposed of from time to time, and we expect in 12–13 that there will be a couple of properties which have been in the portfolio for a while. Typically with significant land sales there is a lot of work to be done in terms of remediation work, planning work et cetera, which needs to be done before they are brought to market, so those properties have been under way for several years and we expect that they will go to market in 12–13, and the increased target* [for revenue raised this way] *reflects the fact that there will be some significant properties we expect to dispose of in 12–13.*

Borrowings for asset projects are made when the other sources are not enough to supply what the Government needs for its asset investment plans. There can be years (such as 2015-16) where funds received from the operating surplus, 'depreciation and similar' and asset sales are more than enough for annual asset investment and no borrowings for this purpose are required.[330]

As discussed in Section 6.1.1 and shown in Figure 2.1, PPP expenditure is funded differently.

In 2012-13, the Government required $4.3 billion more than it gained through the operating surplus and 'depreciation and similar' to fund its asset investment program. This will be acquired through asset sales and borrowings.[331]

The Government plans to eliminate its reliance on borrowings as a source for its investments by the end of the forward estimates period.[332] It intends to do this by reducing annual asset investment, while at the same time significantly increasing budget surpluses in each year.

Figure 6.3 shows the expected sources of funds for annual asset investment over the next four years.

Three trends are shown in this figure:

- overall annual asset investment decreases each year;
- budget surpluses increase almost 16-fold over the period (see Section 4.3.3 of this report); and
- borrowings for asset projects decrease over the period, with none required in 2015-16.

These trends combine so that in the last year there are surplus funds available. The additional money from the operating surplus, 'depreciation and similar' and asset sales can be used for other activities, such as paying off borrowings.[333] As discussed in Section 6.3.2, however, it will become increasingly difficult for the Government to meet its asset investment target after 2015-16 without relying on additional borrowings.

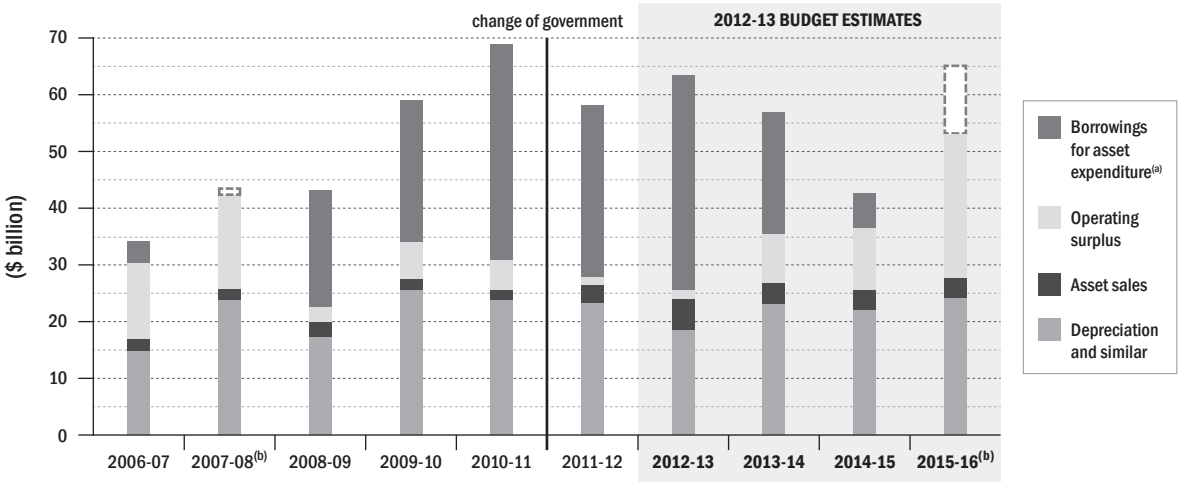
330 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48

331 ibid.

332 ibid., p.6

333 Note the planned reduction in net borrowings in 2015-16 – Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.8

Figure 6.3 Sources of funds for annual asset investment, 2006-07 to 2015-16



(a) Borrowings for asset projects is calculated as a residual after deducting accounting costs, budget surplus and asset sales from annual asset investment.

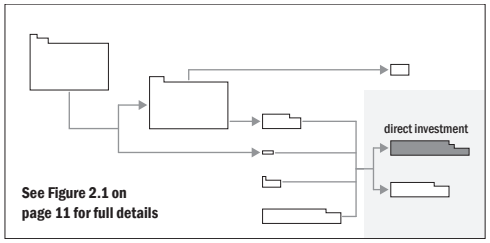
(b) In 2007-08 and 2015-16 the borrowings residual is negative. The amount from other sources available in excess of annual asset investment is shown by the bar with the dotted outline.

Sources: Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.8; Department of Treasury and Finance, *Financial Report for the State of Victoria*, 2006-07 to 2010-11

FINDING: The Government plans to decrease annual asset investment and increase operating surpluses over the next four years. If successful, this will allow the Government to fund its annual asset investment in 2015-16 without borrowings.

6.5 Total estimated investment of projects released in the 2012-13 Budget

Many asset projects take more than one year to complete. The total estimated investment (TEI) of a project is the sum of all money that will be spent on the project over the period of its construction. TEI commitments in a budget flow through to annual asset investment over the following few years.

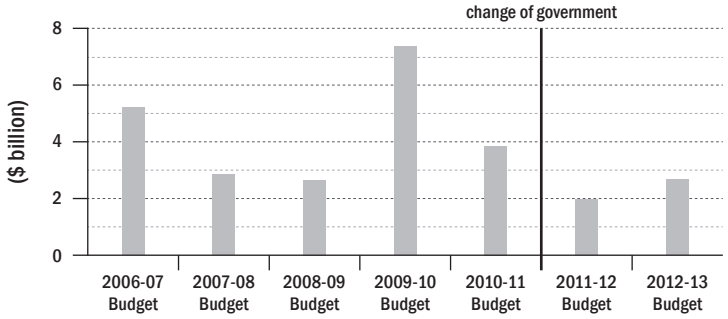


The TEI of direct investment projects announced in the 2012-13 Budget is $2.7 billion.[334] This is compared to the TEIs approved in previous budgets in Figure 6.4.

Because payments announced in one budget affect expenditure over a number of years, fluctuations in TEI released from one budget to another can be larger than fluctuations in annual asset investment.

334 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.9

Figure 6.4 Total estimated investment for direct asset investment announced in budgets, 2006-07 to 2012-13



Notes: TEI for each year includes projects released in budget updates for the previous year. This affects all years, but is most significant for 2011-12. Due to various conventions (see Section 6.8.1), figures for direct asset investment in Budget Information Paper No.1 and Budget Paper No.4 (from which this chart is calculated) do not include all asset projects.

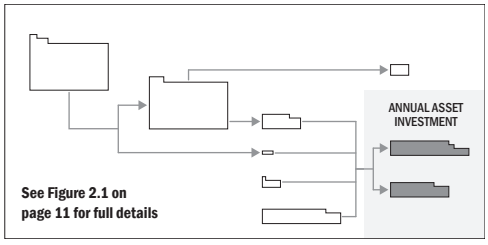
Sources: Budget Information Paper No.1 (*Public Sector Asset Investment Program*), 2006-07 to 2010-11; Budget Paper No.4 (*State Capital Program*), 2011-12 to 2012-13

Figure 6.4 shows the large spike in asset investment that largely resulted from the *Nation Building – Economic Stimulus Plan* packages of 2009-10 and, to a smaller extent, 2010-11. These packages were intended by the Commonwealth Government to reduce the impact of the Global Financial Crisis. The TEI for projects announced in the 2012-13 Budget is slightly larger than the 2011-12 level, but both are smaller than those for the stimulus funding years. Over the long term, the Committee notes that the TEI announced in each budget tends to vary considerably from one year to another.

FINDING: The total estimated investment of new asset projects released in the 2012-13 Budget is $2.7 billion. This level is an increase on the year before but is lower than those years which received significant Commonwealth stimulus funding.

6.6 Avenues of asset investment – which Government bodies do the investing?

As shown in Figure 2.1, 'annual asset investment' is delivered through two avenues, determined by what type of body manages the investment:

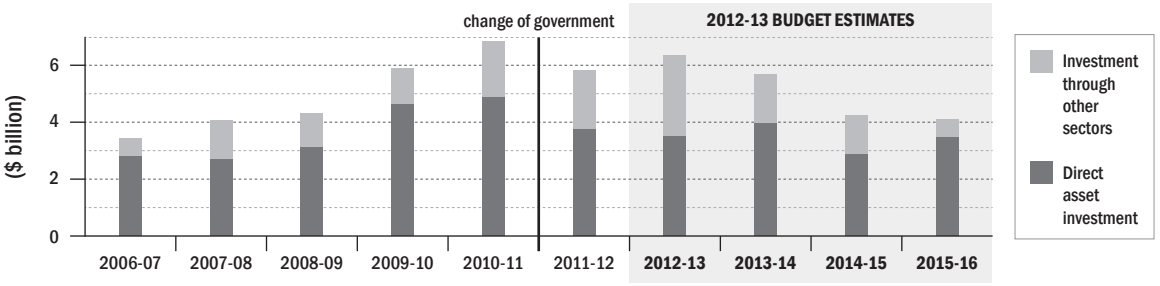


- 'Direct asset investment' is when the project is managed by a government department or agency that is primarily government-funded (that is, the general government sector).
- 'Investment through other sectors' is when the project is managed by a government entity that has its own primary sources of income from charging for its services (that is, a public non-financial corporation).

A third avenue of investment, public private partnerships, is additional to annual asset investment and is discussed separately in Section 6.6.3.

'Direct asset investment' and 'investment through other sectors' are shown in Figure 6.5 below. As the figure shows, the amount of direct asset investment is expected to remain relatively stable over the forward estimates period. However, there is expected to be a substantial decline in the amount of investment through other sectors.

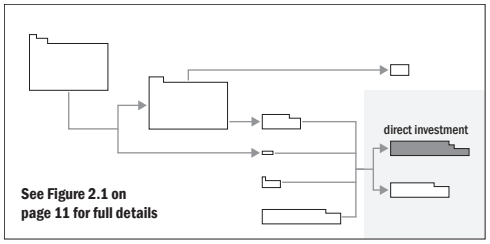
Figure 6.5 'Direct asset investment' and 'investment through other sectors', 2006-07 to 2015-16



Sources: Department of Treasury and Finance, 'Consolidated Cash Flow Statement 2012-13' data set, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/CashFlowHistoricalGG201213BU1May2012/$File/CashFlowHistoricalGG2012 13BU1May2012.XLS>, accessed 12 June 2012

6.6.1 Direct asset investment

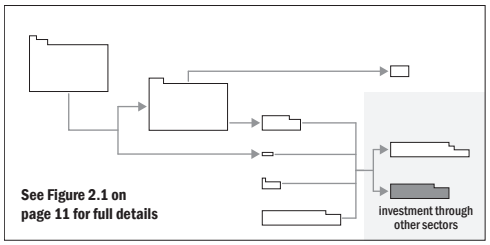
Direct asset investments are made by government departments and agencies that do not recover their costs (the general government sector). With direct asset investment, the department or agency manages the design and construction of the project.



Direct asset investment, shown in Figure 6.5, is expected to be $3,529.6 million[335] in 2012-13. Between 2012-13 and 2015-16, it is expected to fluctuate between approximately $3 billion and $4 billion per year, showing no clear trend up or down. Over the four years, direct asset investment will total $13.9 billion.

6.6.2 Investment through other sectors

Between 2012-13 and 2015-16, about one-third of the general government sector's annual asset investment[336] is expected to flow through departments into projects managed by public non-financial corporations (i.e. government bodies that are mostly self-funded).[337] This funding is provided to the public non-financial corporations with the expectation that there will be little or no financial return to the general government sector. However, it is expected that these investments will support various policy intentions of the Government.



335 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.8

336 ibid.

337 Some also flows through public financial corporations, but this is small in relation.

In the budget papers, this expenditure is referred to as '*net cash flows from investments in financial assets for policy purposes*'.[338]

During 2012-13, the Government will invest $2.8 billion through other sectors. However, as can be seen from Figure 6.5, significantly smaller amounts are expected to be spent through this avenue each year over the forward estimates period, with only $0.6 billion planned for 2014-15.

Despite the size of the investment through other sectors, no useful information about these investments is given in the budget papers. The budget papers do not specify:

- what projects are being funded by this item; or
- what policy purposes these projects support.

The Committee therefore sought additional information from the Department of Treasury and Finance. The Department explained that six individual projects are funded in 2012-13 under 'investment through other sectors':[339]

- New Ticketing System;
- Metropolitan Rolling Stock and 40 New Trains for Melbourne Commuters;[340]
- Tram Procurement and Supporting Infrastructure;
- Regional Rail Network Major Periodic Maintenance (Passenger and Freight);
- Regional Rolling Stock; and
- Regional Rail Link.

The Department also detailed the policies purposes that each of these projects supports. This information has been included in Appendix A6.2.

Each of these projects is listed in Budget Paper No.4 (*2012-13 State Capital Program*) under the relevant public non-financial corporation and in Budget Paper No.3 (*Service Delivery*) under the relevant department in the year it which it was announced. However, neither budget paper identifies that these projects constitute the investment through other sectors made by the general government sector. The budget papers also do not identify the policy purposes for which these projects have been funded.

This lack of information prevents transparency for these investments. Without appropriate disclosure, there can be no demonstration afterwards that the Government's intention for the investments was achieved. The Committee considers that improved disclosure should be provided in budget papers. In addition, information on progress and outcomes of the projects involved should also be provided in departmental annual reports.

338 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.8

339 Department of Treasury and Finance, response to the Committee's 2012-13 Budget Estimates Questionnaire, received 3 May 2012, p.14

340 This is discussed as two separate projects in the budget papers.

FINDING: Investment through other sectors ('net cash flows from investments in financial assets for policy purposes') will total $6.5 billion over the forward estimates period. The budget papers do not disclose what projects the funds are invested in or what policies the investments support. Departmental annual reports do not provide information on what projects are supported by investment through other sectors, or the progress or outcomes of these projects.

RECOMMENDATION 38: The Department of Treasury and Finance provide a detailed break-down of asset investment through other sectors ('net cash flows from investments in financial assets for policy purposes') as part of the budget papers. This should include:

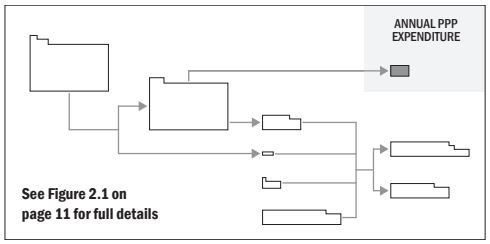
(a) what projects are funded by the item; and

(b) what policy purposes each project supports when not published elsewhere.

RECOMMENDATION 39: The guidance for annual reports be amended to require departments that fund asset investment through other sectors ('net cash flows from investments in financial assets for policy purposes') to include in their annual reports a report that shows the progress of the project and results of the investment.

6.6.3 Public Private Partnerships

Total expenditure



The third way of funding assets is the public private partnership (PPP) model. As noted earlier, expenditure in this area is not included in the annual asset investment figure. Unlike annual asset investment, expenditure on PPPs is included in the Government's output expenditure (see Figure 2.1).

The Committee approached the Treasurer for detail about where expenditure on PPPs is disclosed in the budget papers. The Treasurer indicated that:[341]

> *Principal payments are reflected under net borrowings in the cash flow statement.*
>
> *Interest payments are reflected under interest expense in the operating statement and interest paid in the cash flow statement.*

341 Hon. K. Wells MP, Treasurer, response to questions on notice, communication received 6 July 2012, Attachment 2, p.3

Operating payments are reflected under other operating expenses in the operating statement and goods and services in the cash flow statement.

The notes to the line items 'interest expense' and 'other operating expenses' break these items down into several smaller items, including 'finance charges on finance leases' and 'operating lease payments'. The Committee understands that some or all PPP expenditure is included in these items.

The Government expects finance charges on finance leases and operating lease payments in the general government sector to total $727.7 million in 2012-13. This is expected to increase to around $1 billion in 2013-14 and to remain at that rate for the last two years of the forward estimates period (see Table 6.1).[342]

This level of expenditure is a significant increase from $394.1 million in 2010-11. The Committee notes that there has been no matching increase in disclosure for this large amount of expenditure. Nor is there any disclosure of the strategy behind the significant increase in expenditure on PPPs.

FINDING: There has been a substantial increase in expenses for public private partnerships since 2010-11, from $394.1 million in 2010-11 to approximately $1 billion per year from 2013-14 onwards. There is no discussion of the Government's strategy with respect to investing in public private partnerships.

Both of the line items which include PPP expenditure are buried within notes to the financial statements. In addition, neither line item actually mentions PPPs. The Committee does not consider that it would be clear to most stakeholders that these items represent annual PPP expenditure. Nor is it clear whether these line items only reflect PPP expenditure or whether other items are also included.

The clarity of disclosure is significantly different to the disclosure of asset investment through traditional means. Although issues with this information have been noted in Section 2.6.2 of this report, Budget Paper No.2 brings together several key bits of information about traditional asset investment.[343] The Committee considers that it would be appropriate to similarly bring together all details of annual expenditure on PPPs, especially given the increased level of expenditure predicted in the forward estimates.

FINDING: Expenditure on public private partnerships is included in two items in notes to the comprehensive operating statement. Neither of the titles of these items refer to public private partnerships. This makes it difficult to identify public private partnership expenditure.

342 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.28. Expenditure on PPPs is the combination of 'finance charges on finance leases' (note 9 of the comprehensive operating statement) and 'operating lease payments' (note 10). This total includes expenditure on the Victorian Desalination Plant, even though that is outside the general government sector, due to back-to-back agreements between Melbourne Water and the Department of Sustainability and Environment (Hon. K. Wells MP, Treasurer, response to questions on notice, received 6 July 2012, Attachment 2, p.6). This expenditure is offset by income received from Melbourne Water (Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.163).

343 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, pp.47-9

RECOMMENDATION 40: The budget papers include an additional table bringing together all components of estimated expenditure on public private partnerships, including interest, operating payments and any other expenditure.

A list of the seven PPPs currently in delivery and in procurement is provided in the budget papers.[344] However, the 16 projects that are already in operation[345] are not identified. These are the projects which the annual PPP expenditure goes towards. Although line items in the budget papers include the total expenditure, this is not broken down on a project basis.

Again, this contrasts with traditional asset investment, for which Budget Paper No.4 provides details of each major project. The Committee considers that it would be appropriate for a similar break-down to be provided for PPP projects. The Committee notes that details of total expected lease payments and other commitments for future projects are provided on a project-by-project basis in the annual Financial Report for the State.[346] The Committee believes that similar details for the upcoming year should be provided in the budget papers.

FINDING: The expenditure on individual public private partnership projects is not disclosed in the budget papers. However, there are some disclosures made at project level in the annual Financial Report for the State.

RECOMMENDATION 41: The budget papers detail expected expenditure for the year ahead for each individual public private partnership project.

The Committee is currently looking at PPPs in more detail as part of its Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects. The Committee expects to report further on PPPs as part of that inquiry.

Components of PPP expenditure

There are two components to annual PPP expenditure (as shown in Figure 6.6):[347]

- 'finance charges on finance leases' represent the interest component of the expenditure; and
- 'operating lease payments' are made for the operation of the assets themselves over their lifetime.

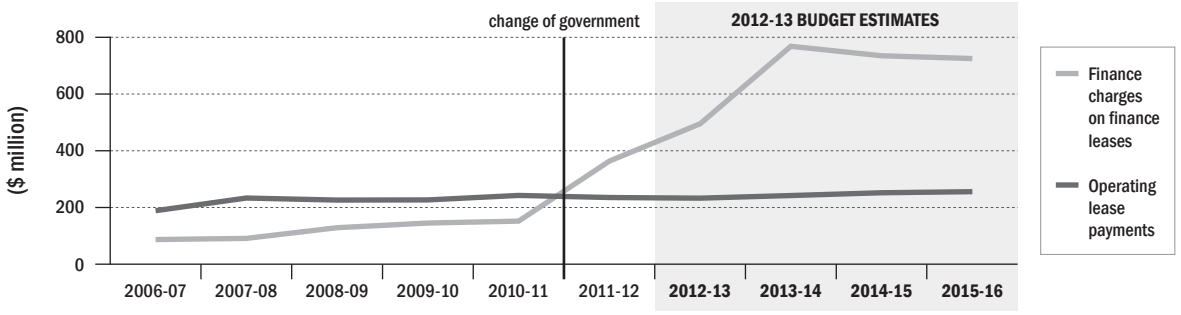
344 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.7

345 ibid.

346 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, pp. 152-3

347 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.28

Figure 6.6 Components of PPP expenditure, 2006-07 to 2015-16



Sources: Department of Treasury and Finance, *Financial Report for the State of Victoria, 2006-07*, October 2007, pp.91-2; Department of Treasury and Finance, *Financial Report for the State of Victoria, 2007-08*, October 2008, p.96-7; Department of Treasury and Finance, *Financial Report for the State of Victoria, 2008-09*, October 2009, p.88; Department of Treasury and Finance, *Financial Report for the State of Victoria, 2009-10*, September 2010, p.86 (for 2008-09); Department of Treasury and Finance, *Financial Report for the State of Victoria, 2010-11*, October 2011, p.77 (for 2010-11); Department of Treasury and Finance, *2011-12 Budget Update*, December 2011, p.60 (for 2011-12); Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.28 (for 2012-13 onwards)

Figure 6.6 shows the two components of PPP expenditure since 2006-07. The figure shows that operating lease payments have been very stable over time. By contrast, there is expected to be a five-fold increase in finance charges between 2010-11 and 2013-14. That one component is so stable and the other increases so significantly suggests that the terms of the new leases may be different. No discussion of this has been included in the budget papers.

FINDING: The components of public private partnership expenditure are expected to change significantly between 2010-11 and 2013-14. No discussion of these changes has been included in budget papers.

RECOMMENDATION 42: Significant changes to the components of expenditure on public private partnerships should be accompanied by explanations.

PPPs in the public non-financial corporations sector

These issues relate to PPPs in the general government sector. However, even less information is provided in the budget papers about PPP expenditure in the public non-financial corporations sector (that is, government agencies that largely recover their costs by charging for services). This is despite the fact that a number of large PPPs are being managed by that sector (such as the Barwon Water Biosolids Management Project, which is managed by the Barwon Region Water Corporation).

The operating statement for the public non-financial corporations sector does not disaggregate interest expense and other operating expenses as is done for the general government sector. For this reason it is impossible to identify expenditure for PPPs in the public non-financial corporation sector.

The Committee considers this to be a gap in transparency and believes that disclosure of PPPs in the public non-financial corporations sector should match that of the general government sector.

FINDING: A number of PPPs are outside the general government sector. It is impossible to identify expenditure for these projects in the budget papers.

RECOMMENDATION 43: The budget papers disclose expenditure on public private partnerships by public non-financial corporations to the same standard as the general government sector.

6.7 The assets being delivered

6.7.1 Types of assets

The budget papers break direct asset investment down into a range of categories. Investment through other sectors is not currently broken down in the budget papers but the Department of Treasury and Finance has indicated that this expenditure is entirely in the transport area.[348]

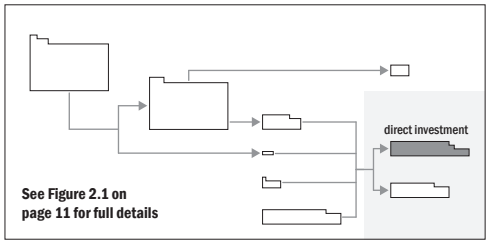


Figure 6.7 shows the break-down of direct asset investment over the next four years and compares it to recent years.

The Government's asset investment priorities for 2012-13 are dominated by health and 'transport and communications' projects. Together, these two categories account for 48 per cent of expenditure. Over the forward estimates period, health projects will continue to feature prominently, although the amount of funding allocated for 'transport and communications' reduces substantially.

From 2013-14 onwards, though, an increasingly large portion of the Government's budget for direct asset investment has not yet been allocated by purpose. That is, it is money that has been approved for spending on asset investment, but it has not been allocated to specific projects.

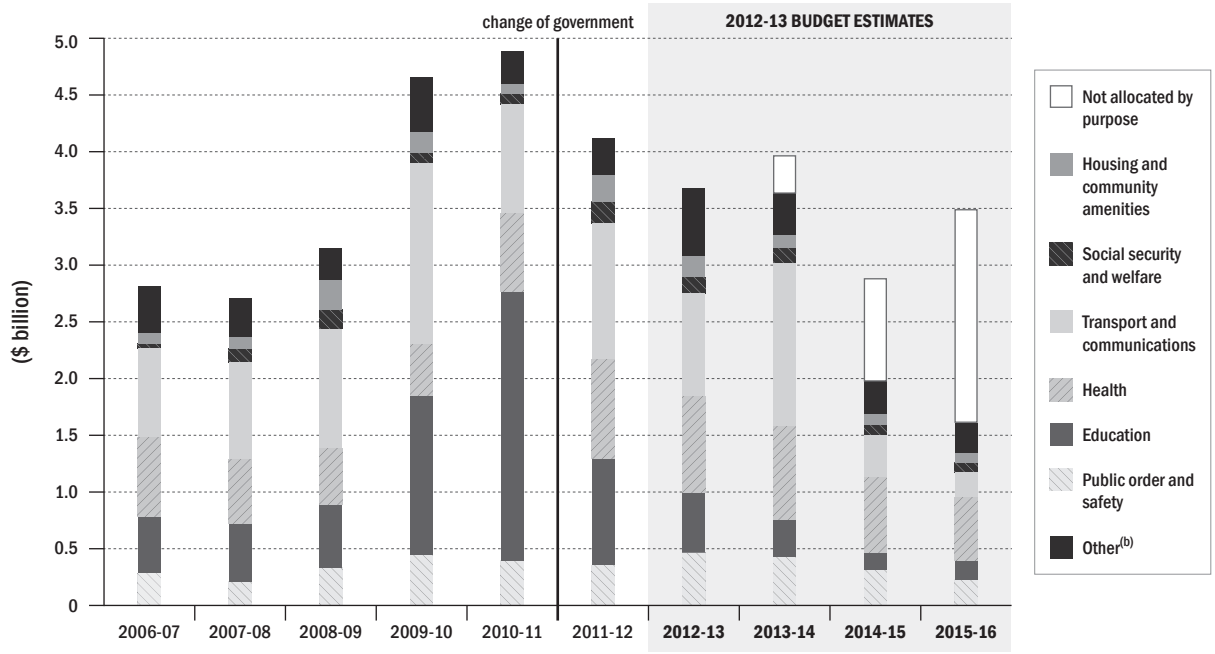
The Committee notes that the 2012-13 budget papers provide funding for the initial phases (but not later phases) of large transport projects such as the East West Link.[349] If these projects go ahead, much of the unallocated funds over the forward estimates period may flow to transport.

FINDING: The Government's priority areas for asset investment for 2012-13 and 2013-14 are health and 'transport and communications'.

348 Department of Treasury and Finance, response to the Committee's 2012-13 Budget Estimates Questionnaire, received 3 May 2012, p.14

349 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.28

Figure 6.7 Direct asset investment by purpose, 2006-07 to 2015-16[(b)]



(a) The category 'other' is an aggregation of 'general public services'; 'recreation and culture'; 'fuel and energy'; 'agriculture, forestry, fishing, and hunting'; 'mining, manufacturing, and construction'; 'other economic affairs'; and 'other purposes'.

(b) Does not include the effect of the negative 'not allocated by purpose' figures for 2011-12 and 2012-13

Sources: Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.33; Budget Paper No.5, *2012-13 Statement of Finances*, May 2011, p.34; Financial Report for the State of Victoria, 2007-08 to 2010-11

6.7.2 Asset projects currently in progress

Each year, Budget Paper No.4 (*State Capital Program*) includes a list of the asset projects currently underway. New asset projects are added to the list each year, completed projects are removed,[350] and continuing projects are updated. Showing what has changed in individual projects is an important means of transparency and accountability.

There are 371 asset projects underway during 2012-13, with a combined disclosed TEI of $13.0 billion. The total asset investment expected during 2012-13 for projects listed in Budget Paper No.4 is $3.0 billion.[351]

The majority of projects last more than one year, meaning they can be found in successive budget papers. These continuing asset projects are reported individually, with updated investment spending information. Stakeholders can therefore monitor changes from one year to the next by comparing reports from successive sets of budget papers.[352]

Appendices A6.3 and A6.4 contain lists of projects reported in the budget papers whose TEIs changed between 2011-12 and 2012-13. This is normally due to changes in the scope of the project or updated estimates for project costs. The Committee notes that the budget

350 In a positive move, Budget Paper No.4 now explicitly lists projects that are considered complete.

351 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.9. One project, 'Melbourne Wholesale Markets', does not have a TEI value disclosed for reasons of 'commercial sensitivity', and the TEI for one project, 'Transport Corridor Reservation', is yet to be announced.

352 There are, however, a number of limitations to using these data – see Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, pp.232-6

papers provide explanations for all significant changes in TEI (that is, changes greater than 10 per cent).

There are a small number of projects where the Committee considers that the explanations were not sufficient to fully explain what happened. For example:

- the M80 Upgrade project, Stages 1B and 1C,[353] where a $16.2 million saving has been realised in one stage and consumed in the next, but no cause is detailed in the budget papers; and
- three projects where the explanation was generic,[354] speculating on reasons but not specifying what had happened (although only one, Kyabram P-12 College,[355] changed by more than 10 per cent).

The Committee notes that the number of TEI changes without satisfactory explanation is low in relation to the number of projects underway. This is considered to be good practice in accountability.

FINDING: The number of instances where TEIs have changed by more than 10 per cent between 2011-12 and 2012-13 without satisfactory explanation is low.

6.8 Inconsistent reporting in budget papers

The Committee has identified three areas in which the reporting of details about asset investment is inconsistent within the budget papers:

- direct investment figures;
- the use of terms; and
- the treatment of new asset initiatives

Addressing these inconsistencies in future budget papers will make them easier to understand and more transparent.

6.8.1 Direct asset investment figures

The amount that the Government expects to spend in 2012-13 on direct asset investment is reported in several different places in the budget papers. The estimated 2012-13 expenditure on new projects is also reported in several places. However, as can be seen in Table 6.3 the amounts cited in different places vary.

353 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.51 (and notes on p.54)

354 '*The TEI for these projects has changed as a result of rephasing within the New School Construction, Land Acquisition and School Upgrades. This rephasing may be due to a range of factors including inclement weather, latent soil conditions and adverse tender results. The total cost to deliver the New School Construction, Land Acquisition and School Upgrades to the Department has not changed.*' (Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.25)

355 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.21 (and note on p.25)

Table 6.3 Direct asset investment, 2012-13, various sources

Component	Description	Value ($ million)	Source
All asset projects	Purchases of non-financial assets (general government sector)	3,529.6	Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.8
	Payments for non-financial assets (summed from departmental tables)	3,462.0	Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, Chapter 3
	Estimated expenditure 2012-13 (total for all projects)	2,984.1	Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.9
New asset projects	Expenditure in 2012-13 (summed from departmental asset initiative tables)	686.0	Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1
	Estimated expenditure 2012-13 (total for new projects)	586.4	Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.9

Sources: Budget Paper No.3, *2012-13 Service Delivery*, May 2012; Budget Paper No.4, *2012-13 State Capital Program*, May 2012; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012

As can be seen in Appendices A6.5 and A6.6, the departmental components of these totals show similar inconsistencies.

The budget papers identify two reasons for these variations:

- '*threshold conventions*',[356] which allow small projects to be left out of Budget Paper No.4, although they still contribute to the total in Budget Paper No.5; and
- '*sectoral classification conventions*',[357] which the Committee understands to be a reference to the practice of listing projects funded through 'investment in other sectors' under a department in Budget Paper No.3 but under the relevant public non-financial corporation in Budget Paper No.4.

In addition, the Committee believes that variations may come from these situations:

- expenditure for 2012-13 for two projects is given in Budget Paper No.4 as '*tba*' and does not contribute to the total, but this may be included in the total in Budget Paper No.5;[358]
- contingency allowances, which may be positive or negative, are factored into Budget Paper No.5 but may not be included in the other budget papers;[359] or
- other factors that have not been discussed in budget papers.

These factors are not made clear in the budget papers. Nor are the effects of most of these factors quantified. This means that stakeholders cannot readily understand the differences between the numbers.

356 ibid., p.8

357 ibid.

358 The *Melbourne Wholesale Markets – Redevelopment* and *Transport Corridor Reservation* projects – Budget Paper No.4, *2012-13 State Capital Program*, May 2012, pp.14, 50

359 This is shown in the item 'contingencies not allocated to departments' in Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.34. The item is usually (but not always) negative due to expected departmental deferral of expenditure leading to underspending, which is common in multi-year projects. In addition, when asset projects become PPPs, forecasts of expenditure are moved from asset expenditure to output expenditure.

The Committee made two recommendations in 2011-12 about detailing some of these factors. The first recommendation proposed an overall reconciliation between differing figures.[360] The second recommendation proposed that Budget Paper No.4 include a reconciliation item for projects that fell under threshold conventions.[361]

The Government supported both of these recommendations, confirming in both cases that '*this will be incorporated into the 2012-13 Budget Papers*'.[362] However, the Committee notes that neither recommendation was implemented in the budget papers for 2012-13 (see Section 7.3.2 of this report).

FINDING: The budget papers give more than one figure for direct asset investment. The budget papers also give more than one figure for direct asset investment on new projects. The varying figures are not reconciled and the explanations that are given are not comprehensive enough to provide accountability.

RECOMMENDATION 44: The Department of Treasury and Finance provide a reconciliation between the different figures for asset investment given in Table 6.3 of this report. This reconciliation should quantify and explain differences between these figures caused by:

(a) threshold conventions;

(b) sectoral classification conventions;

(c) expenditure for projects not disclosed individually in Budget Paper No.4;

(d) contingency allowances; and

(e) any other factors that contribute to differences.

6.8.2 Use of terms

The Committee has noted previously that the Government uses several terms for the same item of expenditure and a variety of similar terms for slightly different items.[363] To help readers, the Committee recommended that, if the practise continued, a glossary should explain these terms in future budget papers.[364] The recommendation noted the terms 'asset', 'infrastructure' and 'capital'.

The Committee notes that the budget papers now include a glossary of definitions.[365] The Committee also notes that the new glossary consists only of 'asset', 'infrastructure' and 'capital'. However, the Committee notes that there are a significantly larger number of terms still used in the budget papers. The Committee has detailed these in Appendix A6.7.

360 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 26, p.103

361 ibid., Recommendation 27, p.104

362 Victorian Government, Government Responses to the Committee's Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.15

363 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, p.101

364 ibid., Recommendation 25, p.102

365 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.143

The Committee welcomes the inclusion of a glossary but encourages the Department of Treasury and Finance to expand this glossary, and include a wider list of definitions that would be useful to non-technical stakeholders including some Parliamentarians and members of the public.

FINDING: A glossary has been newly included in Budget Paper No.4. This glossary contains three terms. However, there are many more terms used in the budget papers when describing asset investment.

RECOMMENDATION 45: The Department of Treasury and Finance expand the glossary of definitions in the budget papers to include plain English definitions of all terms identified in Appendix A6.7, as well as any other terms used in describing asset investment.

6.8.3 Treatment of new asset initiatives

Details of asset initiatives generally appear twice in the budget papers. When an initiative is first funded, it appears in Budget Paper No.3 (*Service Delivery*) or the Budget Update. At that point, a description of the initiative is provided, along with details of the expected expenditure pattern for up to five years.

Asset initiatives are also listed in Budget Paper No.4 (*State Capital Program*). Fewer details are supplied in Budget Paper No.4 but the asset initiative is listed there each year for the life of the project, with updated details of expenditure each year.

To get all of the information about a project, a reader therefore needs to consult both Budget Paper No.3 (or the Budget Update) and Budget Paper No.4. However, the Committee has observed some inconsistencies in the treatment of new asset initiatives in 2012-13 which makes this difficult:

- of the three asset projects announced in the 2011-12 Budget Update which are still ongoing in 2012-13,[366] two were listed in Budget Paper No.4 for 2012-13 as existing projects[367] and one was listed as a new project[368] – this inconsistent treatment makes identifying the appropriate place to look for more description of the project difficult; and
- at least two projects have been included as new in Budget Paper No.4 without having been set out in either Budget Paper No.3 for 2012-13 or the 2011-12 Budget Update.[369]

366 One project (*E-Conveyancing*) was completed in 2011-12 – Budget Paper No.4 , *2012-13 State Capital Program*, May 2012, p.48

367 *Melbourne Wholesale Markets - Redevelopment* and *VicRoads Registration and Licensing System* – Budget Paper No.4 , *2012-13 State Capital Program*, May 2012, pp.14, 51

368 *Northern Victoria Irrigation Renewal Project – Stage 2* – Budget Paper No.4 , *2012-13 State Capital Program*, May 2012, p.46

369 *Business Systems Reform Project* and *Silviculture Seed Extraction and Storage* – Budget Paper No.4 , *2012-13 State Capital Program*, May 2012, p.46

Both of these issues make finding all details of initiatives difficult. Inconsistencies between Budget Paper No.3 and Budget Paper No.4 have been the subject of a previous recommendation by the Committee.[370] The Government responded that:[371]

> *New asset initiatives funded in the annual budget and reflected in Budget Paper No.4 State Capital Program should align to information disclosed in other budget papers. In circumstances where this does not occur, the Department of Treasury and Finance will ensure these are appropriately disclosed.*

However, the Committee has been unable to locate any explanation for the inconsistencies detailed above.

FINDING: Whereas some new asset initiatives announced in the 2011-12 Budget Update have been treated as existing initiatives in the 2012-13 budget papers, one has been treated as a new initiative. This makes identifying the budget paper in which the initiative is first funded difficult.

RECOMMENDATION 46: The Department of Treasury and Finance ensure that new asset initiatives announced in budget updates are treated consistently in the papers of the following budget.

FINDING: At least two asset initiatives have been listed as new in Budget Paper No.4 but are not in Budget Paper No.3 or the previous budget update. No information about this misalignment is given in the budget papers.

RECOMMENDATION 47: The Department of Treasury and Finance ensure that all new asset initiatives are discussed in detail in either Budget Paper No.3 or the budget update.

370 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 29, p.107

371 Department of Treasury and Finance, government responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p16

CHAPTER 7 THE GOVERNMENT'S RESPONSES TO THE COMMITTEE'S REPORT ON THE 2011-12 BUDGET ESTIMATES

7.1 Introduction

As part of the Committee's inquiry into the budget estimates each year, the Committee makes a number of recommendations. These are primarily aimed at improving the transparency and readability of the budget papers and related information. The Government is required to respond to these recommendations within six months of the report being tabled.[372]

In its *Report on the 2011-12 Budget Estimates*, the Committee made 129 recommendations to the Government and one to the Parliament.[373] This chapter examines a number of matters in relation to those recommendations, including:

- How did the Government respond to the recommendations? (Section 7.2)
- How many positively received recommendations have been implemented? (Section 7.3)
- Which recommendations were not supported and why? (Section 7.4)
- How does the Government monitor and report on the implementation of positively received recommendations? (Section 7.5)
- Do the Government's responses to recommendations clearly, consistently and explicitly identify its intentions? (Section 7.6)

The Government responded positively to 110 of the recommendations. However, the Committee found that fewer than half of these have been implemented to date.

The Committee found a number of areas where the Government's approach would benefit from improvements in processes, guidance and oversight. Gaps in these areas have resulted in:

- inconsistent categorisation of the responses, making it difficult to identify which recommendations the Government has committed to implementing;
- responses that appear to be based on inaccurate information;
- low numbers of positively received recommendations being implemented; and
- inadequate monitoring and reporting on whether or not commitments are implemented.

The Government's full responses to all the recommendations can be viewed on the Committee's website at www.parliament.vic.gov.au/paec. The full responses include the Government's reasons for supporting or not supporting each recommendation. They also detail any actions already undertaken and any planned actions.

Appendix A7.1 details the Parliament's response to the recommendation related to it.

372 *Parliamentary Committee Act 2003*, Section 36

373 This figure counts Recommendation 11 of Part Three as eight recommendations, as it consists of eight parts, which were responded to separately by the Government.

7.2 Responses to recommendations

The Government classified its responses into three categories:

- **support** – the Government supports the recommendation;
- **under review –** the Government is still considering its position in relation to the recommendation; and
- **not support** – the Government does not support the recommendation.

In addition to these categories, the Government also included the category 'support in principle' in its responses to recommendations made in Part Two of the Committee's report. 'Support in principle' is defined as '*where there is support for the intention of the recommendation, but not the specific method of delivery*'.[374]

Overall, 110 of the 129 (85 per cent) recommendations to the Government were positively received, with support, support in principle or a commitment to review the recommendation. The total number of unsupported recommendations was 18 (14 per cent). The Government did not respond to one recommendation.[375]

This is in contrast to the responses to the *Report on the 2010-11 Budget Estimates*, of which 96 per cent were positive.[376]

Figure 7.1 shows the break-down of responses to the reports on the 2010-11 and 2011-12 budget estimates.

FINDING: Overall, 110 of the 129 (85 per cent) recommendations to the Government were positively received, with support, support in principle or a commitment to review the recommendation. There were 18 unsupported recommendations (14 per cent). The Government did not respond to one recommendation.

7.3 Implementation of recommendations

7.3.1 Fully and partially implemented recommendations

Of the 110 recommendations that were positively received, only 21 (19 per cent) of these were fully implemented at the time of writing this report. An additional 25 (23 per cent) were partially implemented (see Figure 7.2). The full details of which recommendations have been fully and partially implemented can be found in Appendices A7.2 and A7.3, respectively.

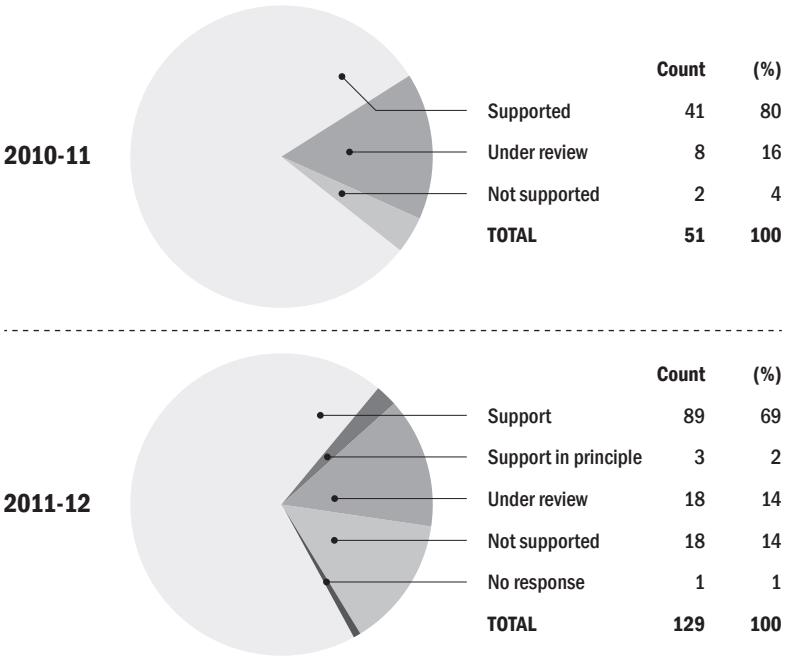
FINDING: Despite positive responses to 110 recommendations in the *Report on the 2011-12 Budget Estimates*, only 42 per cent of those have been fully or partially implemented to date.

374 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Two, tabled 7 February 2012, p.1

375 Part of Recommendation 11 from the *Report on the 2010-11 Budget Estimates — Part Three* involved considering grouping and separately disclosing revenue raisings and expenditure that are authorised according to legislation (p.50).

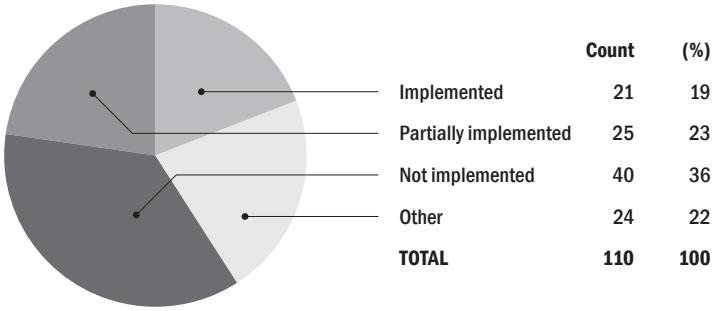
376 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2011, p.233

Figure 7.1 Government's responses to the Committee's recommendations, 2010-11 and 2011-12



Sources: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 96th Report on the 2010-11 Budget Estimates, tabled 16 March 2011; Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates, tabled 24 November 2011 (Part One), 7 February 2012 (Part Two), and 14 March 2012 (Part Three)

Figure 7.2 Implementation of positively received recommendations



Source: Public Accounts and Estimates Committee

The fully and partially implemented recommendations are largely about increasing links between departmental objectives and their programs, projects, activities and performance measures. Implementation of these recommendations helps the Parliament and community to analyse the Government's performance.

Further discussion of the Government's approach to performance measurement can be found in Chapter 5 of this report. That chapter also identifies additional areas of potential improvement.

7.3.2 Recommendations positively received but not implemented

Of the recommendations with positive responses, 40 (36 per cent) have clearly not been implemented to date. The Committee finds these results surprising, as it would generally expect that most supported recommendations would be implemented quickly and completely.

The Committee found four cases in particular where the Government's responses included an explicit commitment to implement the recommendation in the 2012-13 budget papers but the Government did not fulfil these commitments (see Table 7.1).

Table 7.1 Recommendations which the Government committed to in the 2012-13 but did not implement

Part	Rec.	Recommendation	Government response	Committee comment
3	26	The Department of Treasury and Finance disclose in the budget papers a reconciliation of the differing estimates for annual asset spending that are presented throughout the budget papers, including definitions of the terms used to describe the components.	This will be incorporated into the 2012-13 budget papers.	The Government has not introduced a reconciliation of the differing estimates for annual asset spending, nor definitions of the terms describing the asset spending components.
3	27	To assist with reconciling figures, the Department of Treasury and Finance include in Budget Paper No.4 a line item for each department that aggregates the TEI, the estimated expenditure up to the budget year, the estimated expenditure in the budget year and the remaining expenditure on: • asset projects with a TEI of less than $250,000; • projects where the planned expenditure in the budget year is less than $75,000; and • capital grants paid to other sectors.	This will be incorporated into the 2012-13 budget papers.	The $75,000 threshold was removed in 2012-13, but no reconciling line items were added for the remaining categories.
3	38	In future budget papers, major asset initiatives be listed separately rather than aggregated.	This will be incorporated into the 2012-13 budget papers; where feasible, projects will be disaggregated and separately identified.	While many major asset initiatives are listed separately, there are instances where initiatives remain aggregated. Most notably this includes the Department of Justice's *Increased Prison Capacity* initiative, which includes both additional permanent prison beds and the delivery of a new male prison.
3	40	Where previously planned implementation timeframes developed for the current budget year have had to be revised for projects experiencing cost pressures, the budget papers disclose details relating to these revised timelines and the reasons for the re-scheduling.	This will be incorporated into the 2012-13 budget papers.	The details of revised timelines for projects experiencing cost pressures have not been incorporated into the 2012-13 budget papers.

Source: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Thee, tabled 14 March 2012

Instances where the Government does not fulfil explicit commitments to implement a recommendation reduce the level of confidence that can be placed in commitments to actions overall.

The full details of positively received recommendations that have not been implemented to date are shown in Appendix A7.4.

FINDING: Of the recommendations with positive responses, 40 (36 per cent) have clearly not been implemented to date. The Committee found four cases where an explicit commitment to implement a recommendation in the 2012-13 budget papers was not met.

7.3.3 The impact of recommendations not being implemented

Budget papers play a key role in the Government's accountability to the Parliament and the community. It is important that budget decisions are clearly and explicitly explained, rather than left to be assumed or interpreted. Readers should not be expected to deduce the causes of budget decisions or their effects on service delivery from budget figures alone.

The recommendations made in 2010-11 which have not been implemented were largely related to these matters. The fact that they have not been implemented means that previously identified issues remain unresolved. Broadly speaking, they fall into the themes below. The specific recommendations are detailed under these headings in Appendix A7.4.

Table 7.2 Recommendations positively received but not implemented

Theme	Issues associated with non-implementation
Additional break-down of expenditure or revenue items	Aggregated descriptions of expenditure or revenue prevent in-depth analysis of the Government's activities.
Fuller explanations for information in the budget papers	**Variances and their impact** Insufficient explanations of variances in budget papers reduce the transparency of the Government's financial decision-making.
	Changes to outputs or output initiatives Without explanation, changes to outputs or output initiatives may appear arbitrary or even designed to mask underperformance.
	Changes to or differences in the value of asset spending Explicit disclosure and discussion of the reasons for any changes enhances the transparency of spending decisions. Failure to ensure alignment of asset spending across budget papers makes it difficult for readers to establish how much is being spent.
	The basis of figures used in budget papers The Committee considers that appropriate transparency in the budget papers includes full disclosure and explanation of: • financial/economic assumptions made and methods used in calculating budget figures; • factors influencing how spending and revenue figures are calculated; and • financial policies applied and the meaning of technical terms used.
Disclosure of the status of initiatives announced or commenced in previous budgets	Not identifying initiatives as new or existing and not identifying changes to previous initiatives reduces the reader's ability to understand the Government's strategy.

Theme	Issues associated with non-implementation
Centralised disclosure of key information	Information related to a particular matter that is dispersed through different budget papers without being brought together makes it difficult for readers to have a full understanding of the matter without a detailed knowledge of the budget papers.
Improved quality of performance information	Performance measures and targets that are irrelevant, inadequate or absent create difficulties in understanding the performance of the departments, and by extension, the Government.
Additional recommendations	Clear terminology, providing certain additional information and providing specific details when explaining intended actions are necessary for a full understanding of the budget process.

FINDING: As a result of previous recommendations not being implemented, a number of issues previously identified by the Committee remain unresolved. These include a need for:

- additional break-downs of expenditure or revenue items;
- fuller explanations for information in the budget papers;
- disclosure of the status of initiatives announced or commenced in previous budgets;
- centralised disclosure of key information; and
- improved quality of performance information.

FINDING: The persistence of these issues continues to inhibit the transparency of the Government's budgetary decision-making.

RECOMMENDATION 48: The Government implement all of the supported recommendations from the *Report on the 2011-12 Budget Estimates*, ensuring that:

(a) the activities undertaken are specifically those identified in the recommendation; and

(b) each recommendation is implemented in a timely and complete manner.

RECOMMENDATION 49: The Government identify in its response to the *Report on the 2012-13 Budget Estimates* any recommendations from the *Report on the 2011-12 Budget Estimates* which it initially supported, but no longer supports.

7.3.4 Other recommendations

Of the remaining recommendations, in some cases the Committee was unable to establish whether or not the recommendation had been implemented. These have been classified as 'other' in Figure 7.2.

For 19 recommendations (17.3 per cent), implementation cannot be assessed yet. This is because the recommendations relate to:

- activities or publications that have not yet occurred; or
- matters which, in its responses, the Government indicated would be addressed at a later date.

Appendix A7.5 lists these recommendations. Their implementation will be re-examined in future reports.

The Committee was unable to establish the implementation of three recommendations (3 per cent) due to relevant information not being available. This is primarily due to the recommendations relating to internal matters of departments. These three recommendations are shown in Appendix A7.6.

The Committee has excluded analysis of the implementation of two recommendations (2 per cent) as not applicable. This is because their implementation was dependent upon the support and implementation of one earlier recommendation, which did not occur. These two recommendations are listed in Appendix A7.7.

7.4 Unsupported recommendations

In total, 18 recommendations (14 per cent) were not supported. The Government's reasons for not supporting these are detailed in the responses, which can be viewed on the Committee's website at www.parliament.vic.gov.au/paec.

Generally, the Government did not support the recommendations because it considered that:

- the implementation of the recommendations would not add value;
- the implementation of the recommendations was not practical; or
- current activities were sufficient.

The full list of unsupported recommendations can be found in Appendix A7.8.

In two cases, it appears to the Committee that the reasons provided by the Government for not supporting the recommendations are factually inaccurate (see Table 7.3).

Table 7.3 Government responses to recommendations 21 and 22 of the *Report on the 2011-12 Budget Estimates*

Part	Rec.	Recommendation	Government response
3	21	For initiatives where funding is expected to reduce in real terms over the forward estimates but where demand is not expected to decline, the Government should indicate in the budget papers whether it is expecting departments to achieve efficiencies or reduce services.	The budget papers provide details of the scope and cost of new initiatives and an outline of the services they provide. Details associated with efficiencies are provided only for the current budget year.
3	22	If the Government intends to encourage departments to achieve efficiencies by providing a number of initiatives with the same (nominal) amount of funding over the forward estimates period, the budget papers should clearly indicate that this is the Government's intention, quantify the savings target in real terms and provide details of how departments are expected to achieve these efficiencies.	The budget papers provide details of the scope and cost of new initiatives and an outline of the services they provide. Details associated with efficiencies are provided only for the current budget year.

Source: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012

Contrary to the above advice, Budget Paper No.3 (*Service Delivery*) included savings/efficiency strategies and related targets over the forward estimates for each department in 2011-12 and again in 2012-13.[377]

The Committee acknowledges that the above examples are few in number. Nevertheless, they create concern around the accuracy of the information on which the Government decides whether or not to support a recommendation.

FINDING: The Government's explanation for not supporting two recommendations appears to be based on inaccurate information.

7.5 Monitoring the implementation of recommendations

In most cases, it is not clear to the Committee why the positively received recommendations have not been implemented.

Currently, only the Government's initial responses to recommendations are tabled in Parliament. Status reports or subsequent information about their implementation are not provided unless specifically requested. Determining which measures have been implemented can therefore be a difficult and time-consuming task.

The Committee previously raised concerns about these matters. To resolve them, the Committee made a number of recommendations in the *Report on the 2011-12 Budget Estimates*, including that:[378]

377 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.92-147; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.2-78

378 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2011, Recommendations 86, 89-90, pp.236, 240-1

- for each recommendation classified as 'under review', the Government update the Committee within three months of determining what action will be taken;
- in its response to the 2011-12 Budget Estimates Inquiry, the Government provide an update on all recommendations from the 2010-11 Budget Estimates Inquiry which included further planned actions; and
- in future responses to the Committee's recommendations, in describing any further actions planned, the Government specify:
  - whether those actions will definitely include what the Committee has recommended; and
  - whether the planned actions will fully or partly implement the recommendation.

The Government did not support these recommendations as it considered that sufficient information about implementation was already included in its responses.[379] However, as indicated in Sections 7.3.2 and 7.6.1 of this chapter, the Government's current approach means that positive responses to recommendations do not necessarily mean they will be implemented.

The Government did support the recommendation that responses classified as 'under review' specify a timeframe by which a decision will be reached, stating:[380]

> *Government responses to future PAEC recommendations that are "under review" will include commentary that, when possible, estimates expected timeframes for the review and/or implementation period.*
>
> *Government responses that indicate action is under review in "future budget papers" is intended to inform the PAEC that consideration will be given to the recommendation in the lead-up to the development of the State budget in 2012-13 in the first instance and where appropriate.*

However 'under review' responses to recommendations in the last budget estimates report included timelines such as 'over time', 'in future' and 'when planning'.

The Government also advised that:[381]

> *The Department of Treasury and Finance is investigating options to update the PAEC on responses that are "under review" to advise PAEC about the status of any actions being taken in relation to the recommendation, and provide an update on their expected timeframe where necessary.*

The Committee looks forward to the outcome of this investigation and intends to examine measures taken as a result in future reports on budget estimates.

379 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, pp.44-6

380 ibid., p.43

381 ibid., p.44

7.5.1 Monitoring the implementation of recommendations – a better-practice model

The Australian Capital Territory's *Guidelines for Responding to Reports by the Auditor-General* includes specific requirements for the implementation and follow-up of recommendations. In particular, the Guidelines include:[382]

- assigning a single person or business unit responsibility for implementing accepted recommendations;
- ensuring that reasonable action takes place within a reasonable timeframe;
- nominating or establishing a committee to monitor and report on progress; and
- reporting on progress and action taken to the minister and the Legislative Assembly, as well as in annual reports.

More details of selected requirements can be found in Appendix A7.9.

Currently, the Victorian Government has no equivalent to these guidelines for assisting departments to understand and meet their responsibilities for implementing recommendations.

It is the Committee's opinion that these requirements represent a better-practice approach to implementing recommendations from Parliamentary Committees.

The adoption of a similar approach in Victoria would mean that each recommendation would have a person or unit with responsibility for its implementation. It would also provide mechanisms for monitoring and reporting on implementation. These changes would both improve the transparency of the Government's actions in response to recommendations and provide greater assurance that supported recommendations will be implemented. This is particularly so where recommendations relate to matters that are internal to departments, as there is often no publicly available information to establish whether or not the recommendation has been implemented.

FINDING: The Government has no guidelines to assist departments with understanding and meeting their responsibilities for implementing recommendations.

RECOMMENDATION 50: The Government establish and publish guidelines for the implementation of Parliamentary Committee recommendations. These guidelines should include:

(a) a mechanism for assigning responsibility for the implementation of recommendations;

(b) processes for monitoring the implementation of positively received recommendations; and

(c) a system for reporting on the implementation of positively received recommendations.

382 Chief Minister and Cabinet, Australian Capital Territory, *Guidelines for Responding to Reports by the Auditor-General*, November 2009, pp.13-14, 21 – see Appendix A7.9 of this report.

RECOMMENDATION 51: In the development of guidelines for the implementation of Parliamentary Committee recommendations, the Government consider as a model the Australian Capital Territory's *Guidelines for Responding to Reports by the Auditor-General*.

Until the appropriate processes are in place, the Committee intends to continue assessing the implementation of recommendations in future reports.

7.6 Quality of responses to recommendations

It is possible that the low level of positively received recommendations being implemented is partly due to how the responses to recommendations are classified. The classification of responses may be causing confusion as to what is expected.

7.6.1 Classification of responses to recommendations

If used clearly, the Government's response categories can make interpreting the Government's responses easier. They enable a reader to quickly identify which recommendations the Government intends to act on and which it does not.

To achieve this, the use of categories must be consistent and appropriate.

The Government's responses to the recommendations in the *Report on the 2011-12 Budget Estimates* explain that:[383]

> *The Government has clarified and standardised its responses to the PAEC recommendations in a way that clearly focuses on the distinction between supporting and not supporting a recommendation.*

However, the Committee notes 13 responses to the recommendations in that report where the Government's classification of responses did not appear to match its description of its 'actions to date' and 'commitment to further action' (see Appendix A7.10).

For example, in some cases, the Government indicated in its comments that it is still considering whether or not to implement the recommendation, but has classified its response as 'support' rather than 'under review'. In other cases, responses have been classified as 'support' when the Committee recommended additional disclosure and the Government indicated that it considered that no additional disclosure is required. In one case, the Government committed to implement a recommendation despite classifying it as 'under review'.[384]

A range of different intended actions were covered by the 'support' response, which the Committee considers may cause some confusion. Examples are included in Table 7.4 below, with a full listing in Appendix A7.10.

383 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.43

384 ibid., Recommendation 76, p.39

Table 7.4 Examples of different interpretations of the Government's 'support' response

Responses classified as 'support' where the intended action is not the recommended action	
RECOMMENDATION	**RESPONSE**
Part 3: Recommendation 50 To enhance understanding of the fiscal implications of the predicted economic outlook, the Department of Treasury and Finance present in the budget papers a summary in a tabular form of the economic factors that have influenced the major revenue items.	For the 2011-12 Budget, the online data set included descriptions of the economic drivers of taxation revenue. The economic drivers were also briefly discussed in Budget Paper No 5, Chapter 4 *State revenue*.
Responses classified as 'support' where the commentary indicates 'under review'	
RECOMMENDATION	**RESPONSE**
Part 3: Recommendation 6 Future service delivery budget papers include the 'expenses from transactions' section of the departmental operating statements, along with commentary on how changes in expenditure relate to changes in the outputs.	The Government supports the principle of this recommendation. However, further work is required to test the feasibility of its implementation. The merits of including extracts of information from other budget papers, in Budget Paper No.3 *Service Delivery*, is under review and will be considered for 2012-13 and future budget papers.
Responses classified as 'support' where the Committee recommended additional disclosure but the Government considers that current disclosure is sufficient	
RECOMMENDATION	**RESPONSE**
Part 3: Recommendation 71 The cost, outcomes, impact on Government policy decisions and impact on forward expenditure of reviews, inquiries, studies, audits and evaluations commissioned by the Government be explained in future budget papers or in a separate report referenced in the budget papers.	The Government supports the principle of this recommendation. The cost, outcomes, impact on Government policy decisions and impact on forward expenditure of reviews, inquiries, studies, audits and evaluations commissioned by the Government are reflected in the budget papers which detail the funding of new initiatives. **No further action is required.**

Source: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012

Response categories that do not match the related commentary may cause difficulties such as:

- readers must analyse whether or not the actions in the commentary will meet the requirements of the recommendation;
- readers with insufficient time to consider the commentary may be left with an incorrect impression of the Government's intentions; and
- the value of using response categories is lost.

FINDING: The Government's use of the response category 'support' is subject to multiple interpretations and does not necessarily indicate that the Government intends to implement the actions specified in the recommendation.

7.6.2 Central agency oversight in responding to recommendations

Guidelines for responding to inquiries are issued by the Department of Premier and Cabinet. They provide direction on procedural activities for responses, but not for ensuring the clarity and consistency of the categories used or commentary included.[385]

These guidelines were last updated in 2002.

Though the guidelines have been established by the Department of Premier and Cabinet, it is generally the Department of Treasury and Finance that coordinates the responses to reports. The Department of Treasury and Finance issues a template each year for formatting responses to the Committee's recommendations.

The Department of Treasury and Finance's template is a combination of formatting requirements for responses and instructions for readers of the published document. It also includes requirements for responses, such as that timeframes should be specified for recommendations that are supported or under review and that a response of 'not support' must be accompanied by an explanation.

A representation of the template is shown in Figure 7.3.

Figure 7.3 Template for responding to the Committee's recommendations

Government Responses to the Recommendations of

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE'S

102nd Report on the 2011-12 Budget Estimates — Part Three

DEPARTMENT OF TREASURY AND FINANCE

Pursuant to Section 36 of the Parliamentary Committees Act 2003, this paper provides a response to the recommendations contained in the Public Accounts and Estimates Committee's (PAEC) 102nd Report.

Guide for Readers - Following is the explanation of the format of this paper.

1 **Title**		
2 **Chapter number and topic**		
1 **PAEC Recommendation**	**2** **Response**	**3** **Action Taken to Date and Commitment to Further Action**

Row 1: Indicates the title of this paper.
Row 2: Indicates the number and topic of the response to the PAEC recommendations.
Column 1: Contains the PAEC's recommendations as published in its 102nd report (part 3)
Column 2: Indicates the Government's response to each recommendation:
Support - Commitments to further action should include target timeframes, where possible.
Under review - Detalls of the nature of the review should be provided as well as target timeframes, where appropriate.
Not support - Must be accompanied by an explanation.
Column 3: Provides an explanation of the Government's position on the recommendation; indicates the actions that have been taken to date, relevant to the implementation of the recommendation; and outlines commitment to further action, relevant to the implementation of the recommendation.

Source: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.1

385 Department of Premier and Cabinet, *Guidelines for Submissions and Responses to Inquiries*, October 2002

The Committee supports these requirements. However, neither the Department of Premier and Cabinet's guidelines, nor the Department of Treasury and Finance's template:

- make reference to the other;
- indicate if more comprehensive guidance is available; or
- identify which Department is ultimately responsible for the coordination and quality assurance of responses to recommendations in the Committee's inquiries.

The two documents also seemingly contradict each other. While the Department of Premier and Cabinet's guidelines state that there are no specific formatting requirements for responses,[386] the Department of Treasury and Finance's template explicitly includes them.

This 'dual lead agency' arrangement may be creating confusion as to where ultimate authority over and accountability for responding to recommendations lies.

FINDING: Current arrangements for responding to recommendations in the Committee's reports may create confusion as to where ultimate authority over and accountability for responding to recommendations lies.

In 2010 the Committee of the 56th Parliament recommended that the Government review its framework for responding to reports, to make the framework a more informative accountability tool.[387] In response, the Department of Treasury and Finance updated its template for responding to the Committee's recommendations.[388] This update included adding the requirements mentioned above.

At the same time, the Government also combined the categories 'accept', 'accept in principle', and 'accept in part' into the one category of 'support'. The current Committee in its *Report on the 2011-12 Budget Estimates* found that this change reduced the transparency of the Government's responses. The Committee recommended that responses include indicators of whether support was full or partial.[389] The Government rejected this recommendation, stating, among other things, that:[390]

> *The Government has clarified and standardised its responses to the PAEC recommendations in a way that clearly focuses on the distinction between supporting and not supporting a recommendation.*

However, as noted in Section 7.6.1 above, there remains some potential for confusion about what 'support' means.

386 ibid., p.19

387 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2010, Recommendation 51, p.223

388 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 96th Report on the 2010-11 Budget Estimates – Part Three, tabled 16 March 2011, p.20

389 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 84, p.234

390 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.43

In the *Report on the 2011-12 Budget Estimates*, the Committee also identified cases in which responses categorised as 'support' would have been better classified as 'under review'.[391] To prevent inappropriate categorisation causing misinterpretation of the Government's intentions, the Committee recommended that clearer guidance be developed. In particular, the Committee recommended that the guidance should prevent confusion between the meaning of 'support' and 'under review'.[392]

In response to this recommendation, the Government advised that:[393]

- 'support' indicates that the Government supports the recommendation; and
- 'under review' indicates that the Government is still considering its position in relation to the recommendation.

As shown in Section 7.6.1, however, the problem still persists, with responses classified as 'support' where the commentary suggests 'under review'.

The development of more comprehensive guidance for responding to the Committee's recommendations may reduce the number of poor quality responses. Explicit definition of the circumstances in which a response should be classified as a particular type would improve the clarity, consistency and transparency of responses. This would in turn improve the classification's useability as a communication and accountability tool.

Guidance that also specifies the expectations related to each response type would increase awareness of what actions are required with each type. Table 7.6 provides some examples of the types of requirements that could be included in guidance for responding to recommendations.

Increasing central agency oversight in responding to the Committee's recommendations would also help to improve their quality. A quality assurance process undertaken by the central agencies would better ensure that each response meets defined criteria for a clear and consistent indication of the Government's intentions in relation to a recommendation.

391 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, p.237

392 ibid.

393 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.45

Table 7.5 Examples of requirements that might be specified when particular classifications are applied to response types

Category	When this category is used, the response must:	When this category is used, the responsible agency must:
Support	• confirm the intention to implement the action/s specified in the recommendation; and • indicate when the action/s specified in the recommendation will be completed.	• allocate responsibility for implementation; • develop an implementation plan; • provide status reports on implementation to a central government agency; and • notify a central government agency when the actions specified in the recommendation have been completed.
Under review	• state why the recommendation is under review rather than supported; • indicate how the action specified in the recommendation will be reviewed; and • specify when an outcome will be achieved.	• allocate responsibility for review of the recommendation and consideration of the action/s specified; • develop a review plan; • provide status reports to a central government agency on the progress of the review; • notify a central government agency on the outcome of the review, including: - whether the recommendation was supported or not supported; - where the recommendation is supported, the information set out in the category 'support'; and - where the recommendation was not supported, inform central government of why the recommendation is not supported.
Not support	• state why the recommendation is not supported.	• verify the accuracy of the information on which the rejection is based.

Source: Public Accounts and Estimates Committee

FINDING: Action has been taken to improve the clarity, consistency and transparency of responses to the Committee's recommendations. However, mismatches between the Government's classification of its responses and its intended actions continue to occur.

RECOMMENDATION 52: The Government establish and publish processes and guidance for responses to Parliamentary Committee recommendations to ensure:

(a) decisions about whether or not to support recommendations are based on current and accurate information;

(b) responses clearly address the recommendations' substance as well as intent;

(c) responses are classified in a way that enables consistent interpretation of the Government's intent; and

(d) the expectations associated with a particular response type are explicit.

RECOMMENDATION 53: The Government assign the Department of Premier and Cabinet or the Department of Treasury and Finance responsibility for the quality assurance of responses to Parliamentary Committee recommendations. This should include ensuring that each response meets defined criteria for clearly and consistently representing the Government's intentions in relation to the recommendations.

RECOMMENDATION 54: After an appropriate length of time, the Auditor-General consider reviewing the systems and processes put in place by central agencies for responding to Parliamentary Committee recommendations.

APPENDIX A1 INTRODUCTION

A1.1 Dates of receipt of budget estimates questionnaire

The due date for receipt of the budget estimates questionnaire was 3 May 2012. In some cases, extensions were granted.

Table A1.1 Dates of receipt of budget estimates questionnaire

Department	Final Received
Business and Innovation	3 May 2012
Education and Early Childhood Development	4 May 2012
Health	3 May 2012
Human Services	4 May 2012
Justice	3 May 2012
Planning and Community Development	4 May 2012
Primary Industries	10 May 2012
Premier and Cabinet	3 May 2012
Sustainability and Environment	3 May 2012
Transport	3 May 2012
Treasury and Finance	3 May 2012
Parliamentary Services	1 May 2012

Source: Public Accounts and Estimates Committee

A1.2 Dates of receipt of questions on notice

The due date for receipt of questions on notice was 28 June 2012. In some cases, extensions were granted.

Table A1.2 Dates of receipt of questions on notice

Witness	Portfolios	Response received
Hon. Louise Asher MP	Innovation, Services and Small Business	3 July 2012
Hon. Bruce Atkinson MLC and Hon. Ken Smith MP	Parliamentary Departments	5 July 2012
Hon. Robert Clark MP	Finance	28 June 2012
Hon. Richard Dalla-Riva MLC	Employment and Industrial Relations	29 June 2012
	Manufacturing, Exports and Trade	29 June 2012
Hon. David Davis MLC	Health	28 June 2012
	Ageing	28 June 2012
Hon. Hugh Delahunty MP	Sport and Recreation	27 June 2012
	Veterans' Affairs	27 June 2012
Hon. Martin Dixon MP	Education	28 June 2012

Witness	Portfolios	Response received
Hon. Matthew Guy MLC	Planning	24 July 2012
Hon. Nicholas Kotsiras, MP	Multicultural Affairs and Citizenship Portfolio	29 June 2012
Hon. Wendy Lovell MLC	Children and Early Childhood Development	26 June 2012
	Housing	2 July 2012
Hon. Andrew McIntosh MP	Corrections	28 June 2012
	Establishment of an anti-corruption commission	3 July 2012
Hon. Terry Mulder MP	Public Transport	28 June 2012
	Roads	28 June 2012
Hon. Michael O'Brien MP	Consumer Affairs	25 June 2012
	Energy and Resources	25 June 2012
Hon. Jeanette Powell MP	Aboriginal Affairs	27 June 2012
Hon. Gordon Rich-Phillips MLC	Assistant Treasurer	27 June 2012
Hon. Peter Ryan MP	Bushfire Response	28 June 2012
	Police and Emergency Services	28 June 2012
	Regional and Rural Development	10 July 2012
Hon. Ryan Smith MP	Environment and Climate Change	6 July 2012
Hon. Peter Walsh MP	Agriculture and Food Security	26 June 2012
	Water	6 July 2012
Hon. Kim Wells MP	Treasurer	6 July 2012
Hon. Mary Wooldridge MP	Women's Affairs	25 June 2012

Source: Public Accounts and Estimates Committee

APPENDIX A2 KEY ASPECTS OF THE 2012-13 BUDGET

A2.1 Key components of a budget

Term used in this report	2012-13 Budget ($ million)	Term used in the budget papers	Reference
Revenue	48,356.7	Total revenue from transactions	BP5, p.5
Output expenditure	48,201.8	Total expenses from transactions	BP5, p.5
Operating surplus **[A]**	154.9	Net result from transactions - Net operating balance	BP5, p.5
Finance charges on finance leases	495.0	Finance charges on finance leases **[B]**	BP5, p.28
Operating lease payments	232.7	Operating lease payments **[C]**	BP5, p.28
Annual public private partnerships expenditure	727.7	Calculated by the Committee from **[B]+[C]**	
Depreciation and similar[a] **[D]**	1,851.0	Non-cash income and expenses (net)	BP2, p.48
Asset sales **[E]**	552.5	Proceeds from asset sales	BP2, p.48
		Sales of non-financial assets	BP5, p.8
Borrowings (for asset funding)[b]	3,788.5	Calculated by the Committee from **[H] less [A], [D] and [E]**.	
Direct (asset) investment [**F**]	3,529.6	Purchases of non-financial assets	BP5, p.8
(Asset) investment through other sectors **[G]**	2,817.2	Net cash flows from investments in financial assets for policy purposes	BP5, p.8
Annual asset investment **[H]**	6,346.8	Expenditure on approved projects[c]	BP2, p.48

(a) In the budget papers, 'depreciation and similar' (referred to there as 'Non-cash income and expenses (net)') is based on figures from both accrual accounting (the comprehensive operating statement) and cash accounting (the cash flow statement) and appears to reconcile these.

(b) 'Borrowings (for asset funding)' are only a part of total public sector borrowings. Other investment activities such as finance leases and other investment activities also contribute to public sector borrowings.

(c) 'Annual asset investment' from 2013-14 onwards is calculated by adding 'Expenditure on approved projects' and 'Capital provision approved but not yet allocated' (Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48) or by adding 'Purchases of non-financial assets' and 'Net cash flows from investments in financial assets for policy purposes' (Budget Paper No.5, *2012-13 Statement of Finance*s, May 2012, p.8).

APPENDIX A3 REVENUE AND BORROWINGS

A3.1 Reconciliation of estimates from the 2010-11 Budget Update to the 2011-12 Budget

	2012-13	2013-14
Policy decision variations	-32.7	-48.5
Economic/demographic variations		
• Taxation	46.4	-38.8
• Investment income	203.6	-142.2
Total economic/demographic variations	**249.9**	**-181.0**
Commonwealth grant variations		
• General purpose grants	-1,031.2	-978.8
• Specific purpose grants	-244.4	193.9
Total Commonwealth grant variations	**-1,275.5**	**-784.9**
Increase in own-source revenue	113.2	92.7
Administrative variations	63.9	49.4
Total variation in income from transactions	**-881.2**	**-872.2**

Note: Only years common to the 2010-11 Budget Update and the 2012-13 budget are included.

Source: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.48

A3.2 Reconciliation of estimates from the 2011-12 Budget to the 2012-13 Budget

	2012-13	2013-14	2014-15
Policy decision variations	488.6	500.4	529.5
Economic/demographic variations			
• Taxation	-659.7	-585.5	-444.7
• Investment income	232.2	-27.2	-113.1
Total economic/demographic variations	**-427.5**	**-612.7**	**-557.8**
Commonwealth grant variations			
• General purpose grants	-528.9	-512.4	-561.8
• Specific purpose grants	-190.6	610.2	466.5
Total Commonwealth grant variations	**-719.5**	**97.8**	**-95.3**
Increase in own-source revenue	80.4	151.9	243.6
Administrative variations	127.8	10.5	94.1
Total variation in income from transactions	**-450.2**	**147.9**	**214.1**

Note: Only years common to the 2011-12 budget and the 2012-13 budget are included.

Source: Department of Treasury and Finance, 2011-12 Victorian Budget Update, December 2011, p.22; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.42

A3.3 Components of revenue[(a)], 2008-09 to 2015-16 ($ million)

	2006-07 actual	2007-08 actual	2008-09 actual	2009-10 actual	2010-11 actual	2011-12 revised	2012-13 Budget	2013-14 estimate	2014-15 estimate	2015-16 estimate
Taxes on employers' payroll and labour force	3,478.7	3,844.8	3,979.7	4,055.8	4,354.0	4,653.2	4,812.2	5,108.7	5,426.1	5,762.9
Land transfer duty	2,961.4	3,705.6	2,801.0	3,603.9	3,909.9	3,285.0	3,447.2	3,674.6	3,953.7	4,262.3
Motor vehicle taxes	1,279.9	1,343.0	1,323.8	1,436.9	1,503.3	1,596.0	1,816.8	1,901.6	1,989.6	2,087.6
Landfill Levy, CityLink, Liquor Licence and Port Licence Fees	96.7	79.1	100.3	99.5	163.0	207.6	290.0	295.9	311.0	310.9
Levies on statutory corporations	60.2	61.5	69.4	69.4	69.4	69.4	70.2	117.5	116.3	114.7
Other taxation[(b)]	3,825.0	3,828.8	4,352.6	4,475.4	4,857.8	5,098.4	5,346.4	5,487.2	5,814.5	5,934.7
Taxation	11,701.9	12,862.8	12,626.9	13,740.5	14,857.5	14,909.7	15,782.8	16,585.3	17,611.1	18,472.9
Interest	422.7	451.6	378.2	333.5	420.1	386.5	709.5	884.6	886.7	882.5
Dividends	554.3	360.0	344.6	309.1	243.3	767.0	843.6	405.6	491.2	634.4
Other dividends, income tax and rate equivalent revenue[(b)]	868.0	399.9	145.7	176.5	160.7	241.7	158.2	186.0	221.2	226.9
Dividends, income tax and rate equivalent revenue	1,422.3	759.9	490.4	485.6	404.0	1,008.6	1,001.9	591.5	712.4	861.3
Sales of goods and services[(c)]		4,488.3	4,940.5	5,289.5	5,944.2	6,207.3	6,753.1	6,668.6	6,903.6	7,105.0
General purpose grants	8,583.6	9,263.1	9,319.0	10,043.3	10,630.9	10,382.9	11,041.7	11,592.4	12,144.3	12,997.3
Specific purpose grants for on-passing	1,945.6	2,063.5	2,232.8	3,099.4	2,493.1	2,498.7	2,784.9	2,963.5	3,159.1	3,371.1
Grants for specific purposes	5,071.7	5,775.3	7,159.6	9,448.0	9,163.7	8,875.2	8,289.8	9,182.6	8,968.1	9,295.6
Other contributions and grants[(b)]	-	108.1	258.5	127.1	137.8	117.5	103.6	106.4	106.6	87.4
Grants received	15,600.9	17,210.0	18,970.0	22,717.8	22,425.6	21,874.3	22,220.0	23,844.8	24,378.0	25,751.5
Fines	405.6	434.3	470.5	538.1	528.1	553.6	662.5	687.0	708.9	715.9
Fair value of assets received free of charge or for nominal consideration	21.8	76.7	131.3	161.6	34.2	129.0	1.3	1.3	1.0	1.0
Other current revenue[(b)(c)]		1,056.5	1,277.2	1,318.9	1,413.2	1,806.2	1,225.5	1,195.5	1,183.1	1,211.6
Other revenue[(c)]		1,567.5	1,878.9	2,018.4	1,975.5	2,488.7	1,889.4	1,883.8	1,893.1	1,928.6

	2006-07 actual	2007-08 actual	2008-09 actual	2009-10 actual	2010-11 actual	2011-12 revised	2012-13 Budget	2013-14 estimate	2014-15 estimate	2015-16 estimate
Total revenue	**34,885.7**	**37,340.1**	**39,284.8**	**44,585.3**	**46,026.9**	**46,875.1**	**48,356.7**	**50,458.7**	**52,384.9**	**55,001.6**
Revenue growth		**7.0%**	**5.2%**	**13.5%**	**3.2%**	**1.8%**	**3.2%**	**4.3%**	**3.8%**	**5.0%**

(a) Further disaggregation is found in budget papers. Figures may not agree with published sources due to rounding.

(b) Calculated as a residual.

(c) The 'sales of goods and services' and 'other revenue' subtotals were presented on a slightly different basis from 2007-08 resulting in incomparability for some items between 2006-07 and 2007-08.

Sources: Department of Treasury and Finance, *2007-08 Financial Report for the State of Victoria*, October 2008, Chapter 4; Department of Treasury and Finance, *2008-09 Financial Report for the State of Victoria*, October 2009, Chapter 4; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, Chapter 4; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, Chapter 4; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, Chapter 1

APPENDIX A4 OUTPUT EXPENDITURE

A4.1 Efficiencies and savings in 2012-13 by department

Department	2012-13 Budget savings initiatives (as detailed in the budget papers)	How operational efficiency has been addressed in the department's 2012-13 Budget (as detailed in the Budget Estimates Questionnaire)
Business and Innovation	Key priorities for savings measures in the Business and Innovation portfolio include reductions in the size of several small scale programs such as the Connecting Victoria and the Time to Thrive 2 Program, ceasing the Science Awareness Program, and through operational efficiencies.	Operational efficiency has been addressed in formulating the Department's budget for 2012-13 by achieving savings in those areas where business process efficiency opportunities exist such as centralisation of Corporate Support functions across parts of the portfolio; reducing scope of lower priority projects/grant programs; realising accommodation savings through the consolidation of existing floor space and improved procurement strategies. Savings have been allocated to those areas as prescribed during the establishment of the 2012-13 budget papers. These savings will be closely monitored to ensure that the efficiencies are being achieved.
Education and Early Childhood Development	The Education portfolio will deliver savings through better targeted concessions, with the ceasing of the School Start Bonus from 2013 and removing the school funding portion of the Education Maintenance Allowance.	DEECD introduced the Integrated Resourcing Strategy (IRS) in mid-2011, aimed at effectively and efficiently managing departmental resources and embedding an ongoing culture of review and reprioritisation. The IRS assists the Department in achieving operational efficiency by facilitating better decision making, including how resources should be allocated to improve outcomes and support Government goals. Under the IRS, there is a greater focus at program level on identifying more efficient ways of delivering programs and services across the Department and ensuring all programs are strongly aligned with Department and Government objectives. As part of the IRS, Budget priorities for 2012-13 were identified in addition to any scope for efficiencies, either within individual programs or across multiple programs.
Health	Additional efficiency measures in the Health portfolio will be achieved through improved efficiencies and cost containment across Health and Aged Care, including a focus on improved purchasing practices through enhanced contract management by Health Purchasing Victoria, improvements in patient flow, both within hospitals and community health services, benchmarking and reduction of administrative overhead costs.	Additional efficiency measures in the Health portfolio will be achieved through improved efficiencies and cost containment across Health and Aged Care, including a focus on improved purchasing practices through enhanced contract management by Health Purchasing Victoria, improvements in patient flow, both within hospitals and community health services, benchmarking and reduction of administrative overhead costs.

Department	2012-13 Budget savings initiatives (as detailed in the budget papers)	How operational efficiency has been addressed in the department's 2012-13 Budget (as detailed in the Budget Estimates Questionnaire)
Human Services	To align with the Commonwealth's carbon price compensation package, thresholds for gas and electricity concessions will be adjusted. In addition, savings will be achieved in housing maintenance and centralisation of feasibility studies for housing projects.	The Department is undergoing a significant organisational review, designed to improve efficiency and effectiveness of activities undertaken, while developing a future state model for the department.
Justice	Key priorities to deliver efficiencies and improve productivity in the Justice portfolio include modernising service delivery by encouraging more competitive tendering for services, as well as streamlining corporate and operational services such as introducing shared services reforms. Within Victoria Police and Emergency Services, key priorities will include general operating efficiencies and enhanced management practices including more efficient procurement.	Operational efficiency is delivered through numerous mechanisms, some centrally controlled, others externally driven. One of the main internal drivers is built into the department's budget in its base funding and in the annual increment. Efficiency is extracted at the increment as a consequence of: • funding being approved via a highly competitive annual priority setting process, and demonstrated value for taxpayer money, and • funding being ordinarily at less than the full ongoing cost of delivery thus requiring a contribution from the department's base. Operational efficiency is extracted from base funding in numerous ways. One mechanism is related to the department's revenue from the budget. Revenue is indexed by at least 0.75 per cent per annum below growth in departmental costs, thereby driving operational efficiencies. Revenue is also revised and adjusted centrally, to ensure compliance with government savings requirements. These approaches have been applied in formulating the department's 2012-13 Budget. Periodic base funding reviews for major departmental activities and/or entities conducted by the Department of Treasury and Finance and the Budget and Expenditure and Review Committee of Cabinet ensure 'value for money service delivery' and maximise operational efficiency. Furthermore, service delivery pressures (driven by population, demography and economic conditions) and service complexity (increased resource intensity reflected in rising real output unit costs) are often funded from within the department's base. Internal funding for demand-pressured outputs is also a major component of departmental operational efficiency. Non-frontline efficiency is achieved through streamlining business processes in the department through technology. Recent examples include: • 'Procure to Pay' to streamline the accounts payable and purchase order processes • 'Project Management Excellence' to standardise and streamline project reporting, and • 'Business Intelligence' to standardise and streamline a suite of regular, complex reports. Further business improvement projects that the department has planned to further improve its operational efficiency include: • Launch of 'New Chart of Accounts' from 15 July 2012 • Improvements to the Human Resources Management System • Implementing a new Contract and Contractor management System, and • Streamlining corporate and operational services by introducing shared services reforms with statutory agencies.

Department	2012-13 Budget savings initiatives (as detailed in the budget papers)	How operational efficiency has been addressed in the department's 2012-13 Budget (as detailed in the Budget Estimates Questionnaire)
Planning and Community Development	The Department of Planning and Community Development will achieve savings through ceasing the Expert Assistance Program and through a reduction in grants programs after commitments have been met, including the Transport Connections Program, Regional Blueprint grants, Green Light program and one off planning projects.	The efficiency priorities of government, such as the maintenance of a sustainable public service and savings associated with consultants and procurement, are reflected in the budget estimates.
Premier and Cabinet	The Premier and Cabinet portfolio will deliver additional savings through operational efficiencies.	The Portfolio has addressed the concept of 'operational efficiency by consolidating activities and minimising duplication and waste in administration, policy, corporate and management functions. In 2012-13, the Portfolio also continues to reprioritise resources (both financial and staff) from within its base budget to fund Government election commitments and other initiatives. These include: • Settlement Coordination Branch ($0.580m) • DPC Regional Offices ($0.900m) • Victorian Design Review Panel ($0.654) • Natural Disaster Assistance Unit ($0.220) • National Disability Insurance Scheme Secretariat ($0.500) Across the Arts Portfolio, new and escalating maintenance and programming costs are required to be met by Arts agencies through reprioritisation.
Primary Industries	The Primary Industries portfolio will deliver savings through a range of measures including reductions in spending on policy and back office functions, and through improved targeting of several small scale programs and a narrowing of research and development effort.	The Department has addressed the concept of operational efficiency in formulating its budget for 2012-13 by undertaking a rigorous process to identify savings and efficiencies across the Department, with a focus on corporate and back of office efficiencies. These areas were then utilised as priorities in meeting savings for the 2012-13 budget.

Department	2012-13 Budget savings initiatives (as detailed in the budget papers)	How operational efficiency has been addressed in the department's 2012-13 Budget (as detailed in the Budget Estimates Questionnaire)
Sustainability and Environment	The Sustainability and Environment and Water portfolio will deliver additional savings and efficiency measures focused on head office and non-service delivery administrative savings. Expenses such as professional services and contractors, employment agency staffing, stocks and materials, and staff training and development will be reduced. Savings will be achieved by Land Victoria through system consolidations and efficiencies. Further, portfolio wide discretionary grants program not aligned to government priorities will be reduced.	The Department continually reviews its procedures to implement operational efficiencies where appropriate. This includes reviewing procurement strategies and utilising state purchasing contracts which aim to maximise group purchasing efficiencies.
Transport	The Transport portfolio will deliver savings through priorities such as reductions in duplication and administrative costs, ceasing programs not aligned with government priorities and further reductions in agency staff and head office costs.	As part of its annual business planning cycle, the Department reviews its programs and activities to identify potential savings, reprioritisations and alternative delivery methodologies to ensure operational efficiencies are achieved. A large proportion of the department's budget is committed to contractual public transport payments, high priority services and essential transport infrastructure projects. In general, savings are targeted to areas of discretionary activity that will not impact on service and project delivery.
Treasury and Finance	The Treasury and Finance portfolios will deliver savings through operational efficiencies.	The Department addresses the concept of 'operational efficiency' when allocating its budget for 2012-13 across its outputs. In doing so, the Department also considers current government priorities, examines its departmental objectives and assesses its performance against agreed measures in order to ensure that service delivery standards are not compromised.
Parliament	Savings for the Parliament of Victoria will be achieved through operational efficiencies.	Difference of escalation provided by DTF & EBA increase will be absorbed by Parliament. Increase in rental costs for Members' electorate offices over and above the rate of escalation provided by DTF will be absorbed by the Department of Parliamentary Services. Cost of regional sittings will be absorbed by Parliament. There has been a reduction of $4.0m in the base funding of the Parliamentary Departments for 2012-13 and more for future years. All of the above listed additional costs have to be absorbed by the Parliament by implementing operational efficiencies, reviewing Committee operations and reducing services.

Sources: Departmental responses to the Committee's 2012-12 Budget Estimates Questionnaire; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

APPENDIX A5 PERFORMANCE MEASUREMENT

A5.1 Central agency oversight of government performance information

'*Any changes to departmental objectives, output structures and performance measures need to be… approved by DTF*' [the Department of Treasury and Finance].'[394]

The notes below set out the requirements relating to components of Figure 5.1 in Chapter 5 of this report.

A – Government priorities and outcomes

The *Strategic Management Framework* states that a key aim of planning is ensuring that the Victorian public sector remains focussed and aligned with the Government's objectives. It also states that '*success requires clear leadership and communication from government*',[395] which is delivered through documents such as:

- outcome or policy statements; and
- the Government's election platform.

B – Departmental objectives

The Department of Treasury and Finance's *Information Request 11-23* requires departments to include objectives in their budget paper departmental performance statements.[396]

The *Strategic Management Framework* poses the following questions in relation to the articulation of goals, objectives and the criteria to assess success:[397]

- *What are the vision and goals of the organisation and are there clear links to the objectives that the Government is seeking to achieve?*
- *What is the output mix with the highest potential impact on government objectives, taking into account the activities of other groups?*

Budget and Financial Management Guidance–08 was updated in July 2012. The Guidance:[398]

- requires that objectives '*represent the change Government wishes to deliver for Victorians*'; and
- recommends that objectives should '*clearly identify what is to be achieved, rather than what outputs are delivered or what processes are followed*'.

394 Department of Treasury and Finance, *Information Request No.12-07, Requirements for the 2012-13 Budget Process*, 27 March 2012, p.3

395 Department of Treasury and Finance, *Strategic Management Framework,* May 2011, p.5

396 Department of Treasury and Finance, *Information Request No.11-23, Departmental Performance Statements for Publication in the Budget Papers*, 22 December 2011, p.2

397 Department of Treasury and Finance, *Strategic Management Framework*, May 2011, p.4

398 Department of Treasury and Finance, *Business and Financial Management Guidance*, 'BFMG— 08 Departmental Objective and Departmental Objective Indicators', July 2012, p.104

C – Departmental objective performance indicators

The Department of Treasury and Finance has recently advised departments that:[399]

> *departmental objective performance indicators are a new requirement for the performance statements. These indicators will sit under the departmental objectives and must demonstrate progress towards the achievement of those objectives.*

D – Departmental outputs

In the *Strategic Management Framework*, the Department of Treasury and Finance notes that:[400]

> *Parliament scrutinises the State Budget on behalf of the community before authorising that funds be made available. The money authorised in the Appropriation Bills is used to fund (or purchase) outputs from departments and some entities. These outputs are delivered in order to contribute to outcomes or objectives.*

In its *Strategic Management Framework*, the Department of Treasury and Finance states that:[401]

> *The Government is accountable to the public for the achievement of outcomes for the community. It must therefore ensure that the outputs being delivered on its behalf by departments and entities are contributing to these outcomes.*

In requesting information from departments in preparation for the 2012-13 Budget, the Department noted that:[402]

> *… in 2011-12 Budget paper No.3, Service Delivery, reference was made under each output description of the contribution of the output to departmental objectives;*
>
> *this requirement has been strengthened for 2012-13; there must now be a clear and direct link between departmental objectives and outputs, and each output should link to one departmental objective…*

The *Budget and Financial Management Guidances* defined an output by stating that:[403]

> *In general, outputs should capture the full activities and costs that make up a service that the Government purchases from the department.*

399 Department of Treasury and Finance, *Information Request No.11-23, Departmental Performance Statements for Publication in the Budget Papers*, 22 December 2011, p.2

400 Department of Treasury and Finance, *Strategic Management Framework,* May 2011, p.7

401 Department of Treasury and Finance, *Strategic Management Framework*, May 2011, p.10

402 Department of Treasury and Finance, *Information Request No.11-23, 2012-13 Departmental Performance Statements for Publication in the Budget Papers*, 22 December 2011, p.3

403 Department of Treasury and Finance, *Budget and Financial Management Guidances*, 'BFMG— 09 Output Specification and Performance Measures', October 2007, p.113

F – Output performance measures and targets

The *Strategic Management Framework* explains that:[404]

> *Departmental outputs, in particular, must be delivered and accounted for in terms of the achievement of performance measures and targets established in the budget process and publicly released.*

In requesting information from departments, the Department states that:[405]

> *…performance measures are required for every initiative approved for funding by BERC* [Budget and Expenditure Review Committee] *for the 2012-13 budget and every new government portfolio and footnotes are now required for any change in a performance measure target.*

404 Department of Treasury and Finance, *Strategic Management Framework,* May 2011, p.9

405 Department of Treasury and Finance, *Information Request No.12-07, Requirements for the 2012-13 Budget Process*, 27 March 2012, p.3

A5.2 Major initiatives for which departments advised that there were no performance measures in the 2012-13 budget papers

Department	Initiative	Department's response	Value ($ million)
Education and Early Childhood Development	New school construction, land acquisition and school upgrades	There are no output performance measures (apart from total output costs) that are directly related to this asset initiative.	199.0
	Regional TAFE projects – Education Investment Fund	There are no output performance measures (apart from total output costs) that are directly related to this asset initiative.	25.0
Health	Victorian Innovation, E-health & Communications Technology Fund	There are no related performance measures for this initiative.	100.0
	Victorian Cancer Agency: Building on achievements	There are no related performance measures for this initiative.	59.6
	Geelong Hospital – Major Upgrade	There are no related performance measures for this initiative.	93.3
	Ballarat Hospital – additional beds, ambulatory care and helipad	There are no related performance measures for this initiative.	46.4
	Frankston Hospital Emergency Department Redevelopment	There are no related performance measures for this initiative.	40.0
	Securing our Health System – Medical Equipment Replacement Program	There are no related performance measures for this initiative.	35.0
	Securing our Health System – Statewide Infrastructure Replacement Program	There are no related performance measures for this initiative.	25.0
Justice	Specialist Response to Serious Sex Offender Management	None.	104.4
	Bushfire Buyback Scheme–Phase 2 / Bushfire response – retreat and resettlement strategy	None.	20.6
Transport	Ballarat Western Link Road	None applicable for 2012-13.	38.0
	Dingley Bypass between Warrigal Road to Westall Road	None applicable for 2012-13.	155.7
	Melbourne metro – Planning and development	None applicable for 2012-13.	49.7
	Metropolitan grade separations	None applicable for 2012-13.	349.8
	Narre Warren-Cranbourne Road duplication between Pound Road and Thompson Road	None applicable for 2012-13.	49.0
	Western Highway duplication – Beaufort to Buangor	None applicable for 2012-13.	42.2
TOTAL			**1,433.0**

(a) For the purposes of analysis, the Committee selected $20 million as a threshold figure for major initiatives.

(b) Initiatives where departments identified only 'total output cost' appear in the table as 'none'.

(c) The Committee notes that, for some items (such as asset projects which are underway but not yet completed), there are not yet any performance impacts to measure.

Source: Departmental responses to the 2012-13 Budget Estimates Questionnaire, Question 10.1

A5.3 Outputs where the targets for non-cost performance did not appear to reflect the changes to services resulting from significant funding changes

A5.3.1 Department of Business and Innovation: Small Business Assistance

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Cost	Total output cost ($ million)	47.2	34.4	-27.1
Quality	Client satisfaction of small business information, referral, mentoring service and business programs (per cent)	90	90	0.0
Quality	Client satisfaction with Victorian Small Business Commissioner mediation service (per cent)	85[(a)]	80	-5.9
Quality	Proportion of business disputes presented to the Small Business Commissioner successfully mediated (per cent)	75	75	0.0
Quantity	Number of business interactions with services provided by Business Victoria Online (number)	480,000	495,000	3.1
Quantity	Number of businesses engaged with the Department (number)	nm	12,000	N/A

(a) The target for this performance measure for 2011-12 was 80 and hence the decrease was not a result of the funding cut for 2012-13

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.95

A5.3.2 Department of Health: Health Advancement

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Cost	Total output cost ($ million)	72.8	105.5	44.9
Quality	Local Government Authorities with Municipal Public Health and Wellbeing Plans (per cent)	95	95	0.0
Quantity	Workplaces and pubs and clubs complying with smoke free environment laws (per cent)	99	99	0.0
Quantity	Persons completing the Life! – Diabetes and Cardiovascular Disease Prevention program (number)	nm	5,616[(a)]	N/A

(a) In the 2011-12 budget papers, the target for the Persons completing the Life! Taking Action on Diabetes course was 5,616.

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.142-3

A5.3.3 Department of Health: Public Health Development, Research and Support

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Cost	Total output cost ($ million)	10.6	5.6	-47.2
Quantity	Number of people trained in emergency response (number)	2,000	2,000	0.0

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.143

A5.3.4 Department of Health: Seniors Programs and Participation

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Cost	Total output cost ($ million)	10.1	7.1	-29.7
Quantity	New University of the Third Age (U3A) programs funded (number)	59	45-60	N/A
Quantity	Seniors funded activities and programs: number approved (number)	123	110-130	N/A
Quality	Eligible seniors in the seniors card program (per cent)	95	95	0.0
Quality	Senior satisfaction with Victorian Seniors Festival events (per cent)	90	90	0.0

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.131

A5.3.5 Department of Premier and Cabinet: Protocol and Special Events

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Cost	Total output cost ($ million)	4.2	3.1	-26.2
Quality	Policy services rating (per cent)	85	86	1.2
Quantity	Annual special events (number)	7	7	0.0
Quantity	Official visitors to Victoria (number)	20	20	0.0
Timeliness	Timely delivery of events, functions and visit arrangements (per cent)	100	100	0.0

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.228

A5.3.6 Department of Premier and Cabinet: Strategic Policy Advice and Projects

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Cost	Total output cost ($ million)	72.3	53.6	-25.9
Quality	Policy services rating (per cent)	85	86	1.2
Quantity	Policy briefs prepared (number)	1,750	1,700	-2.9
Quantity	Whole of government strategic policy projects (number)	31	31	0.0
Timeliness	Strategic policy projects completed within required timeframe (per cent)	100	100	0.0
Timeliness	Policy services rating (per cent)	95	95	0.0

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.226

A5.3.7 Department of Primary Industries: Strategic and Applied Scientific Research

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Cost	Total output cost ($ million)	224.4	296.8	32.3
Quantity	Applications for intellectual property protection (number)	8	8	0.0
Quantity	Commercial technology licence agreements finalised (number)	20	19	-5.0
Quantity	Genetic improvement of dairy cows achieved through breeding contributing to increased milk production and dairy productivity (per cent)	1	1	0.0
Quantity	International scientific workshops/conferences led/ organised by DPI to promote science leadership among peers (number)	5	4	-20.0
Quantity	New key enabling technologies and core science capacity competencies established/upgraded by DPI (number)	2	1	-50.0
Quantity	Postgraduate level/PhD students in training by DPI (number)	83	64	-22.9
Quantity	Scientific and technical publications in international and/or peer review journals that promote productive, profitable and sustainable farming (including aquaculture) and fisheries systems (number)	359	298	-17.0
Quantity	Value of external (non-state) funding contribution to research projects that support productive, profitable and sustainable farming (including aquaculture) and fisheries systems ($ million)	45.6	33	-27.6
Timeliness	Agrifood, fisheries and natural resource management research and development project milestones and reports completed on time (per cent)	85	80	-5.9
Timeliness	Earth resource geoscience data packages released to market in line with agreed timetables (per cent)	100	>95	N/A
Timeliness	Provision of technical advice, diagnostic identification tests on pests and diseases including suspected exotics within agreed timeframes (per cent)	90	80	-11.1

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.250-2

A5.3.8 Sustainability and Environment: Forests and Parks

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Cost	Total output cost ($ million)	224.5	179.6	-20.0%
Quality	Bay assets rated in average to excellent condition (per cent)	65	65	0.0
Quality	Park assets rated in average to excellent condition (per cent)	80	80	0.0
Quality	Recreational facilities in state forests with a life expectancy greater than five years (per cent)	70	70	0.0
Quality	Level of compliance with environmental regulatory framework for commercial timber operations as required by the Forest Audit Program (per cent)	90	90	0.0
Quantity	Number of visits to Parks Victoria managed estate (number, million)	90	88-92	N/A
Quantity	Total area of estate managed by Parks Victoria (hectares, '000)	4,084	4,084	0.0
Quantity	Number of hectares treated to minimise the impact of pest plants, pest animals and overabundant native animals in parks managed by Parks Victoria (hectares)	891	1,309	46.9

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.263

A5.3.9 Sustainability and Environment: Natural Resources

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Cost	Total output cost ($ million)	108.2	85.9	-20.5
Quality	Corporate plans submitted by Catchment Management Authorities are aligned with Ministerial guidelines and template, and meet the requirement of relevant Acts (per cent)	100	100	0.0
Quality	Regional investment plans align with Government directions (per cent)	100	100	0.0
Quantity	Landcare members and community volunteers participating in Landcare activities (number)	81,000	81,000	0.0
Quantity	Area covered by the regional land health projects (hectares, million)	1.37	1.37	0.0
Quantity	Regional Investment Plans proposing natural resources improvement projects submitted, assessed and recommended to responsible Minister(s) for funding (number)	10	10	0.0
Quantity	Regional land health projects being implemented (number)	16	15-18	N/A
Timeliness	All regional investment plans submitted to Minister/s for approval by the prescribed date (date)	June 2012	June 2013	0.0

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Timeliness	Catchment Management Authority corporate plans submitted to the Minister by the prescribed date (number)	10	10	0.0

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.267-8

A5.3.10 Department of Sustainability and Environment: Public Land

		2011-12 Expected outcome	2012-13 Target	Change (per cent)
Cost	Total output cost ($ million)	145.5	107.5	-26.1
Quality	Publicly elected Committees of Management that have a current statutory appointment (per cent)	95	95	0.0
Quality	Foreshore protection assets around Port Phillip and Westernport Bays rated as 'good' to 'very good' condition (per cent)	nm	80	N/A
Quantity	Crown land leases directly managed by the Department of Sustainability and Environment (number)	684	684	0.0
Quantity	Crown land licenses directly managed by the Department of Sustainability and Environment (number, '000)	43	43	0.0
Quantity	Threatened native species and communities for which specifically targeted conservation measures are in place at Royal Botanic Gardens (number)	8	8	0.0
Quantity	Visitors to Zoos Victoria at Melbourne, Werribee and Healesville (number, million)	1.8	1.85	2.8
Quantity	Number of activities undertaken by Coastcare Victoria participants (number)	nm	600	N/A
Timeliness	Rent reviews of Crown land leases undertaken within specified time frames (per cent)	95	95	0.0

Source: Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.261-2

A5.4 Government documents with a relationship to the public sector's performance management framework

Document	Release date
LEGISLATION AND DIRECTIONS	
Financial Management Act 1994	1994
Standing Directions of the Minister for Finance under the *Financial Management Act 1994*	June 2003 (updated May 2012)
Financial Reporting Direction 8, *Consistency of Budget and Departmental Reporting*	January 2009
Financial Reporting Direction 27, *Presentation and Reporting of Performance Information*	July 2010
STRATEGIC MANAGEMENT	
Strategic Management Framework	2011
A guide to corporate and long-term planning	2012
Budget and Financial Management Guidance: *BFMG-03 Corporate and Long-term Planning Requirements*	June 2012
Information Request No.12-11 *Corporate and Long-Term Planning Requirements*	July 2012
RESOURCE ALLOCATION	
Draft Full Business Case	2011
Budget and Financial Management Guidance: *BFMG-01 Departmental Budget Planning*	October 2007
Budget and Financial Management Guidance: *BFMG-02 Outcomes, Departmental Objectives and Outputs*	October 2007 (updated post-2012-13 Budget (July 2012))
Budget and Financial Management Guidance: *BFMG-08 Departmental Objectives Specification and Performance Indicators*	October 2007 (updated post-2012-13 Budget (July 2012))
Budget and Financial Management Guidance: *BFMG-09 Output Specification and Performance Measures*	October 2007 (updated post-2012-13 Budget (July 2012))
Information Request No.11-06, *Development of 2011 Departmental Service, Asset & Multi-Year Strategies for the 2012-13 Budget, Including New Governance Arrangements for Infrastructure Proposals*	March 2011
Information Request No.11-23, *2012-13 Departmental Performance Statements for Publication in the Budget Papers*	22 Dec 2011
Information Request No.12-07, *Requirements for the 2012-13 Budget Process*	March 2012
Departmental performance statement template	unknown
Performance measures and data template	unknown
Proposed discontinued performance measures template	unknown
Budget submission template	annual

Document	Release date
ASSET MANAGEMENT	
Sustaining our Assets	2000
Asset Management Principles Part 1	unknown
Asset Management Policies and Practices Part 2	November 1995
Asset Management Catalogue of Reference Part 3	November 1995
EVALUATION	
DTF Guide to Evaluation	August 2011
Base Review Framework	February 2011
Base Reviews Toolkit	2010
Evaluation policy and standards for lapsing programs	July 2012
Budget and Financial Management Guidance: *BFMG-05 Evaluations, Output Resource Allocation reviews and Base Reviews*	October 2007
Information Request No.12-13, *Evaluation Policy and Standards for Lapsing Programs*	August 2012
REPORTING	
State Resource Information Management System – Service Delivery	May 2012
Information Request No.11-14, *2011-12 Output Performance Reporting and Revenue Certification Requirements*	September 2011

APPENDIX A6 ASSET INVESTMENT AND PUBLIC PRIVATE PARTNERSHIPS

A6.1 Required net asset investment for minimum of 1.3 per cent share of GSP

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Average 2016-17 to 2018-19
GSP ($ million) **[A]**	254,100	275,678	282,891	298,123	317,152	326,669	340,305	357,120	375,187	393,722	413,408[a]	434,423[a]
Five-year average GSP ($ million) **[B]**					285,589	300,103	313,028	327,874	343,287	358,601	375,949	414,436
Direct asset investment ($ million) **[C]**	2,812.5	2,709.0	3,146.8	4,661.2	4,886.3	3,751.0	3,529.6	3,963.7	2,887.1	3,488.2		
Asset sales ($ million) **[D]**	225.8	177.0	268.2	187.4	184.3	303.2	552.5	372.2	353.6	353.7		
Investment through other sectors ($ million) **[E]**	600.4	1,367.4	1,168.5	1,236.6	1,937.5	2,067.6	2,817.2	1,716.7	1,369.0	614.5		
Net asset investment ($ million) **[C]-[D]+[E]**	3,187.1	3,899.4	4,047.1	5,710.5	6,639.6	5,515.5	5,794.3	5,308.2	3,902.6	3,749.1	5,682.5[b]	6,428.9[b]
Average of last five years net asset investment ($ million) **[F]**					4,696.7	5,162.4	5,541.4	5,793.6	5,432.0	4,853.9	4,887.3	5,387.7
Single year net asset investment as a share of GSP (per cent) **([C]-[D]+[E])/[A]**	1.25	1.41	1.43	1.92	2.09	1.69	1.70	1.49	1.04	0.95	1.37	
Five-year average net asset investment as a share of average GSP (per cent) **[F]/[B]**					1.64	1.72	1.77	1.77	1.58	1.35	1.30	1.30

(a) Calculated by projecting the growth rate used by Department of Treasury and Finance for 2013-14 to 2015-16.

(b) These are the values required for the 'five-year average net asset investment as a share of average GSP' to equal 1.3 per cent, given past GSP and net asset investment and the GSP assumptions in the table.

Sources: Department of Treasury and Finance, Macroeconomic Indicators, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/Macroeconomicindicators2012-13BU1May2012/$File/Macroeconomicindicators2012-13BU1May2012.xlsx>, accessed 2 July 2012; Department of Treasury and Finance, Financial Statements, Consolidated Cash Flow Statement, <www.budget.vic.gov.au/CA2579B200132B63/WebObj/CashFlowHistoricalGG2012-13BU1May2012/$File/CashFlowHistoricalGG2012-13BU1May2012.XLS>, accessed 2 July 2012

A6.2 Projects funded through 'investment through other sectors'

Project	TEI ($ million)	Policy objective
New Ticketing System	611	For the development of MYKI.
Metropolitan Rolling Stock and 40 New Trains for Melbourne Commuters[(a)]	1,385	Initiatives that will increase the capacity and efficiency of the public transport network.
Tram Procurement and Supporting Infrastructure	804	Initiatives that will increase the capacity and efficiency of the public transport network.
Regional Rail Network Major Periodic Maintenance (Passenger and Freight)	172	Initiatives that will increase the capacity and efficiency of the public transport network.
Regional Rolling Stock	NA[(b)]	Initiatives that will increase the capacity and efficiency of the public transport network.
Regional Rail Link	NA[(b)]	The project will construct a dual track link of up to 50 kilometres from West Werribee to central Melbourne's Southern Cross Station, via Sunshine. This includes construction of a new rail line from Werribee to Deer Park, new stations at Tarneit and Wyndham Vale, and duplication of existing tracks between Sunshine and Kensington. The project will deliver capacity for an extra 9 000 regional and suburban passengers every hour and will allow regional rail services to run express into Melbourne, increasing transport capacity and reliability for Geelong, Ballarat and Bendigo.

(a) Listed as two separate projects in Budget Paper No.4.

(b) A TEI is not reported at this time due to commercial sensitivities.

Source: Department of Treasury and Finance, response to the Committee's 2012-13 Budget Estimates Questionnaire, received 3 May 2012, p.14

A6.3 Asset projects with significant (>10 per cent) increases in TEI between 2011-12 and 2012-13

Department	Project name (as in 2012-13 budget papers)	TEI reported in 2011-12 Budget ($ million)	TEI reported in 2012-13 Budget ($ million)	Increase in TEI ($ million)	Increase in TEI (per cent)	Comment given in Budget Paper No.4 2012-13
Education and Early Childhood Development	Trade Training Centres – Government Schools (statewide)	146.4	225.7	79.3	54.2	The TEI increased by $79.3 million as a result of additional funding received from the Commonwealth.
Education and Early Childhood Development	Kyabram regeneration – Regeneration – Kyabram P–12 College (Kyabram)	2.0	2.4	0.4	22.4	The TEI for these projects has changed as a result of rephasing within the New School Construction, Land Acquisition and School Upgrades. This rephasing may be due to a range of factors including inclement weather, latent soil conditions and adverse tender results. The total cost to deliver the New School Construction, Land Acquisition and School Upgrades to the Department has not changed.
Education and Early Childhood Development	Chisholm Institute of TAFE – New facility – Berwick Trade Careers Centre (Berwick)	22.0	26.0	4.0	18.2	The TEI increased by $4.0 million to include the Institute's contribution.
Health	Monash Children's Hospital – Planning and development (Clayton)	8.5	15.8	7.3	85.9	The TEI for this initiative includes $8.5 million allocated in the *2011-12 Budget* for land acquisition and planning and $7.3 million allocated in the *2012-13 Budget* for the continuation of planning and further development to deliver the next stage of the Government's election commitment. Further funding to complete the project will be provided in a future budget.
Justice	Infringement management and enforcement services – Enhancement/equipment (statewide)	27.9	34.4	6.4	23.0	The TEI has increased by $6.4 million due to reclassification of funding from output to capital and inclusion in this project of funding for the Liquor Control Reform.
Justice	Automated number plate recognition (statewide)	0.8	1.0	0.3	34.5	The TEI has increased by $0.27 million due to reclassification of funding from output to capital.
Metropolitan Fire and Emergency Services Board	Laverton Fire Station – Construction (Laverton)	6.2	7.0	0.8	12.9	The TEI variation for these projects was approved by the Board.
Sustainability and Environment	Fire web (non-metro various)	7.4	28.6	21.2	287.0	The TEI has increased due to the reclassification of funding from output to capital.

Department	Project name (as in 2012-13 budget papers)	TEI reported in 2011-12 Budget ($ million)	TEI reported in 2012-13 Budget ($ million)	Increase in TEI ($ million)	Increase in TEI (per cent)	Comment given in Budget Paper No.4 2012-13
Transport	M80 upgrade – Stage 1C Edgars Road to Plenty Road (metro various)	92.6	108.8	16.2	17.5	The TEI has increased from savings achieved in Stage 1B of the M80 Upgrade redirected to Stage 1C.
Transport	Koo Wee Rup Bypass (Koo Wee Rup)	50.0	66.0	16.0	32.0	The TEI includes $50 million funding announced in the 2011-12 Budget.
Transport	Cycling package (statewide)	13.2	15.3	2.1	15.7	The TEI has increased due to minor changes in project scope. This program is in addition to cycling facilities which are delivered via other transport projects.
Transport	Dingley Bypass between Warrigal Road to Westall Road (Dingley)	20.0	155.7	135.7	678.5	The TEI includes $20 million planning funding which was previously published in 2011-12 Budget.
Transport	Traffic Signal Retrofit Program – Installation of LED lamps (statewide)	22.0	25.0	3.0	13.6	The TEI has increased due to minor changes in project scope.
Transport	Geelong Ring Road Stage 4C – Geelong Ring Road to Surf Coast Highway (City of Greater Geelong)	76.9	90.4	13.5	17.6	The TEI has increased largely due to land acquisitions.
Transport	Ballarat Western Link Road (Ballarat)	2.5	38.0	35.5	1420.0	The TEI includes $2.5 million planning funding which was previously published in 2011-12 Budget.

Sources: Budget Paper No.4, *2011-12 State Capital Program*, May 2011; Budget Paper No.4, *2012-13 State Capital Program*, May 2012

A6.4 Asset projects with significant (>10 per cent) decreases in TEI between 2011-12 and 2012-13

Department	Project name (as in 2012-13 budget papers)	TEI reported in 2011-12 Budget ($ million)	TEI reported in 2012-13 Budget ($ million)	Decrease in TEI ($ million)	Decrease in TEI (per cent)	Comment given in Budget Paper No.4 2012-13
Education and Early Childhood Development	Wantirna Heights School (Eastern Autistic school) – Modernisation – Relocation of school, classrooms, arts, library, multi-purpose and administration (Wantirna)	8.00	6.65	1.35	16.86	The TEI decrease is due to favourable tender results.
Justice	Victoria Police accommodation strategy – Construction (Melbourne)	80.53	69.82	10.71	13.30	The TEI has decreased by $10.7 million due to a change of project scope.
Premier and Cabinet	Public Record Office Victoria support plan (North Melbourne)	7.07	5.14	1.93	27.28	The TEI has decreased due to reclassification of funding from capital to output
Sustainability and Environment	Walking trails (statewide)	1.46	0.98	0.48	32.76	The TEI has decreased due to the reclassification of funding from capital to output.
Sustainability and Environment	Restoring and re-opening Victoria's parks (statewide)	45.70	9.25	36.45	79.76	The TEI has decreased due to lower than expected flood related damages.
Transport	Pound Road – South Gippsland Highway – South Gippsland Freeway Intersection Upgrade (Dandenong)	36.80	26.80	10.00	27.17	The TEI has reduced due to favourable project savings.
Transport	Goulburn Valley Nagambie Bypass (Nagambie)	177.60	150.96	26.64	15.00	The TEI has reduced due to favourable project savings.
Transport	M80 upgrade – Stage 1B Western Highway to Sunshine Avenue (metro various)	75.20	59.00	16.20	21.54	The TEI has decreased due to savings redirected to Stage 1C of the M80 Upgrade.
Transport	Kororoit Creek Road duplication – Grieve Parade to Millers Road (Altona)	48.50	40.00	8.50	17.53	The TEI reflects the capital component only of costs to repair flood damage to arterial roads.
Transport	Kings Road duplication – Calder Freeway to Melton Highway (City of Brimbank)	12.00	9.90	2.10	17.50	The TEI has reduced due to favourable project savings.
Treasury and Finance	Regional decentralisation initiatives (Bendigo)	9.94	6.49	3.45	34.71	The TEI decreased due to reclassification of funding from capital to output.

Sources: Budget Paper No.4, *2011-12 State Capital Program*, May 2011; Budget Paper No.4, *2012-13 State Capital Program*, May 2012

A6.5 Inconsistent reporting of total direct asset investment, by department

Department	Purchase of non-financial assets[g] ($ million)	Payments for non-financial assets[a][f] ($ million)	Estimated expenditure 2012-13, all projects[b][c][h] ($ million)
Business and Innovation	189.8	192.4	28.5
Education and Early Childhood Development	528.8	528.8	471.2
Health	955.2	955.2	722.9
Human Services	56.5	56.5	34.3
Justice	423.5	397.2	284.1
Planning and Community Development	59.0	59.0	61.4
Premier and Cabinet	43.4	48.4	37.8
Primary Industries	54.0	54.0	37.3
Sustainability and Environment	120.4	129.9	149.3
Transport	975.4	975.4	987.0
Treasury and Finance	58.4	58.4	9.3
Parliament	6.8	6.8	3.6
Other	58.4[d]	n/a	157.3[e]
Totals	**3,529.6**	**3,462.0**	**2,984.1**

Notes:

(a) Figures from 'statement of cash flows' tables for each department.

(b) Figures include new and existing projects.

(c) Does not include individual projects with a TEI less than $250,000.

(d) Includes: regulatory bodies and other part budget funded agencies; and contingencies not allocated to departments.

(e) Includes: Country Fire Authority and Metropolitan Fire and Emergency Services Board.

Sources:

(f) Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, Chapter 3

(g) Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.34

(h) Budget Paper No.4, *2012-13 State Capital Program*, May 2012, Chapter 2

A6.6 Inconsistent reporting of new direct asset investment initiatives, by department

Department	Expenditure in 2012-13 on asset initiatives included in 2012-13 Budget[b][d][f] ($ million)	Estimated expenditure 2012-13[a][c][f] ($ million)
Business and Innovation	4.5	4.5
Education and Early Childhood Development	81.9	79.4
Health	90.7	94.0
Human Services	29.2	29.2
Justice	170.2	136.3
Planning and Community Development	11.0	6.3
Premier and Cabinet	10.0	10.0
Primary Industries	-	-
Sustainability and Environment	19.4	31.6
Transport	265.5	141.7
Treasury and Finance	-	-
Parliament	3.6	3.6
Other	n/a	49.8[e]
Total	**686.0**	**586.4**

Notes:

(a) Estimated expenditure 2012-13 from the 'non-projects' tables.

(b) 2012-13 espenditure from the total line of the 'asset initiatives' tables.

(c) Does not include individual projects with a TEI less than $250,000.

(d) Figures include funding flowing through departments to Public Non-Financial Corporations.

(e) Includes: Country Fire Authority and Metropolitan Fire and Emergency Services Board.

Sources:

(f) Budget Paper No.4, *2012-13 State Capital Program*, May 2012, Chapter 2

(g) Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

A6.7 Terms used relating to asset funding and asset investment

Term used in this report	Reported value in 2012-13 ($ million)	Terms used in budget papers	Source (in 2012-13 budget papers)
Net asset investment	5,794.3	Infrastructure investment	Budget Paper No.1, *2012-13 Treasurer's Speech*, May 2012 p.4; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.47
		Total net investment in fixed assets	Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48
		Cash flows from investing activities	Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.8
		Net infrastructure investment	Department of Treasury and Finance, 'Net Infrastructure Investment' data set, <www.dtf.vic.gov.au/A25713E0002EF43/WebObj/NetInfrastructureInvestmentGG2012-13BU1May2012/$File/NetInfrastructureInvestmentGG2012-13BU1May2012.xls>, accessed 30 August 2012
		Net infrastructure investment in fixed assets	Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.47
Operating surplus	154.9	Surplus	Budget Paper No.1, *2012-13 Treasurer's Speech*, May 2012, p.3
		Net operating surplus	Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.9
		Net result from transactions	Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48
		Net operating balance	Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.5
Depreciation and similar	1,851.0	Non-cash income and expenses (net)	Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48
Annual asset investment	6,346.8	None used, but this term is an addition of: 'expenditure on approved projects'; and 'capital approved but not yet allocated'	Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48
Borrowings for asset projects	3,788.4	None used. Borrowings for asset projects are only a part of total public sector borrowings. Other investment activities such as finance leases and other investment activities also contribute to borrowings.	
Direct asset investment	3,529.6	Purchases of non-financial assets	Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.8, 34
		Purchases of non-financial assets (including change in inventories)	Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.31
		Payments for non-financial assets[(a)]	Departmental statements of cash flows in Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, Chapter 3

Term used in this report	Reported value in 2012-13 ($ million)	Terms used in budget papers	Source (in 2012-13 budget papers)
Direct asset investment in new projects	686.0	Total asset initiatives (in the '2012-13' column)	Departmental 'asset initiatives' tables, Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1
		Total new projects (in the 'estimated expenditure 2012-13' column)[(a)]	Departmental 'new projects' tables, Budget Paper No.4, *2012-13 State Capital Program*, May 2012, Chapter 2
Net direct investment	2,977.1	Cash flows from investments in non-financial assets	Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.8
Investment through other sectors	2,817.2	Net cash flows from investments in financial assets for policy purposes	Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.8
Asset sales	552.5	Proceeds from asset sales	Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48
		Sales of non-financial assets	Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.8
PPP expenditure	727.7	None used, but this term is an addition of: 'finance charges on finance leases'; and 'operating lease payments'	Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.28

(a) Due to threshold conventions and other differences in calculation, these figures do not match up exactly with the other figures in these categories.

APPENDIX A7 THE GOVERNMENT'S RESPONSES TO THE COMMITTEE'S REPORT ON THE 2011-12 BUDGET ESTIMATES

A7.1 Recommendation to the Parliament

After receiving an apparently inaccurate response from the Parliament to its 2011-12 budget estimates questionnaire, the Committee recommended that:[406]

> *In future responses to the Committee's budget estimates questionnaires, the Parliamentary Departments ensure that they provide accurate and complete responses to questions seeking explanations for variances in expenditure.*

Though the Government advised that the Department of Parliamentary Services would respond directly to Parliament[407], the Parliamentary Departments responded informally to the Committee.

The Parliamentary Departments advised that the initial explanation provided in response to the 2011-12 budget estimates questionnaire was based on a different interpretation of the question.[408] The full explanation can be viewed on the Committee's website in the Parliamentary Departments' response to the 2012-13 Budget Estimates Questionnaire at www.parliament.vic.gov.au/paec.

The Committee accepts that the Parliamentary Departments seek to ensure the provision of accurate and complete responses to questions in budget estimates questionnaires. However, the explanation provided clarifies only one of the apparently inaccurate responses given.

The Committee remains unclear about the reasons for the other response it identified as apparently inaccurate.

406 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, pp.183-4

407 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2012-12 Budget Estimates — Part Three, tabled 14 March 2012, p.33

408 Parliamentary Departments, response to the Committee's 2012-13 budget estimates questionnaire, received 1 May 2012, pp.35-6

A7.2 Implemented recommendations

Part	No.	Recommendation	Committee comment	Ref.
1	9	The Government present in its future annual financial reports to the Parliament details of drawdowns from contingencies that were made in the financial period.	The Committee notes that the Government publishes details of drawdowns from contingencies in the annual Financial Reports for the State.	N/A
2	11	The Government not discontinue the performance measures listed in Table 3.8.	All performance measures were reinstated in 2011-12.	N/A
2	12	To enhance transparency in reporting, explanations be given in future budget papers for each and every change to a performance target.	All but three changed targets are explained in 2012-13. Of those three, two changes were simply to convert a range to a specific number within that range.	BP3, Ch. 2
2	13	In future budget papers, all explanations for changes to performance targets indicate, at a minimum, whether the change is because of: (a) changed government policy, funding or program delivery; or (b) changed external circumstances.	With a small number of exceptions, changes in performance targets are now accompanied by the recommended explanations.	BP3, Ch. 2
2	17	To ensure that budget allocations and demands on the health system are premised on the same basis, the Department of Treasury and Finance and the Department of Health use the same population growth estimates, based on the most up-to-date population data, when framing the budget and formalising health and other planning frameworks.	The Department of Health released a plan in 2011 using older data than that used in the 2012-13 Budget but drew the data from the same source as the budget papers.	N/A
3	8	Future 'statement of finances' budget papers list all controlled entities which have been consolidated for the purposes of the report.	Controlled entities which have been consolidated for the purposes of the report are now provided as part of the associated online financial data sets. The Government could improve the accessibility of this spreadsheet by advising the reader of its availability in Budget Paper No.5.	N/A
3	9	Future 'statement of finances' budget papers include a high-level analysis for each department of its operating statements, including explanations for significant variations from the prior year.	Budget Paper No.5 (*Statement of Finances*) now includes a high-level analysis of the operating statement of each department.	BP5, Ch. 3
3	25	Rather than using the terms 'asset', 'infrastructure' and 'capital' interchangeably throughout the budget papers, the Department of Treasury and Finance adopt a common term for budgetary reporting purposes. If the use of a number of terms is to be continued, they should be explained in a glossary to the budget papers.	A three-item glossary has been included in Budget Paper No.4, with the three items matching those in the recommendation. The Government could further assist readers by adding additional terms in future budget papers.	BP4, p.143
3	42	The Department of Treasury and Finance disclose in the budget papers a break-down of the sources of funding for asset investment projects that distinguishes between Commonwealth specific-purpose funding and State allocations.	The Committee notes improvements in distinguishing between Commonwealth and State funding for individual projects in Budget Paper No.4. The Government could further enhance the information provided by also including aggregated figures across the departments.	BP4

Part	No.	Recommendation	Committee comment	Ref.
3	45	In relation to asset investment projects provided through public private partnerships, the Department of Treasury and Finance disclose in the budget papers the individual asset investment projects procured through Partnerships Victoria arrangements.	Individual asset investment projects procured through Partnerships Victoria arrangements are listed in Budget Paper No.4.	BP4, p.7
3	48	For the revenue category 'sales of goods and services', the Department of Treasury and Finance disclose in the budget papers a comparison of the current budget for its component items to actual revenue for the most recent year and the revised estimate for the prior year.	This comparison is now included in the budget papers.	BP5, p.171
3	51	In terms of the presentation of 'Other Commonwealth Grants' in the budget papers, the Department of Treasury and Finance differentiate between: (a) grants for specific purposes and grants for on-passing; and (b) grants that are ongoing and those that are one-off in nature.	Budget Paper No.5 now differentiates between grants for specific purposes and for on-passing. Commentary on the grants and the timing of associated funding enables the reader to distinguish between grants that are ongoing and those that are one-off in nature.	BP5, pp.173-85
3	53	Future budget papers continue to disclose the effect of removing one-off Commonwealth grants on the net results from transactions for previous years, the budget year and the forward estimates.	This information is included in the online financial data sets.	N/A
3	59	The Department of Treasury and Finance ensure that the diagrammatic breakdown of estimated concessions in the budget papers reflects the current budget year.	The diagram is as recommended.	BP5, p.193
3	66	In future budget papers, where a department's total expenses from transactions differs from its total output cost, details be provided which: (a) quantify the difference; and (b) explain what the expenditure not accounted for in the output cost is.	As indicated in the Government's response, variations greater than 5 per cent have been explained. Only one variation, which was less than 1 per cent, was not explained. However, in some cases the explanations were provided in the budget papers and in others they were provided in the online data sets, which made finding the explanation more difficult than it needed to be.	BP3, Ch. 2
3	72	In presenting details of the drawdowns from contingency provisions in future annual financial reports for the State, the Government adopt the format used to account for use of the Advance to the Treasurer in the appropriation bills.	The Committee notes that the format for presenting details of contingency provision drawdowns is the same for annual financial reports and appropriation bills.	BP5, p.34
3	74	Future budget papers and budget updates specify how much of the allowance for 'contingencies not allocated to departments' is released to pay for new initiatives and 'policy decision variations' when: (a) quantifying the net impact of new output initiatives; and (b) reconciling the forward estimates to previously published estimates.	A new line item has been added to the appropriate tables.	BP2, pp.42, 47

Part	No.	Recommendation	Committee comment	Ref.
3	79	The Department of Justice reassess the performance measures in its Emergency Management Capability output to reflect the impact of the additional funding provided for this output.	The Department of Justice's Emergency Management Capability output now better reflects the impact of additional funding with four new quantitative measures of staff and volunteer numbers; changes to quality measures to include a focus on staff capability; and disaggregation of measures looking at emergency response times.	BP3, pp.195-6
3	80	Once the details and priorities for the Safer Electricity Fund are established, the Government develop appropriate performance indicators for this initiative.	The performance measure 'Delivery of milestones for the Safer Electricity Asset Fund work program' has been introduced to the Department of Sustainability and Environment's Primary Industries Policy output.	BP3, p.244
3	83	The Department of Sustainability and Environment develop performance measures for the Living Melbourne, Living Victoria road map following the development of related initiatives.	The performance measure 'Living Victoria Program recommendations implemented' has been added to the Department of Sustainability and Environment's Effective Water Management and Supply output.	BP3, p.259
3	88	The Department of Treasury and Finance clarify for the Government the differences between the classification 'under review' and 'support'.	The clarification has been provided in the Government's response.	N/A

A7.3 Partially implemented recommendations

Part	No.	Recommendation	Government response	Committee comment	Ref.
1	2	Future budget papers include specific commentary on reasons for the main changes between budget forecasts for individual operating expense items and the latest revised forecasts for the previous year.	**Support** The Department of Treasury and Finance (DTF) publishes commentary on movements between previous budget publications to the current budget publication for both revenue and expenditure items (Budget Paper No.2, Chapter 3 *Budget Position and Outlook*, Appendix A *Operating Statement Reconciliation*). The Government is committed to increased transparency on the use of public funds. DTF will seek to enhance commentary on changes to the current budget expenditure estimates for the major items in the operating statement for the general government sector.	Discussion of government expense line items has been expanded to include the budget year as well as the forward estimates. However, this commentary is at a very high level.	BP2, p.40

Part	No.	Recommendation	Government response	Committee comment	Ref.
1	3	The Government build on initiatives to achieve transparent disclosure of election commitments and associated savings in the budget papers through additional measures to address existing data gaps and improve the quality and clarity of published material on these subjects for the Parliament and other readers. Additional disclosures should include: (a) tabulations breaking down allocations of election commitments and associated savings by department and reconciling departmental allocations with aggregates disclosed elsewhere in the budget papers; (b) the strategies to be followed to achieve all identified savings; and (c) the basis adopted for quantifying each department's expected contribution to each identified savings source.	**Support** The Department of Treasury and Finance will seek to build on initiatives around the disclosure of election commitments and election savings, to improve the quality and clarity of published material on these subjects in forthcoming budget papers.	The Government has introduced commentary on strategies to achieve savings. However, it has not addressed points a) or c) of the recommendation.	BP3, Ch. 1

Part	No.	Recommendation	Government response	Committee comment	Ref.
1	7	The Government explore avenues for raising the quality and clarity of material on annual asset spending estimates presented in the budget papers. Any enhancements made to the presentation of budgeted asset information should be matched by equivalent improvements to the presentation of actual asset spending in the annual financial report.	**Support** As noted by the Committee, the Department of Treasury and Finance (DTF) publishes information on the State's infrastructure investment program across the budget papers, with each budget paper focusing on information relevant to that publication. Furthermore the introduction to Budget Paper 4, *2011-12 State Capital Program*, notes that changes have been made to the presentation of asset investment information to strengthen the transparency of Government activity, and to improve accountability for changes in these activities; thereby enhancing the overall level of disclosure. The Government supports the ongoing process of improving the quality and clarity of information presented in the budget estimates. In line with PAEC's recommendation, DTF will consider further options to improve the quality and clarity of information on the State's asset investment program with the aim of making the presentation of the annual infrastructure program in the budget papers more user-friendly to Parliament and other readers. The Government will also investigate improvements for the presentation of asset spending in the annual financial report.	Budget Paper No.4 now includes a glossary and lists completed projects for each department, but other information recommended by the Committee has not been included.	BP4
2	1	The Department of Treasury and Finance in consultation with the Department of Premier and Cabinet conduct a review of the quality of Victoria's current performance measures to assess whether they meet generally acknowledged better-practice criteria.	**Support** In early 2011, the Department of Treasury and Finance (DTF) released a better practice performance management and reporting tool, the *Strategic Management Framework*, which sets up expectations around performance management and evaluation for the public sector. In line with this framework, DTF has identified key reviews to be undertaken to strengthen performance management. DTF will review output descriptions, structures and performance measures in the lead up to the 2012-13 budget with a focus on quality improvement. During the review all departments, including the Department of Premier and Cabinet, will be engaged.	The Committee notes reference to a guide for reviewing and developing departmental objectives and indicators, outputs and performance measures in Information Request 11-23. However, it is not publicly available and the Budget and Financial Management Guidances related to performance measures have not been updated since 2007. The Committee is unable to confirm if a review occurred.	N/A

Part	No.	Recommendation	Government response	Committee comment	Ref.
2	2	The Department of Treasury and Finance develop appropriate guiding principles and criteria for all government departments that represent better practice in performance measurement.	**Support** Current guiding principles exist in the Budget and Financial Management Guidances on '*Outcomes, Departmental Objectives and Outputs*', '*Departmental Objectives Specification and Performance Indicators*' and '*Output Specification and Performance Indicators*'. While these guidances provide a starting point for departments, DTF is committed to improving the quality of guidance material provided to departments. DTF will review and update this guidance, including identifying guiding principles and criteria to help strengthen performance management.	The Committee notes: • the inclusion of tables linking departmental objectives to outputs; and • reference to a guide for reviewing and developing departmental objectives and indicators, outputs and performance measures in Information Request 11-23. However, the guide is not publicly available and the Budget and Financial Management Guidances related to performance measures have not been updated since 2007.	N/A
2	3	The Department of Treasury and Finance develop practical guidance materials to guide departments in the development and implementation of better-practice performance measures.	**Support** As outlined in the response to recommendation two, DTF currently provides guidance that supports the development and implementation of good practice performance measures. DTF will work closely with departments though a series of consultations and workshops to review and update guidance material and to ensure that it is easily understood and better practice performance measures can be implemented.	As above	N/A
2	4	The Department of Treasury and Finance work with departments to increase the number of meaningful, transparent and appropriate outcomes-based performance measures in the budget papers and link this explicitly into the Strategic Management Framework.	**Support** As PAEC noted in its report, the *Strategic Management Framework* aims to drive better practice performance management across the public sector. Included in the framework is a focus on efficiency, effectiveness and value for money. The current requirement on departments to develop a set of departmental objectives and associated indicators and to link these objectives to the delivery of outputs is the mechanism by which departments are planning for, and tracking against, achievement of outcomes. DTF will continue to work with departments to strengthen departmental objectives and the outcomes-based performance measures that accompany them. DTF will also look to strengthen the reporting against these indicators to provide the public and Parliament with more information on outcome based performance.	Some departments have increased the number of outcomes-based performance measures used. However, responses to Budget Estimates Questionnaire show that no such changes were made for at least 50 per cent of departments.	BP3, Ch. 2

Part	No.	Recommendation	Government response	Committee comment	Ref.
2	5	To enhance transparency and accountability, future budget papers clearly indicate the links between policy objectives, inputs, outputs and expected outcomes.	**Support** DTF regularly reviews the annual State budget papers with a focus on continuous improvement. In 2011 DTF will commence a review of the performance management framework including a review of output performance measures and the manner in which outputs link to departmental objectives. The outcomes of these reviews will help enhance transparency and accountability across all levels of departmental performance management and reporting. Long term reforms for enhancing transparency and accountability will be incorporated into future budget papers. DTF will work with departments to implement identified reform opportunities for the budget papers to improve government performance measurement and reporting.	The inclusion of tables linking outputs to objectives for all departments except Health and Parliament is a positive step. However, there are no links to policies or expected outcomes.	BP3, Ch. 2
2	7	The Department of Treasury and Finance examine whether there is scope for appropriate measures to be developed to assess the quality of service delivery for those outputs which currently do not have quality measures.	**Support** Departments annually review their performance measures to ensure their robustness, relevance and appropriateness, this work is undertaken in consultation with DTF. Departments have commenced a review of their Department's output structures for 2012-13. Departments will aim to ensure that there is at least one measure that assesses the quality of service delivery in each of its output categories for 2012-13. For the 2012-13 budget process, DTF will work with departments to review the appropriateness of measures to assess the quality of service delivery for each output.	Of the 14 outputs without quality measures in 2011-12, three outputs no longer exist. Of the remaining 11, three now include quality measures. However, due to other changes, there are 12 outputs with no quality measures in the 2012-13 Budget. Notably, three of the Department of Business and Innovation's six outputs now have no quality measures.	BP3, Ch. 2

Part	No.	Recommendation	Government response	Committee comment	Ref.
2	8	As part of its work developing guidance for departments on better-practice performance measurement, the Department of Treasury and Finance also provide guidance for developing performance measures of the qualitative aspects of service delivery.	**Support** As outlined in recommendation two, there are budget and financial management guidances on developing performance measures, including on the qualitative aspects of service delivery. DTF will review and update this guidance material to help strengthen performance management. DTF will work with departments to rigorously review output descriptions, structures and performance measures to ensure quality improvement occurs. This review will include qualitative aspects of service delivery.	The 2012-13 budget papers suggest greater oversight to improve the quality and consistency in performance information. However, the Budget and Financial Management Guidances on developing performance measures have not been updated since 2007.	BP3, Ch. 2
2	10	The Department of Treasury and Finance develop guidance material for departments which clearly specifies circumstances where it may be appropriate for performance measures to be discontinued.	**Support** The Government's commitment to improving transparency in performance measures is demonstrated by inviting the PAEC to undertake a role of reviewing performance measures proposed to be discontinued or substantially changed. Current guiding principles exist in the Budget and Financial Management Guidances on '*Outcomes, Departmental Objectives and Outputs*', '*Departmental Objectives Specification and Performance Indicators*' and '*Output Specification and Performance Indicators*'. While these guidances provide a starting point for Departments, DTF is committed to improving the quality of guidance material provided to Departments. DTF will review and update relevant guidance material to help strengthen the process around proposed changes to performance measures and will work closely with all other departments during the budget process, which includes reviewing proposed changes to performance measures.	The 2012-13 budget papers suggest greater oversight to improve the quality and consistency in performance information. However, the Budget and Financial Management Guidances have not been updated since 2007 and the Department of Treasury and Finance's website does not indicate if additional guidance material has been made available to departments.	BP3, Ch. 2
2	14	The Department of Treasury and Finance publish on its website the 2011-12 performance targets for the four measures listed as 'to be advised' in the 2011-12 budget papers as soon as they can be determined.	**Support in Principle** The Government is committed to the use of performance targets to assist in monitoring the Government's performance in these areas. DTF will work with the Department of Transport to publish the relevant targets on the DTF website and in the *2011-12 Budget Update* as soon as they are determined. Due to a change in Government policy relating to the development of a new integrated public transport ticketing solution some measures may no longer be appropriate. DTF will work with the Department of Transport to review the measures' appropriateness	Three of the four performance measures were published. However, the performance target for 'Progress of Regional Rail Link' has not been reported. The Department of Transport claims that this is due to 'commercial sensitivities'.	BP3, Ch. 2

Part	No.	Recommendation	Government response	Committee comment	Ref.
2	15	The Department of Treasury and Finance ensure in future budgets that each major initiative released in that budget has a sufficient number of corresponding performance measures in order to enable the Parliament to assess the performance of that initiative.	**Support in Principle** As part of the budget process DTF will work with all departments to ensure that performance measures are created for an output that show the impact of a major initiative, where this impact is not reflected in existing measures and targets.	A number of major initiatives have corresponding performance measures. However, a total of 19 initiatives with aggregated value of $1.45 billion have no corresponding performance measures.	BP3, Ch. 1, 2
2	18	To provide greater clarity, the Department of Treasury and Finance include notes to particular output performance targets in the budget papers to explain factors that have contributed to any targets being set at levels that could be reasonably interpreted as being significantly understated compared to the previous year.	**Support** DTF regularly reviews the annual State Budget papers with a focus on continuous improvement. In the *2011-12 Budget* explanations for changes to performance targets were moved to sit directly underneath the relevant target to make it easier for the reader to understand the change. Departments are required to provide an explanation for material and significant changes (more than five per cent variance) to performance targets from the previous year. DTF is currently reviewing the guidance for reporting on performance information in the budget papers, including the guidance for when an explanation is needed for a change to a performance target. This will include guidance on what constitutes a significant movement between performance targets between years. DTF will work with departments to implement any changes to reporting on performance targets in budget papers in a move to enhance transparency for future budget papers.	While some performance targets included explanations, there are numerous instances where this has not occurred.	BP3, Ch. 2
2	21	As a matter of imperative, the Government develop, and provide details in the 2012-13 budget papers, an approach for measuring the achievement of whole-of-government outcomes over time, including crime reduction.	**Under Review** DTF is working to improve the measurement of performance at both the outcome and output levels and is currently reviewing the output management framework and, as described in response to previous recommendations in this report, identifying ways to strengthen performance measurement and management. This includes effective linkage between outputs and departmental objectives towards the achievement of Government priorities. The Terms of Reference of the Panel of the Independent Review of State Finances includes the development of objectives and strategies for responsible financial management. Further work in this area will be informed the Independent Review's findings and DTF's internal review of output performance.	The Budget discusses short, medium, and long-term fiscal strategies and introduces goals for these. Measures for other whole-of-government outcomes have not been explicitly discussed.	BP2, p.9

Part	No.	Recommendation	Government response	Committee comment	Ref.
2	23	The Department of Treasury and Finance conduct a review to ensure that performance measures and targets have been established, where practicable, for all of the new government portfolios.	**Support** As part of the 2012-13 budget process DTF will work with all departments to ensure that robust and relevant performance measures and targets are developed for new government portfolios wherever appropriate and practicable.	With the exception of the Aviation portfolio, specific performance measures exist for all new government portfolios.	BP3, Ch. 2
3	1	In future years, ministers ensure that departments' budget estimates questionnaires are returned by the specified deadline.	**Support** Ministers will ensure that information required is provided by the specified deadline.	In 2012-13, 67 per cent of departments returned the questionnaires by the specified deadline.	N/A
3	2	The Government ensure that, in the future, responses to questions on notice and further information agreed to be provided are supplied in a timely manner.	**Support** Refer to response in Recommendation 1.	In 2012-13, 60 per cent of responses to questions on notice were submitted within agreed timeframes.	N/A
3	3	As more formal policies are released by the government, additional information be provided in the service delivery budget paper detailing the relationship between departmental outputs, new initiatives and Government policies and objectives.	**Support** The Department of Treasury and Finance (DTF) has improved the relationship between departmental outputs and new initiatives by including the descriptions of the new initiatives and details of which outputs these impact, in Budget Paper No. 3 *Service Delivery.* DTF is also investigating ways of improving the description of the relationship between departmental outputs and objectives and will continue to seek to improve this in future budget papers.	With the exception of the Department of Health and Parliament, the Government has improved the linkages between departmental outputs and objectives using tables in Budget Paper No.3. However, it has not included links to policies.	BP3, Ch. 2

Part	No.	Recommendation	Government response	Committee comment	Ref.
3	10	Future budget papers provide detail about the geographic distribution of new initiatives, including: (a) detailing the major initiatives and total funding for each specific region of Victoria (including metropolitan Melbourne); (b) linking those initiatives to the key issues affecting each region; and (c) differentiating funding for regional cities from funding for rural Victoria.	**Support** The Government supports the principle of this recommendation. The Department of Treasury and Finance (DTF) currently works with departments to identify: (a) key service drivers, their impacts and appropriate Government responses; and (b) key asset needs and appropriate Government responses for the eight Victorian government regions, to the extent possible given that the regions are not uniformly defined across all departments. This information is developed and updated on an annual basis by departments in their planning processes, which consider short to long-term service delivery requirements. It is used to provide context for budget deliberations and to identify asset budget proposals that align with key service drivers and asset needs. DTF regularly reviews the annual State budget papers with a focus on continuous improvement. The 2011-12 *Budget Overview* included a section on regional and country Victoria, providing details of new funding for regional health, transport and other regional initiatives. Reforms to the annual State budget publications will be considered as part of the 2012-13 budget process, and in the context of the findings and recommendations of regular reviews conducted by DTF. The presentation of the geographic distribution of new initiatives, including the details of new initiatives for specific regions (metropolitan, rural and regional) and how these initiatives link to the key issues for each region, will be considered as part of these reviews. Spatial analysis of service delivery requirements currently undertaken by departments in the development of long term plans could be more explicitly referenced in future budget publications to identify the evolving service needs impacting on each Victorian Government region and details of major initiatives to address these changing needs. DTF will work with departments to implement any identified reforms for budget papers and/or online information. **No further action is required.**	Budget Information Paper No.1 includes the section 'Government initiatives by region', which lists key projects and their funding for each region except metropolitan Melbourne. However, the initiatives are not linked to key issues affecting the regions and there is no differentiation of funding between regional cities and rural Victoria.	BIP1, pp.32-7

Part	No.	Recommendation	Government response	Committee comment	Ref.
3	11.6	**Macroeconomic and fiscal policy objectives** Expenditure and revenue allocations are linked to objectives. However, as detailed above in this chapter, the Committee considers that there is scope for improvement in linking expenditure to policy objectives as additional formal policies are released by the Government.	**Support** As noted by the Committee, a clear linkage between Government objectives and the funding provided in the budget is important for transparency. As new policies are announced, DTF will consider appropriate ways to enhance the level and the quality of information provided in the budget papers to link policy objectives with expenditure.	The inclusion of tables linking outputs to objectives for all departments except Health and Parliament is a positive step. However, there are no links to policies.	BP3, Ch. 2
3	15	Future budget papers list new funded activities as separate output initiatives when substantial amounts of funding are provided and where it is possible and meaningful to cost the activity separately from other activities.	**Support** The Government supports the principle of this recommendation. However, further work is required to test the feasibility of its implementation. The Department of Treasury and Finance will review the current presentation of output initiatives in the lead up to the 2012-13 Budget, and introduce where possible further refinements to the presentation of this information. The Government provides funding to departments for the provision of outputs as defined in Budget Paper No.3 *Service Delivery*. As part of the budget presentation where additional funding has been provided to a department, the purpose of funding has been outlined and the particular output(s) impacted have been identified within Budget Paper No.3.	Generally new output initiatives in 2012-13 were not aggregated, but there were some aggregated initiatives (e.g. the *Refocusing Vocational Education in Victoria* and *Sustaining Hospital Performance – Patient Demand Growth* initiatives).	BP3, Ch. 2
3	39	The Department of Treasury and Finance disclose in the 2011-12 Budget Update a complete analysis of any significant cost overruns in the State's asset projects.	**Support** Identified cost pressures to major projects in the State's asset program was not published in the 2011-12 Budget Update. This information will be incorporated into the 2012-13 budget papers. Where possible, explanations for cost overruns will be provided unless commercial negotiations may be adversely affected by the disclosure at that particular point in time.	Details of new funds for the *myki* initiative have been provided, but not details of additional funds for the Melbourne Wholesale Markets and Regional Rail Link projects.	BP4, p.123

Part	No.	Recommendation	Government response	Committee comment	Ref.
3	57	The Department of Treasury and Finance disclose in the budget papers its debt management strategy and detail the measures, including targets that are to be employed to ensure the successful implementation of the strategy.	**Support** In the 2011-12 Budget, Budget Paper No.2, Chapter 3 *Budget position and outlook*, a fiscal strategy was outlined to reduce net debt and bring the Government's finances to a more sustainable footing. In the 2011-12 Budget Update, the measures taken to address the high growth in expenses and improve the operating result to restore a fiscal buffer against future economic downturns are detailed in Appendix A *Specific policy initiatives affecting the budget position*. Further, in Chapter 1 *Economic and fiscal overview*, the overall effect of those initiatives on the fiscal aggregates is summarised. The Department of Treasury and Finance will continue to publish details of any future measures taken to implement the Government's debt management strategy.	Budget Paper No.2 includes the measure 'General government net debt reduced as a percentage of GSP over the decade to 2022', as part of Government's medium-term fiscal strategy. This could be enhanced with a quantified target and measures to assess progress before 2022.	BP2, p.9
3	87	In future responses to the Committee's recommendations, for all recommendations with further action planned, the Government provide timelines by which it expects the actions to be completed.	**Support** Government Responses to the PAEC recommendations include expected timelines where possible for any further action planned.	Most responses that indicate further action is planned include a general timeline. However, a number still lack this information.	N/A

A7.4 Recommendations positively received but not implemented

A7.4.1 Additional break-down of expenditure or revenue items

Part	No.	Recommendation	Government response	Committee comment
1	1	Future budget papers include a dissection of the major components of estimated revenue to be derived from the provision of services across government to facilitate the Parliament's analysis of associated revenue trends.	**Support** The Department of Treasury and Finance will assess opportunities to more clearly explain the major components of estimated revenue sourced from the provision of services, with additional disclosure to be addressed in the forthcoming budget papers as appropriate.	The Government has not provided any more details about the provision of services.

Part	No.	Recommendation	Government response	Committee comment
3	11.3	**Revenue and expenditure** Expenditures are classified according to department as well as on a whole-of-government basis. A break-down according to economic (e.g. employee expenses, interest expense and capital items) and functional categories (expenses according to government purpose) is provided in the budget papers. To enhance accountability and decision making, there is scope for providing a greater break-down of functions for the larger categories of education (e.g. into primary, secondary and tertiary) and health (e.g. into hospitals and other key components).	**Support** The Government supports the principle of this recommendation. Budget Paper No.5 *Statement of Finances* currently presents departmental statements by Government Purpose Classification in the *Estimated Financial Statements* (EFS). It also includes an outline of major state revenue categories and Commonwealth grants, as well as an overview of tax expenditures and concessions. Data is not currently collected at a lower level to provide a greater break-down of functions. **No further action is required.**	The Government has not broken down expenditure in the education and health areas.
3	38	In future budget papers, major asset initiatives be listed separately rather than aggregated.	**Support** This will be incorporated into the 2012-13 budget papers; where feasible, projects will be disaggregated and separately identified.	While many major asset initiatives are listed separately, there are instances where initiatives remain aggregated. Most notably this includes the Department of Justice's *Increased Prison Capacity* initiative, which includes both additional permanent prison beds and the delivery of a new male prison.
3	68	Future budget papers contain a more detailed break-down of the expense category 'other operating expenses' than is currently provided. In developing a more detailed break-down, the Department of Treasury and Finance should consider the sub-categories used in the Department of Innovation, Industry and Regional Development's 2009-10 Annual Report.	**Support** The Department of Treasury and Finance will assess opportunities to further disaggregate the 'other operating expenses' for future budget papers, and will consider presentation methods used in other government department reports. The timing of implementing this recommendation will be influenced by data availability and collection time requirements.	The budget papers do not include a more detailed break-down of 'other operating expenses' than was provided in 2011-12.

A7.4.2 Fuller explanations for variances and their impact

Part	No.	Recommendation	Government response	Committee comment
3	5	Future service delivery budget papers provide commentary on any significant differences between the total income from transactions and the Parliamentary authority for resources.	**Support** The Department of Treasury and Finance (DTF) has included information in Budget Paper No.3 *Service Delivery* detailing the income from transactions for departments and their parliamentary authority. DTF will seek to improve this linkage by adding commentary on significant differences in future budget papers.	Significant differences have occurred for several departments, but no commentary has been included.
3	44	The Department of Treasury and Finance explain in the budget papers the reasons for any major movements in contingency provisions over the forward estimates period.	**Support** The Department of Treasury and Finance (DTF) publishes commentary on major movements for infrastructure investment, which includes the unallocated capital provision, over the forward estimates (Budget Paper No.2, Chapter 3 *Budget position and outlook*). The Government is committed to increased transparency in the use of public funds. DTF will seek to enhance commentary on major movements over the forward estimates in the capital provision approved but not yet allocated (contingency for asset projects) in the budget papers for the general government sector.	No such explanations have been provided in the budget papers.
3	52	The Department of Treasury and Finance explain in the budget papers all significant movements in Commonwealth funding between the latest revised estimate and the current Budget.	**Support** Note 5 of the Budget Paper No.5, Chapter 1 *Estimated financial statements* disclosed separately the total value of specific purpose grants for on-passing, and grants for specific purposes. Further disclosure beyond that already presented *in Table 4.10: Payments for specific purposes and grants for on-passing* (Chapter 5, Budget Paper No.5) will not add significant value for the reader of this content. Further explanation of movements in Commonwealth funding is also provided in Budget Paper. No.2, Appendix A *Operating statement reconciliation*, which explains at a high level the movements in Commonwealth Specific Purpose Grants since the estimates previously published (2011-12 Budget Update). The Department of Treasury and Finance (DTF) will continue to disclose this information and explain the key drivers in changes to Specific Purpose Payments (SPP) between previous published information. SPPs are impacted by a number of factors that impact the timing of payments. During any financial year SPPs may be re-phased to better align with projects' revised completion dates and the Commonwealth's financial objectives. As such, in considering an appropriate response to this recommendation, DTF will consider the level of explanation for what is deemed a significant movement in SPPs in future publications.	Of the 41 significant movements in Commonwealth funding between the latest revised estimate and the current budget, only 18 (44 per cent) are accompanied by explanations.

Part	No.	Recommendation	Government response	Committee comment
3	64	Future budget papers provide explanations for major changes (between the budget year and the revised estimates for the previous year) to the estimated expenditure in each of the categories into which expenditure is broken down in the departmental operating statements.	**Under Review** The presentation and discussion of departmental estimates in the budget papers is under constant review and this will be considered for the 2012-13 budget papers when planning the commentary to be provided by departments for inclusion in Budget Paper No.5, Chapter *3 Departmental financial statements*.	The Department of Treasury and Finance and Department of Health both include brief commentary on variations in expenditure from the previous budget. However, no department includes specific explanations for major changes in specific expenditure categories.
3	75	Where there is a significant discrepancy between the estimate of Commonwealth grants for Victoria in the Victorian budget papers and the Commonwealth budget papers, the Department of Treasury and Finance publish a document on its website indicating what impact that difference will have on the budget.	**Support** The Government supports the principle of this recommendation. Currently, significant changes in Commonwealth Government grants paid to Victoria are referenced in the budget update each year following publication of the Commonwealth budget. **No further action is required.**	The Committee considers the release of the budget update to be untimely for this purpose. It is generally published 7 months after the release of the Commonwealth budget, and the department's website does not provide a more immediate discussion of the Commonwealth budget's impact.

A7.4.3 Fuller explanations for changes to outputs or output initiatives

Part	No.	Recommendation	Government response	Committee comment
3	4	Future service delivery budget papers explain the impact on each department's outputs of changes in the amounts of funding available for the department.	**Support** The Government supports the principle of this recommendation. The amount of new funding available to departments for each budget is included as part of Budget Paper No.3 *Service Delivery*. Chapters 1 (*Election commitments*) and 2 *(Other output, asset investment and revenue initiatives*) contain information reflecting both the newly funded departmental asset and output initiatives and the amount of funding committed towards these initiatives. In 2011-12, additional financial information was included in Budget Paper No.3, Chapter 3 *Departmental output statements*, on the income departments receive from transactions and the Parliamentary authority for resources. These tables were presented for increased transparency and ease of comparison with the departmental output summary tables. The departmental output summary tables include information on the cost of delivering departmental outputs for the budget year and the previous year. Departments are required to report on changes between years of more than five per cent. Explanatory details are also included in the output statements tables for new performance measures, and measures that departments propose to discontinue. **No further action is required.**	Explicit discussion of how changes in funding have impacted on outputs has not been included.
3	6	Future service delivery budget papers include the 'expenses from transactions' section of the departmental operating statements, along with commentary on how changes in expenditure relate to changes in the outputs.	**Support** The Government supports the principle of this recommendation. However, further work is required to test the feasibility of its implementation. The merits of including extracts of information from other budget papers, in Budget Paper No.3 *Service Delivery,* is under review and will be considered for 2012-13 and future budget papers.	This additional information has not been added.

Part	No.	Recommendation	Government response	Committee comment
3	14	Future budget papers explain the reasons for significant changes in the total value of new output initiatives in that budget compared to previous budgets.	**Support** Budget Paper No. 2, Chapter 3 *Budget position and outlook,* provides information on the current fiscal context of the budget and shows where the priorities lie for government spending over the forward estimates. The amount of new funding available to departments for each budget is included as part of Budget Paper No 3 *Service Delivery*. The introduction of Chapters 1 *(Election commitments)* and 2 (Other *output, asset investment and revenue* initiatives) contain information reflecting both the newly funded departmental asset and output initiatives and the amount of funding committed towards these initiatives. The Department of Treasury and Finance will continue to outline the total value of new output initiatives in Budget Paper No. 2 *Strategy and Outlook*, with a narrative on Government priorities and individual new output initiatives as well as explanatory commentary in Budget Paper No.3. This will ensure consistent information is available to the public and will enable comparisons of the total value of new output initiatives across years.	There is no comparative analysis of the new output initiative spending between 2012-13 and the previous year.

A7.4.4 Fuller explanations for changes to or differences in the value of asset spending

Part	No.	Recommendation	Government response	Committee comment
3	26	The Department of Treasury and Finance disclose in the budget papers a reconciliation of the differing estimates for annual asset spending that are presented throughout the budget papers, including definitions of the terms used to describe the components.	**Support** This will be incorporated into the 2012-13 budget papers.	The Government has not introduced a reconciliation of the differing estimates for annual asset spending, nor definitions of the terms describing the asset spending components.
3	27	To assist with reconciling figures, the Department of Treasury and Finance include in Budget Paper No.4 a line item for each department that aggregates the TEI, the estimated expenditure up to the budget year, the estimated expenditure in the budget year and the remaining expenditure on: (a) asset projects with a TEI of less than $250,000; (b) projects where the planned expenditure in the budget year is less than $75,000; and (c) capital grants paid to other sectors.	**Support** This will be incorporated into the 2012-13 budget papers.	The $75,000 threshold was removed in 2012-13, but no reconciling line items were added for the remaining categories.

Part	No.	Recommendation	Government response	Committee comment
3	29	Where the total for new asset initiatives shown in Budget Paper No.3 differs from the estimated capital expenditure on new projects for a department disclosed in Budget Paper No.4 the Department of Treasury and Finance explain the difference in the budget papers.	**Support** New asset initiatives funded in the annual budget and reflected in Budget Paper No.4 *State Capital Program* should align to information disclosed in other budget papers. In circumstances where this does not occur, the Department of Treasury and Finance will ensure these are appropriately disclosed.	The Budget does not provide explanations for where these situations have occurred (e.g. the Department of Sustainability and Environment and the Department of Transport).
3	30	Future budget papers compare the total value of new asset initiatives released in that budget to the total value of new asset initiatives released in previous budgets, and explain significant variations.	**Under Review** Variations between years in the total value of new asset investments is impacted by the priorities of the Government. The explanation for variances between years is a reflection of these priorities and the need to improve and/or extend the capital stock. However, where one year is impacted by a significant asset investment this will need to be identified appropriately. The presentation of aggregate data on the total value of new assets and previous budgets will be considered for inclusion in the 2012-13 budget papers, as appropriate. Other methods of presenting this information will also be reviewed, such as publication on the Department of Treasury and Finance website as part of the supplementary data provided with the budget papers.	Online data sets now include information on the historic trend of net infrastructure investment. However, explanations of significant variations between the total value of new asset initiatives released in each budget are not provided.
3	31	The Department of Treasury and Finance aggregate the funding of all new asset initiatives that has been approved in the budget, compare this total to the associated total estimated investment that has been committed to in the budget and disclose the balance that is to be funded in future budgets.	**Support** The Government supports the principle of this recommendation. Budget Paper No.4 *State Capital Program* discloses remaining asset expenditure beyond the budget year. Asset investments are approved on a total estimated investment basis and as such the aggregates equal each other. However, there are times when the asset expenditure for individual projects may span a number of financial years outside the published forward estimates. Such cases are explained or disclosed by footnote or in Budget Paper No.3 *Service Delivery*. The Department of Treasury and Finance will continue to ensure such instances are disclosed. **No further action is required.**	In line with the Government's response, no action has been taken towards implementing this initiative.

Part	No.	Recommendation	Government response	Committee comment
3	32	To provide a more comprehensive publication for informing the Parliament and the community about the remaining expenditure connected with asset projects which is yet to be funded, the Department of Treasury and Finance disclose in the budget papers an estimate for each asset project of when: (a) the project is planned to be completed; and (b) funds are to be allocated to fully fund the project.	**Support** See response to Recommendation 31. Further to this response, consideration will be given to including information on the planned completion date of approved asset investments in future budget papers, where appropriate.	These details have not been provided.

A7.4.5 Fuller explanations for the basis of figures used in budget papers

Part	No.	Recommendation	Government response	Committee comment
1	8	The Government present in a consolidated manner in future budget papers expanded information on the nature of operating and capital contingencies forming part of the budget, including their role in the budgetary process and the methodology employed for determining their quantification.	**Support** The Department of Treasury and Finance (DTF) will continue to provide information in the reporting of the aggregate level of contingencies and agrees that expanded information on the nature of operating and capital contingencies forming part of the budget, including their role in the budgetary process and the approach employed for determining their quantification should be presented in future budget papers. DTF will explore opportunities to enhance discussions around the basis and role of contingencies.	No commentary about contingencies has been added to the budget papers.

Part	No.	Recommendation	Government response	Committee comment
3	7	Future 'statement of finances' budget papers include significantly more information about the terms used in the financial statement and more explanations for the line items, as has occurred previously, through a glossary and/or an expanded 'statement of significant accounting policies and forecast assumptions'.	**Support** The Government supports the principle of this recommendation. The Government is committed to increased transparency and accountability, including through greater use of technology and streamlining of published information. As noted by the Committee, detailed material, such as the glossary of terms which is readily available in the most recent publication of the Annual Financial Report (AFR) of the State, have been referred to rather than reproduced, to improve the readability of Budget Paper No.5 *Statement of Finances*. Similarly, as the accounting policies are also largely unchanged since the publication of the most recent AFR, a reference to the detailed accounting policies disclosed in the AFR was considered appropriate. This approach was undertaken after consideration of practices adopted by other jurisdictions such as the Commonwealth, New South Wales and Western Australia in their budget papers. To assist readers' understanding of the budget papers, DTF has also, in consultation with the Victorian Auditor-General's Office, reviewed the previous forecast assumption disclosures and identified those that have a material impact on the financial performance and position of the State. Materiality provides an objective threshold for determining the level of information and disclosures that ensure the provision of meaningful and relevant information to users without reducing transparency. **No further action is required.**	There has been no increase in the amount of information about terms and line items used in the budget papers.
3	28	The Department of Treasury and Finance explain the basis of accounting that has been applied in developing material disclosed in each budget paper.	**Support** Generally, monetary estimates are prepared on an accrual basis unless stated otherwise, as per the accounting policy disclosed in Budget Paper No. 5, Chapter 1 *Estimated financial statements*. The Department of Treasury and Finance will ensure that any exceptions to this are appropriately disclosed.	The inclusion and explanation of the basis of accounting in each budget paper has not been implemented.
3	47	The Department of Treasury and Finance quantify in the budget papers the assumptions factored into the calculation of the payroll tax revenue budget compared to the previous year.	**Support** In the 2011-12 Budget suite of publications, the online data set included a description of how payroll tax is modelled. This largely reflects movements in employment and average weekly earnings, together with a fiscal drag factor to accommodate small businesses becoming liable for payroll tax as their wage bill rises. This information is planned for publication in the 2012-13 budget and DTF will enhance the commentary around economic drivers of tax revenue.	The Committee notes that despite stating that it planned to include information regarding assumptions factored into the calculation of the payroll tax revenue budget compared to the previous year in the 2012-13 Budget, it has not done so.

Part	No.	Recommendation	Government response	Committee comment
3	50	To enhance understanding of the fiscal implications of the predicted economic outlook, the Department of Treasury and Finance present in the budget papers a summary in a tabular form of the economic factors that have influenced the major revenue items.	**Support** For the 2011-12 Budget, the online data set included descriptions of the economic drivers of taxation revenue. The economic drivers were also briefly discussed in Budget Paper No 5, Chapter 4 *State revenue*.	The recommended table has not been included for components of revenue other than taxation.
3	67	The 2012-13 budget papers detail the effects of enterprise bargaining agreements established in 2011-12, including: (a) quantifying the effects of the agreements on estimates for 'employee expenses'; and (b) detailing any productivity savings targets established as part of the process.	**Support** The Government supports the principle of this recommendation. The Department of Treasury and Finance advises that the *Estimated financial statements* will reflect the updated estimates for the impact of the new enterprise bargaining agreements and any other factors having an effect on employee expenses. **No further action is required.**	The Committee notes that the Victoria Police Enterprise Bargaining Agreement was finalised before the 2012-13 Budget. However, the budget papers provide no commentary on its effect on 'employee expenses' estimates or productivity targets established as part of the process.

A7.4.6 Disclosure of the status of initiatives announced or commenced in previous budgets

Part	No.	Recommendation	Government response	Committee comment
3	23	Future budget papers clearly identify initiatives that continue programs released in previous budgets.	**Support** The Government supports the principle of this recommendation. However, further work is required to test the feasibility of its implementation. In the 2012-13 budget papers the Department of Treasury and Finance will identify opportunities to disclose funding which has been provided to departments to continue lapsing programs announced in previous budgets.	The budget papers do not clearly identify which initiatives are continuations of previous programs.

Part	No.	Recommendation	Government response	Committee comment
3	40	Where previously planned implementation timeframes developed for the current budget year have had to be revised for projects experiencing cost pressures, the budget papers disclose details relating to these revised timelines and the reasons for the re-scheduling.	**Support** This will be incorporated into the 2012-13 budget papers.	The details of revised timelines for projects experiencing cost pressures have not been incorporated into the 2012-13 budget papers.

A7.4.7 Centralised disclosure of key information

Part	No.	Recommendation	Government response	Committee comment
3	11.7	**Fiscal information facilitates policy analysis and promotes accountability** While summary information about the Budget is provided in the Treasurer's speech, the Victorian Budget Overview and the introduction to each budget paper, this could be enhanced by a flyer that sets out a simple outline of the key elements of the Budget in a consolidated form.	**Under Review** As noted by the Committee, DTF provides summary budget information in the *Treasurer's Speech*, the *Victorian Budget Overview*, and the introduction to each budget paper. DTF will investigate options to provide further information on the key budget elements to enhance useability in the 2012-13 budget.	The recommendation of a flyer outlining the key elements of the Budget was not implemented.
3	71	The cost, outcomes, impact on Government policy decisions and impact on forward expenditure of reviews, inquiries, studies, audits and evaluations commissioned by the Government be explained in future budget papers or in a separate report referenced in the budget papers.	**Support** The Government supports the principle of this recommendation. The cost, outcomes, impact on Government policy decisions and impact on forward expenditure of reviews, inquiries, studies, audits and evaluations commissioned by the Government are reflected in the budget papers which detail the funding of new initiatives. **No further action is required.**	Excepting a small number of references to such activities through the budget papers, this recommendation has not been implemented.
3	81	A break-down of all current initiative funding and estimated expenditure over the longer-term dedicated to the implementation of the Victorian Bushfires Royal Commission recommendations be provided in a single place, in either the budget papers or reports from the independent bushfire monitor.	**Under Review** All current initiative funding dedicated to the implementation of the Victorian Bushfires Royal Commission recommendations has been previously provided in various budget papers. In future, the Government will review the recommendation to provide this information in a single place, and will consider ways this can be achieved most effectively.	This break-down has not been included in the budget papers or in reports from the independent bushfire monitor.

A7.4.8 Improved quality of performance information

Part	No.	Recommendation	Government response	Committee comment
2	6	The Department of Treasury and Finance work with those departments with the highest proportions of quantity measures and the lowest proportions of quality measures to examine whether, on the basis of their responsibilities, there is scope for increasing the proportion of appropriate quality measures.	**Support** DTF continuously works with departments to review the relevance and robustness of departmental outputs and performance measures to ensure they fully enable Government to decide how to fund and allocate resources. Earlier this year DTF released a better practice performance management and reporting tool, the *Strategic Management Framework*, which sets up expectations around performance management and evaluation for the public sector. In line with this framework, DTF has identified key reviews to be undertaken to strengthen performance management. In 2011 DTF will lead a review of the performance management framework including a review of output performance measures and the manner in which outputs link to departmental objectives. DTF will work with departments to ensure that the suite of output performance measures for each output is a relevant indicator of the quantity, quality and timeliness components of the activities delivered through that output.	In contrast to the recommendation, the two departments with the lowest proportion of quality measures in 2011-12 (Department of Business and Innovation and Department of Primary Industries), both reduced the proportion of quality measures in 2012-13.
2	9	To improve transparency of the net effect of new and discontinued performance measures, future budget papers include a table showing the number of new and discontinued measures for each department.	**Support** DTF regularly reviews the annual State budget papers with a focus on continuous improvement. The Government's commitment to improving transparency in performance measures is demonstrated by inviting the PAEC to undertake a role of reviewing performance measures proposed to be discontinued or substantially changed during the budget process. Reforms to the annual State budget papers will be considered as part of the 2012-13 budget process, and in the context of the findings and recommendations of regular reviews conducted by DTF. The presentation of new and discontinued performance measures for each department will be considered as part of these reviews. DTF will work with departments to implement identified reform opportunities for the budget papers to improve the transparency of government performance reporting and enhance the provision of information to Parliament and the public.	A table showing changes in the overall number of outputs for each department has been added. However, there is no table that shows the number of new and discontinued measures.

Part	No.	Recommendation	Government response	Committee comment
2	22	To enhance accountability, the Department of Treasury and Finance explore the possibility of developing specific output performance measures that relate directly to the activities performed under the responsibilities of the new aviation industry portfolio.	**Support** The Department of Business and Innovation (DBI) annually reviews its performance measures to ensure the robustness, relevance and appropriateness of all. This includes consideration of the core outputs of the department and related performance measures, over the range of departmental responsibilities and Government priorities. This review will be completed for input into the 2012-13 Budget Papers. As part of the 2012-13 budget process DTF will work with DBI to explore the possibility of developing output performance measures that reflect the activities of the new aviation industry portfolio.	The Department of Business and Innovation has sought to improve the clarity and transparency of its outputs and performance measures through their realignment with departmental objectives. However, no performance measures are specific to the aviation portfolio.
2	24	The Government establish an appropriate performance management framework for Victoria's manufacturing industry that addresses any findings from the Victorian Competition and Efficiency Commission inquiry.	**Support** The Government has prepared a response to the Victorian Competition and Efficiency Commission (VCEC) report on the manufacturing industry which has helped to inform the development of the Government's Manufacturing Strategy. Both will be released in the near future and will strengthen current management arrangements for the industry.	*A More Competitive Manufacturing Industry* outlines the Government's commitments to improvements in Victoria's manufacturing industry, but does not establish a performance management framework for its initiatives.
3	18	The Department of Planning and Community Development develop performance measures for the Regional Growth Fund which measure its performance relative to the stated intended outcomes. These measures should be included in the 2012-13 budget papers and beyond.	**Support** A set of baseline performance measures for the Regional Growth Fund (RGF) were included in the 2011-12 Budget Paper No.3 *Service Delivery* within the Regional Development and Regional Cities output for the Department of Planning and Community Development. Performance targets for 2012-13 have been forecast and will form part of the 2012-13 budget papers. Furthermore, an evaluation framework has been developed to guide comprehensive performance measurement of RGF and subsidiary programs, with a focus on the first four years of fund investments. The evaluation framework will guide the reporting, monitoring and evaluation of the RGF in order to measure achievement against its stated goals and objectives. The RGF evaluation framework will provide the foundation for a series of monitoring and evaluation activities to track progress towards the RGF key performance measures. These activities will be applied across all key RGF sub-programs.	The Department of Planning and Community Development has not varied its performance measures for the Regional Growth Fund from 2011-12, which the Committee does not consider to be relative to the fund's stated intended outcomes.

Part	No.	Recommendation	Government response	Committee comment
3	63	Departments which pass on large amounts of grants for specific purposes should give consideration to including performance measures in the budget papers to assess the department's effectiveness at managing service delivery through grants.	**Support** The Department of Treasury and Finance supports consideration of this recommendation for future budget papers. Performance measures associated with output delivery are constantly under review to improve the transparency and reporting of departmental effectiveness in managing service delivery.	No new grant management performance measures have been included for the Department of Business and Industry and the Department of Transport.

A7.4.9 Additional recommendations

Part	No.	Recommendation	Government response	Committee comment
2	19	To provide greater transparency, the Department of Health ensure that the Rural and Regional Health Plan includes a description of the funding strategies available to small rural services throughout Victoria.	**Support** The annual Victorian Health Policy and Funding Guidelines are provided to all funded organisations (including those that provide services in rural and regional Victoria) and clearly outline the Government's policy and service delivery objectives, funding models and the conditions of funding and key accountability requirements to which these organisations must comply. These guidelines also provide an overview of new initiatives in the health budget. The *Rural and Regional Health Plan 2012-2022* will include high-level directions and objectives for the rural and regional health system. Progressive implementation of funding arrangements agreed though the National Health Reform Agreement will also increase transparency of funding strategies available to small rural services.	The Regional and Rural Health Plan does not include a description of the funding strategies available to small rural services.
3	36	To enhance accountability, the Department of Transport release a timetable disclosing when new trains are to be progressively running on Melbourne's transport network.	**Under Review** Contracts for the delivery of new trains to the operators can sometimes only specify dates for first and last trains or tranches of trains. As a result, the Department of Transport is not in a position to provide specific timelines for when each new train will enter revenue service. However, within these constraints the Department will consider publishing broad delivery timeframes for new trains. The Department of Transport will continue to provide delivery timeframes and project information for the procurement of new rolling stock online at <www.transport.vic.gov.au>.	The Department's website directs the reader to access the Public Transport Victoria website. Neither include such a timetable.

Part	No.	Recommendation	Government response	Committee comment
3	37	To enhance accountability, the Department of Education and Early Childhood Development release a timetable disclosing when the construction of new schools in major growth areas is to be completed.	**Support** The Department of Education and Early Childhood Development will provide completion details for new school construction, when these are available, on its website.	Completion details for new school construction could not be located on the Department of Education and Early Childhood Development's website.
3	49	To assist in better understanding of the impact of policy initiatives in the Budget, the Department of Treasury and Finance classify revenue initiatives that result in revenue foregone to the Government as 'revenue foregone initiatives' in the budget papers.	**Support** The Department of Treasury and Finance supports classifying revenue forgone to the Government in future budget papers.	The 2012-13 Budget includes the revenue initiative *Liquor Control Reform* which results in foregone revenue. However, this has not been classified as revenue forgone initiatives.
3	85	In future responses to the Committee's recommendations, the Government specify a timeframe by which a decision will be reached for each recommendation classified as 'under review'.	**Support** Government responses to future PAEC recommendations that are "under review" will include commentary that, when possible, estimates expected timeframes for the review and/or implementation period. Government responses that indicate action is under review in "future budget papers" is intended to inform the PAEC that consideration will be given to the recommendation in the lead-up to the development of the State budget in 2012-13 in the first instance and where appropriate.	No 'under review' recommendations included commentary specifying when a decision on the recommendation would be reached.

A7.5 Recommendations to be implemented in the future

Part	No.	Recommendation	Government response	Committee comment
1	4	Action taken by the Government to enhance disclosure of election commitments and related savings targets within the budget papers be matched by equivalent improvements in the reporting of actual savings in its annual financial report and departmental annual reports.	**Support** The Department of Treasury and Finance will seek to more clearly explain the achievement of actual savings, in future annual financial reports and departmental annual reports.	The Committee will examine the 2011-12 Financial Report for the State and departmental annual reports for incorporation of this recommendation.

Part	No.	Recommendation	Government response	Committee comment
1	5	Future budget papers include a consolidated statement identifying the expected sources and application of funding for major natural disasters and the estimated net cost to the Government.	**Support** The Department of Treasury and Finance (DTF) agrees that high standards of management are required in responding to major natural disasters and in accounting for their impact on state-owned assets, businesses and the community. DTF will therefore continue to provide transparency in the reporting of funding arrangements in response to major natural disasters. DTF will investigate opportunities to provide a consolidated statement of funding for major disasters, in future budget papers.	The Committee will re-examine this recommendation in future reports, as appropriate.
1	6	The Government apply high standards of transparency and accountability in its global reporting to the Parliament in the annual financial report and in departmental annual reports on the effectiveness of the management of funding allocated in response to the 2010 and 2011 floods.	**Support** The Department of Treasury and Finance (DTF) agrees that high standards of management are required in responding to major natural disasters and in accounting for their impact on state-owned assets, businesses and the community. DTF will therefore continue to provide transparency in the reporting of funding arrangements in response to major natural disasters. DTF will explore opportunities to enhance discussions around the basis and role of contingencies.	The Committee will review future reporting to establish whether this recommendation has been implemented.
2	16	Revision to the 2012-2022 Metropolitan Health Plan to take into account any changes to population projections and factors that may change over time be clearly documented by the Department of Health to provide an adequate trail of amendments made to the original plan.	**Support** Population projections used in the Metropolitan Health Technical Paper are from the Department of Planning and Community Development, 2008. As significant new population planning data becomes available, the Department of Health will update the Metropolitan Health Technical Paper. Updates to the Plan will be documented, such that revisions plainly describe both version number and data sources.	The Committee will re-examine this recommendation as the plan is updated.
2	20	As the funding initiatives directed at the delivery of ambulance emergency services are rolled out over time, the Department of Treasury and Finance examine whether performance targets in the Budget need to be set at more challenging levels that would correlate with the additional funding allocations.	**Under Review** The Government has inherited an underfunded and underperforming service from the previous government which has historically failed to meet its previous performance targets. Additional funding to Ambulance Victoria is designed to assist them in meeting their current performance targets. The Department of Health, in conjunction with the Department of Treasury and Finance, will review Ambulance Victoria performance over time to ensure that targets are appropriate.	The Committee notes that, to date, targets have either remained the same or become less challenging. As funding for ambulance emergency services increases over time, the Committee will re-examine the performance targets.

Part	No.	Recommendation	Government response	Committee comment
3	11.4	**Economic assumptions** Key economic assumptions are disclosed in the budget papers. The Victorian economic projections contained in the budget papers do not, however, include interest rate forecasts.	**Under Review** For DTF's economic forecasts, the interest rate assumptions used currently follow the forecasts prepared by the Treasury Corporation of Victoria (TCV) for its forecast period and remain constant thereafter. DTF would be open to describing its interest rate assumptions provided that it was clear it was purely a forecast and was not attempting to comment on the future stance of monetary policy. DTF also uses information from TCV on forward contracts for Victorian Government bonds to estimate expenses associated with new borrowings. Given this represents a material assumption and does not provide direct commentary on monetary policy, DTF is open to publishing these estimates as part of Note 1 in the EFS. This will be reviewed prior to the 2013-14 budget.	Disclosure of interest rate forecasts will be included in the scope of future reports.
3	17	The Department of Justice's benefit analysis and evaluation of the deployment of the additional police and protective service officers be undertaken in a timely manner and the results published on the Department's website.	**Support** The Department of Justice is working with Victoria Police and the Department of Transport to develop an evaluation framework for the Protective Services Officers (PSOs). The Department of Justice is also working with Victoria Police to ensure that mechanisms are in place to evaluate the impact of the 1700 additional police across the state, and to maximise alignment with existing data sets. This evaluation work is in a preliminary phase. The additional Police and PSOs are to be deployed from 2011- November 2014, and evaluation is expected to take place toward the end of the roll-out when there are sufficient additional numbers deployed to measure the impact. The mode of reporting has not yet been determined.	The Committee intends to revisit this recommendation on completion of the evaluation.
3	19	Longer-term performance measures be developed to assess the effectiveness of the Regional Growth Fund relative to its longer-term goals. The performance of the fund relative to these measures should be evaluated and publicly reported after an appropriate length of time.	**Support** The Regional Growth Fund (RGF) evaluation framework has been designed to measure the Fund's progress toward achieving its long-term goals of a prosperous and thriving regional Victoria and improved quality of life for regional Victorians. The evaluation framework incorporates a set of key performance measures to assess the effectiveness of RGF outcomes in achieving these goals. Ongoing reporting and evaluation activities will measure the economic and social impacts of the RGF across local government areas, geographic regions and the State. A series of evaluation activities will occur across the RGF and its subsidiary programs. These ongoing activities will track performance of the fund relative to its key performances measures and will include annual performance reviews, a mid-term externally conducted evaluation (2012-13) and a final evaluation at the completion of the first four years of funding (2014-15). The high-level results of these reviews will be made publicly available.	The Committee will continue to examine evaluation and reporting on the effectiveness of the Regional Growth Fund, as appropriate.

Part	No.	Recommendation	Government response	Committee comment
3	20	Departmental annual reports disclose any impacts on service delivery of budget savings measures.	**Support** The Government supports the principle of this recommendation. The impact on service delivery of budget decisions (including savings measures, growth funding, election commitments and indexation etc) are reflected in the changes to the services to be delivered or in changes to performance measures and targets. These expected impacts are already disclosed within Budget Paper No.3, *Service Delivery*, as appropriate. **No further action is required.**	Establishing the implementation of this recommendation is dependent on the publishing of 2011-12 departmental annual reports, although the commentary suggests that implementation is unlikely.
3	33	In relation to the initiative to devolve control over major capital works to Victorian schools and school principals, the Department of Education and Early Childhood Development: (a) develop a risk management plan to cover the risks involved in implementing this initiative, including the need for a strong corporate governance function; (b) disclose the cost of administering the initiative, including the provision of training; and (c) arrange for individual schools to report the additional costs incurred in the procurement function, as well as the benefits derived.	**Support** The Department of Education and Early Childhood Development has introduced new processes to allow schools to be more engaged in the management of their capital works projects, in line with the Government's policy directions. Schools can choose to either: • lead their projects with support from the Department; • lead their project in partnership with the Department; or • ask the Department to lead their projects. The implementation of the new capital works processes will include ongoing assessment of the risks and development of risk mitigation strategies. The Department will work with schools to evaluate the new processes, including an assessment of the costs and benefits.	The Committee notes that: (a) a Facilities Manager has been appointed within each Regional Office to look after the infrastructure planning needs of schools; (b) the Department has published a capability self-assessment tool for schools considering capital works; and (c) no information regarding the development of a risk management plan for the initiative is publicly available. Examining the implementation of this may be included in the scope of future Committee inquiries.

Part	No.	Recommendation	Government response	Committee comment
3	35	The Department of Health report in the latter years of the forward estimates on the use of moneys provided to the smaller country health services through the Rural Capital Support Fund, including the difference that such funding has made to the delivery of health services in country Victoria.	**Support** In addition to the regular and comprehensive reporting undertaken as part of the normal operation of the Asset Investment Program, the Department of Health will report specifically on the progress and effectiveness of the Rural Capital Support Fund projects. Projects will be rigorously assessed to ensure they strengthen and sustain existing rural and regional health services. This reporting will commence in 2013-14 and will focus on how each project has delivered on the benefits identified as part of the original proposal submission and any other benefits derived as part of the project.	Commentary on the impact of the Rural Capital Support Fund on smaller country health services will be re-examined, as appropriate.
3	41	With regard to the high-value and high-risk asset projects that are to be subject to the enhanced planning and governance processes, to achieve greater transparency, the Department of Treasury and Finance develop: (a) a strategy for listing the high-value and high-risk asset projects in the budget papers in descending order according to the level of risk as identified by the risk assessment tool applied by the Department; (b) performance measures that enable an assessment to be made about how these projects are tracking according to the approved budget, established timelines and quality standards of construction; and (c) clear linkages between these asset initiatives and their intended service delivery outcomes.	**Under Review** High Value High Risk (HV/HR) projects are defined as projects with a Total Estimated Investment (TEI) of greater than $100 million, and/or projects identified by the Government as high risk. The aim is to strengthen the rigour of project review and approval processes, which includes seeking the approval of the Treasurer for projects at key stages of project development. The Government will consider options for the disclosure of information relating to HV/HR projects where appropriate, although this is not expected to be able to be completed in time for the 2012-13 budget.	The Committee looks forward to future budget papers containing more detailed information regarding high-value and high-risk asset projects.

Part	No.	Recommendation	Government response	Committee comment
3	46	The Department of Transport provide commentary in its annual report on the status of all asset projects under review, including details relating to funding and re-scheduling where applicable.	**Under Review** Options to include this information in the Department's 2012-13 Annual Report or online on the Department of Transport website will be explored. As part of its contribution to the State's budget papers, the Department provides details, where necessary, for projects that are under review by Government and will explore options for this in the annual report or online at <www.transport.vic.gov.au>.	The Committee notes that there is no centrally located commentary for all asset projects under review on the Department of Transport's website. The Committee will examine the 2012-13 annual report in due course.
3	56	The Department of Treasury and Finance supplement the disclosure of revenue items in the budget papers by including measures of the competitiveness of Victoria's taxation system compared to the other Australian states and territories.	**Under Review** Measuring tax competitiveness is a difficult issue because it needs to consider the burden of taxation on various groups and the total amount collected. The Department of Treasury and Finance is assessing the merits of a suite of tax competitiveness measures, but which of these measures are preferred will not be finalised until after the 2012-13 budget.	The Committee awaits the outcome of this assessment.
3	73	In future annual financial reports for the State, the notes accompanying the financial statements break down expenditure both by department and by purpose, to complement the equivalent disclosure in the budget papers.	**Under Review** While this level of disclosure is not required under the Accounting Standards, the Department of Treasury and Finance will review how to better disclose this information in the 2013-14 budget papers.	Disaggregation of expenditure in future annual Financial Reports for the State will be examined by the Committee.
3	76	The Department of Transport publish details, as soon as they are known, of the impacts of the deferrals of Commonwealth funding for the Regional Rail Link, including quantifying the additional costs that will be incurred as a result and how those costs will be met.	**Under Review** The Department of Transport is currently finalising project timelines and costs. The revised timeline and costs will be published once approved and announced by the Government.	The impact of changes in Commonwealth funding for Regional Rail Link are not yet explicitly discussed in the 2012-13 Budget Papers, or on the Department's website.
3	77	Any policy developed as part of the State-based reform agenda clearly indicate any correlation between the State objectives and targets and the targets and objectives established as part of the COAG Reform Agenda.	**Support** To date, Budget Paper No.2 *Strategy and Outlook* has outlined Victoria's commitment to the development of a State based reform agenda. The Department of Treasury and Finance will work with departments to identify any correlation between state and COAG reform agendas in the Government's response to VCEC's inquiry into a state-based reform agenda. This is due to be released within six months of VCEC's final report, which was received in January 2012.	Establishing the implementation of this recommendation is dependent on the Government's response to the inquiry into a state-based reform agenda.

Part	No.	Recommendation	Government response	Committee comment
3	78	The Department of Treasury and Finance detail more precisely in future budget papers the extent of policy alignment between the State Government and the COAG Reform Agenda, including the extent to which performance measures and targets align or differ.	**Under Review** To date, Budget Paper No.3 *Service Delivery* has included departmental output performance measures that are appropriate to Victoria with high level linkages to the COAG Reform Agenda with Budget Paper No.2 *Strategy and Outlook* outlining Victoria's state-based reform agenda. COAG performance measures and targets under National Agreements are currently being reviewed by COAG working groups. COAG will consider the revised indicators according to a staggered workplan from March 2012. The Department of Treasury and Finance (DTF) is seeking to ensure that the revised indicators are consistent with those used in the Victorian budget. Upon COAG agreement to the revised indicators, DTF will need to consider how the budget papers could best accommodate a comparison between performance measures and targets. Any changes will need to be mindful of the different COAG Reform Council reporting timeframes and the integration of the COAG Reform Agenda's outcomes framework with the Victorian budget's output reporting model.	The Committee will re-examine the extent of policy alignment between the State Government and the COAG Reform Agenda in future reports.
3	82	The Government develop a single implementation and reporting evaluation framework that encompasses the 2010-11 Victorian flood response and will also be appropriate for future emergency management and responses. The Government should consider incorporating into this framework the emergency management phases of the 'Comprehensive Approach' – preparation, prevention, response and recovery.	**Under Review** The Government's commitment to a 'Comprehensive Approach' to emergency management (i.e. preparation, prevention, response and recovery) is outlined in the *Emergency Management Act 1986* and the Emergency Management Manual Victoria. The Review of the 2010-11 Flood Warnings and Response by Neil Comrie, examining flood predictions and warnings, command and control arrangements, the adequacy of evacuations and the clean up and recovery efforts, was provided to the Premier in December 2011. In addition, the Government recently released a green paper Towards a More Disaster Resilient and Safer Victoria on the reform of Victoria's emergency management framework and aims to improve the State's all hazards, all-agencies approach during large and complex disasters. It is anticipated that the Government will provide a response to each recommendation contained in the Review of the 2010-11 Flood Warnings and Response, which will be incorporated into the Green Paper Towards a More Disaster Resilient and Safer Victoria process. The Secretaries' Flood Recovery Group will also feed learning from the 2010-11 Victorian floods response and recovery into the Green paper process. Following the Green Paper consultation process, a White Paper outlining emergency management reform and planned actions will be released in 2012. The Government will consider the recommendation by the PAEC in parallel to the above mentioned processes in 2012.	Implementation and evaluation of emergency management and response initiatives will be re-examined, as appropriate.

A7.6 Recommendations where implementation cannot be established

Part	No.	Recommendation	Government response	Committee comment
3	11.8	**Independent external scrutiny of fiscal information** The Government Finance Statistics information included in the estimated financial statements is based on the Government Finance Statistics manual published by the Australian Bureau of Statistics. The quality of fiscal data is not verified by a national statistical body.	**Support** The Government supports the principle of this recommendation. DTF, the Australian Bureau of Statistics (ABS) and the Commonwealth Grants Commission (CGC) have developed a Tripartite Memorandum of Understanding setting the obligations of each party ensuring, among other matters, that data integrity is maintained. As part of the quality assurance process, DTF informs and consults with the ABS on major data issues; treatments and economic events; changes to classifications, government organisation structures, and systems and processes. **No further action is required.**	Without more information about the nature and content of the agreement between the Australian Bureau of Statistics, the Commonwealth Grants Commission and the Department of Treasury and Finance, the Committee cannot establish whether or not this has been implemented.
3	16	Where asset initiatives from previous budgets are re-focused so that significantly different products are being delivered, this re-focusing should be clearly stated in the budget papers.	**Support** In general, asset initiatives are not re-focused so that significantly different products are being delivered. However, the Department of Treasury and Finance will include an explanation via additional text or a footnote in Budget Paper No.4 *State Capital Program* to disclose any re-focussing as appropriate.	Lack of information regarding whether asset initiatives from previous budgets have been refocussed means that implementation of this recommendation cannot be established.
3	34	The Department of Health implement a monitoring regime to oversee the development of asset projects undertaken by the smaller country health services and funded through the Rural Capital Support Fund.	**Support** The Rural Capital Support Fund will be allocated to projects via a grants program. Submissions will be sought annually from eligible health services. The Department has prepared guidelines that articulate the proposal requirements. Submissions will be rigorously assessed to ensure the projects strengthen and sustain existing rural and regional health services. The Department of Health currently employs a comprehensive monitoring regime for the development and delivery of all asset projects, regardless of their size. The projects funded through the Rural Capital Support Fund will be subject to the existing monitoring regime.	As guidelines for grant allocation decisions are internal documents, implementation of this recommendation cannot be verified.

A7.7 Recommendations excluded from the Committee's analysis

The Committee has excluded analysis of the implementation of two recommendations (numbers 69 and 70) as not applicable. This is because their implementation was dependent upon the implementation of an earlier recommendation (number 68) which was not implemented. The table below shows the initial non-implemented recommendation as well as the two consequently excluded from analysis.

Initial recommendation				
Part	**No.**	**Recommendation**	**Government response**	**Committee comment**
3	68	Future budget papers contain a more detailed break-down of the expense category 'other operating expenses' than is currently provided. In developing a more detailed break-down, the Department of Treasury and Finance should consider the sub-categories used in the Department of Innovation, Industry and Regional Development's 2009-10 Annual Report.	**Support** The Department of Treasury and Finance will assess opportunities to further disaggregate the 'other operating expenses' for future budget papers, and will consider presentation methods used in other government department reports. The timing of implementing this recommendation will be influenced by data availability and collection time requirements.	A more detailed break-down of 'other operating expenses' than was provided in 2011-12 has not been included.
Recommendations excluded from the Committee's analysis due to non-implementation of the earlier recommendation				
Part	**No.**	**Recommendation**	**Government response**	**Committee comment**
3	69	Any changes to the sub-categories into which 'other operating expenses' are broken down in the budget papers be matched by equivalent improvements in the reporting of actual expenditure in the annual financial report for the State.	**Support** The presentation of the actual expenditure of 'other operating expenses' in the annual financial reports will be aligned to the sub-category format used in the estimates.	While the 2011-12 Financial Report for the State is yet to be published, because expense categories were not broken down in the budget papers as recommended, alignment of the format used in the estimates will not provide the recommended changes.
3	70	The model financial report for departments be modified to recommend the use of the same sub-categories to break down 'other operating expenses' that are developed for use in the budget papers and annual financial report for the State.	**Support** The presentation format of the note disclosure for 'other operating expenses' in the Model Report will be aligned to the format of the equivalent note in the corresponding budget papers and the Annual Financial Report for the State.	Because expense categories were not broken down in the budget papers as recommended, alignment with the budget papers will not provide the recommended changes.

Source: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates

In its response to the Committee's 2012-13 budget estimates questionnaire, the Department of Treasury and Finance provided the following advice about its intentions to implement the above recommendations:[409]

> *DTF does not currently collect this data and, on this basis, did not implement this recommendation for the 2012-13 Budget.*
>
> *DTF notes that this detail can be found in department annual reports.*
>
> *DTF will assess opportunities to further disaggregate the 'other operating expenses' for future budget papers, and will consider presentation methods used in other government department reports.*

On the basis that all three recommendations were supported, but not implemented, their implementation will be re-examined in future reports.

A7.8 Unsupported recommendations

Part	No.	Recommendation	Government response
3	11.1	The budget, or related documents, should include a detailed commentary on each revenue and expense program.	The budget is developed on an output basis (rather than on a program basis). Budget Paper No.3 *Service Delivery* provides information on all output initiatives including those additional to the Government's election commitments. It also details the goods and services (outputs) that each government department intends to deliver during the budget year. Departmental output statements enable the assessment of departments' service delivery. Performance measures are also provided to describe the cost of each output, the quantity of output units, the expected level of quality, and the timelines of service delivery.
3	11.5	The estimated financial statements are certified by the Secretary of the Department of Treasury and Finance. The Finance Minister does not produce a statement of responsibility.	The Finance Minister is not responsible for the EFS. Currently, the EFS is issued by the Treasurer consistent with the requirements of sections 23H-23K of the *Financial Management Act 1994*, and is reviewed by the Victorian Auditor-General's Office. The Treasurer is responsible for tabling the EFS in the Parliament.
3	12	The Department of Treasury and Finance develop and implement processes for identifying the cost of producing the budget papers in future years.	The Department of Treasury and Finance considers that estimating the costs of producing the budget (including the budget papers) is not practical and would result in a significant increase in the costs of producing the budget when applied to contributions from across the Victorian Government.

409 Department of Treasury and Finance, response to the Committee's 2012-13 budget estimates questionnaire, received 3 May 2012, pp.42-3

Part	No.	Recommendation	Government response
3	13	In addition to quantifying the funding provided for new initiatives released in that year's budget, future budget papers also indicate the expected expenditure in that year on initiatives from previous budgets and the amount of departments' base funding, and reconcile these amounts with the total expenditure on outputs.	The disclosure of changes to output expenditure for all current initiatives in future budget papers is not practical and would substantially increase the cost of producing the budget due to the volume of previously approved initiatives. This approach is consistent with the principles of output budgeting, which represents the culmination of planning and resource allocation decision making processes and discloses performance measures to specify outputs. However, the Government will consider other ways of including more information on how the expenses in departmental financial statements relate to output costs and how best to provide information on expenditure on previous years' budget initiatives.
3	21	For initiatives where funding is expected to reduce in real terms over the forward estimates but where demand is not expected to decline, the Government should indicate in the budget papers whether it is expecting departments to achieve efficiencies or reduce services.	The budget papers provide details of the scope and cost of new initiatives and an outline of the services they provide. Details associated with efficiencies are provided only for the current budget year.
3	22	If the Government intends to encourage departments to achieve efficiencies by providing a number of initiatives with the same (nominal) amount of funding over the forward estimates period, the budget papers should clearly indicate that this is the Government's intention, quantify the savings target in real terms and provide details of how departments are expected to achieve these efficiencies.	The budget papers provide details of the scope and cost of new initiatives and an outline of the services they provide. Details associated with efficiencies are provided only for the current budget year.
3	24	Details of the programs and departments from which funding is reprioritised in a budget, along with the impact of reduced funding in those areas, should be provided in the future budget papers or the supporting budget data sets located on the Department of Treasury and Finance's website.	Departments are funded on a global basis in the annual appropriation acts and ministers have the ability to reprioritise funding from differing areas within their portfolio department. If the reprioritisation of funding has a significant impact on service delivery this is reflected in the changes to output performance measures and is required to be appropriately footnoted in Budget Paper No.3 *Service Delivery*.
3	43	Future budget papers covering the State Capital Program disclose which projects have contributed to the asset funding carryover to the budget year.	Asset initiatives are impacted by a number of factors that affect the timing of delivery and the need for the carryover of appropriation funding. During any financial year asset projects may have the cash flows re-phased to better align with likely completion dates. Asset funding carryovers are also not finalised until the completion of the financial year under normal circumstances. Note 37(k) of the Annual Financial Report discloses the amounts approved for carryover from the previous financial year by department.
3	54	The Department of Treasury and Finance disclose, by way of the supporting budget data sets that accompany the budget papers, a reconciliation of how grants for specific purposes received from the Commonwealth for the general government sector will be distributed to individual departments, together with a trail of how this funding can be traced to departmental output and financial statements.	The Department of Treasury and Finance considers that existing disclosure in the budget papers, together with data presented in departmental annual reports, offers sufficient information on Commonwealth grants. The Commonwealth specific purpose payments are provided across five broad banded groupings for the Victorian Government to spend in those areas.

Part	No.	Recommendation	Government response
3	55	To enable interested parties to understand the status of unresolved matters that could have a material effect on the State's budget, the Department of Treasury and Finance establish a dedicated page on its website that contains an up-to-date commentary on the status of these matters and their potential impact on the budget.	As outlined in the PAEC Report, it is difficult to estimate the budgetary impact of unresolved matters, particularly those beyond the control of the Victorian Government. There is a strong likelihood that the publication of up-to-date commentary on the status of unresolved matters that may have a material impact on the State's budget may ultimately mislead interested parties. Known risks that may have a material effect on the estimated financial statements are contained in Budget Paper No.2, Chapter 2 *Economic context*, Budget Paper No.2, Chapter 3 *Budget position and outlook*, Budget Paper No.5, Chapter 6 *Contingent assets and contingent liabilities*.
3	58	The Department of Treasury and Finance include in the budget papers a comparison of Victoria's ratio of net debt to GSP to the other states and territories.	The publication dates of annual budgets in other jurisdictions do not align with Victoria's. Up to date information will not be available from other jurisdictions in time for the Victorian Government to present this in the budget publication. In addition, most jurisdictions do not publish estimates of nominal GSP. The Department of Treasury and Finance currently publishes the forecast net debt to GSP figures in the budget (2011-12 Victorian Budget, Budget Paper No.2, Chapter 3 *Strategy and outlook*, page 22).
3	60	Future budget papers show a break-down of the estimated expense described as 'regulatory bodies and other part funded agencies' in Note 12(b) to the general government sector operating statement.	This recommendation is not supported as it would not add value nor enhance the readability of the budget papers. However, for future budget papers the Department of Treasury and Finance (DTF) will consider if a more appropriate way of disclosing this information is possible to ensure the appropriate balance between readability and disclosure. DTF will also need to consider the availability of information for all agencies.
3	61	Future budget papers itemise the composition of the major deduction figures shown as 'eliminations and adjustments' in Note 12(b) to the general government sector operating statement.	This recommendation is not supported as it would not add value nor enhance the readability of the budget papers. However, for future publications the Department of Treasury and Finance will consider options for improving disclosures around the composition of eliminations and adjustments.
3	62	In the budget papers or the online supporting budget data sets, the Department of Treasury and Finance break down the 'eliminations and adjustments' figure by department.	Refer to response to Recommendation 61.
3	84	In future responses to the Committee's recommendations, the Government indicate in the response column whether a recommendation is fully or only partly supported.	The Government has clarified and standardised its responses to the PAEC recommendations in a way that clearly focuses on the distinction between supporting and not supporting a recommendation. Government responses that support a recommendation include commentary that demonstrates the Government's actions taken and/or commitment for any further action, and the expected timelines for any action. The Government supports clarity in responses, however, defining the exact extent of support may be difficult at the time the Government response is being prepared, given the complexity of implementing recommendations and the timelines that may be involved.

Part	No.	Recommendation	Government response
3	86	In future responses to the Committee's recommendations, the Government commit to updating the Public Accounts and Estimates Committee within three months of determining what action will be taken for each recommendation classified as 'under review'.	The Department of Treasury and Finance is investigating options to update the PAEC on responses that are 'under review' to advise PAEC about the status of any actions being taken in relation to the recommendation, and provide an update on their expected timeframe where necessary. In many cases, Government responses are constantly under review to improve transparency and reporting, particularly where a recommendation involves the presentation of new information in developing the budget papers. Furthermore, action is also taken to consider alternative ways in which it could meet the needs of the PAEC request, whilst ensuring outcomes from the previous year's review of budget papers (such as to enhance readability) are also given due consideration.
3	89	In its response to the 2011-12 Budget Estimates Inquiry, the Government provide an update on all recommendations from the 2010-11 Budget Estimates Inquiry which included further planned actions.	The Government has responded to PAEC's 96th Report and a further update of planned actions should not form part of the Government's response to the 102nd Report's recommendations. A review of responses for which further action was specified in response to the 96th report (where actions have not been superseded by new recommendations) will be considered together with actions planned in the Government's response to this report.
3	90	In future responses to the Committee's recommendations, in describing any further actions planned, the Government specify: (a) whether those actions will definitely include what the Committee has recommended; and (b) whether the planned actions will fully or partly implement the recommendation.	The Department of Treasury and Finance has investigated options to refine the drafting of responses to recommendations. Government responses to PAEC recommendations which commit to further actions planned will specify the intended action to be implemented to meet the objectives of the committee's recommendation.

A7.9 Guidelines for Responding to Reports by the Auditor-General[410]

Section 5.1 Implementation and Follow up of Report Recommendations and Government response to PAC

5.1.1. Each agency must have in place a satisfactory process for implementing and monitoring accepted report recommendations. Key responsibilities of agencies in this regard are to: maintain a register of audit recommendations that monitors implementation and ensures that appropriate action takes place within a reasonable timeframe; actively monitor implementation activity, through to completion; and internally report progress to agency management, particularly where progress appears deficient.

Appendix F: Agency actions for implementation and monitoring of supported Auditor General report recommendations

An appropriate process needs to be established by each agency for implementing and monitoring supported Auditor-General report recommendations.

Actions to be taken by agencies should include:

- assign responsibility for the implementation of accepted recommendations to a single person or business unit;
- develop an internal action plan that includes a timetable for implementation and clearly outlines roles and responsibilities for the implementation of each recommendation accepted;
- include in the plan mechanisms to monitor and report on results against key indicators where they have been identified in the Auditor-General's report;
- allocate sufficient resources to implement the plan and set realistic and achievable timeframes and targets;
- have the plan endorsed by the chief executive and where appropriate, the board and/or the minister;
- nominate or establish a committee (if not the internal audit committee) to monitor and report on progress;
- provide regular reports on the progress of implementation of the accepted recommendations to the chief executive and where appropriate, the board and/or the minister;
- raise staff awareness of the outcomes of the performance audit and invite feedback on how best to implement the recommendations;
- regularly review and monitor the internal action plan and make amendments, where necessary, to maintain relevance and appropriateness; and
- report progress and action taken to address accepted recommendations for significant matters/issues in accordance with annual report directions and, where relevant and applicable, to the minister and the Legislative Assembly (reporting progress each year until implementation for significant matters/issues is complete).

410 Chief Minister and Cabinet, Australian Capital Territory, *Guidelines for Responding to Reports by the Auditor-General*, November 2009, pp.13-14, 21

A7.10 Different interpretations of the Government's 'support' response

A7.10.1 Responses classified as 'support' where the intended action is not the recommended action

Part	No	Recommendation	Government response
2	19	To provide greater transparency, the Department of Health ensure that the Rural and Regional Health Plan includes a description of the funding strategies available to small rural services throughout Victoria.	The annual Victorian Health Policy and Funding Guidelines are provided to all funded organisations (including those that provide services in rural and regional Victoria) and clearly outline the Government's policy and service delivery objectives, funding models and the conditions of funding and key accountability requirements to which these organisations must comply. These guidelines also provide an overview of new initiatives in the health budget. The Rural and Regional Health Plan 2012-2022 will include high-level directions and objectives for the rural and regional health system. Progressive implementation of funding arrangements agreed though the National Health Reform Agreement will also increase transparency of funding strategies available to small rural services.
2	24	The Government establish an appropriate performance management framework for Victoria's manufacturing industry that addresses any findings from the Victorian Competition and Efficiency Commission inquiry.	The Government has prepared a response to the Victorian Competition and Efficiency Commission (VCEC) report on the manufacturing industry which has helped to inform the development of the Government's Manufacturing Strategy. Both will be released in the near future and will strengthen current management arrangements for the industry.
3	50	To enhance understanding of the fiscal implications of the predicted economic outlook, the Department of Treasury and Finance present in the budget papers a summary in a tabular form of the economic factors that have influenced the major revenue items.	For the 2011-12 Budget, the online data set included descriptions of the economic drivers of taxation revenue. The economic drivers were also briefly discussed in Budget Paper No.5, Chapter 4 *State revenue*.

Source: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates

A7.10.2 Responses classified as 'support' where the commentary indicates 'under review'

Part	No	Recommendation	Government response
2	9	To improve transparency of the net effect of new and discontinued performance measures, future budget papers include a table showing the number of new and discontinued measures for each department.	DTF regularly reviews the annual State budget papers with a focus on continuous improvement. The Government's commitment to improving transparency in performance measures is demonstrated by inviting the PAEC to undertake a role of reviewing performance measures proposed to be discontinued or substantially changed during the budget process. Reforms to the annual State budget papers will be considered as part of the 2012-13 budget process, and in the context of the findings and recommendations of regular reviews conducted by DTF. The presentation of new and discontinued performance measures for each department will be considered as part of these reviews.
3	6	Future service delivery budget papers include the 'expenses from transactions' section of the departmental operating statements, along with commentary on how changes in expenditure relate to changes in the outputs.	The Government supports the principle of this recommendation. However, further work is required to test the feasibility of its implementation. The merits of including extracts of information from other budget papers, in Budget Paper No.3 *Service Delivery*, is under review and will be considered for 2012-13 and future budget papers.
3	9	Future 'statement of finances' budget papers include a high-level analysis for each department of its operating statements, including explanations for significant variations from the prior year.	The Government supports the principle of this recommendation. Budget Paper No.2 *Strategy and Outlook*, Appendix A, contains a reconciliation of the estimates from the previous budget update and provides explanations for variations. This explains key movements since the most recent published estimates and provides users with explanations on significant variations across all departments. However, the Department of Treasury and Finance will consider these opportunities to improve the quality and level of analysis provided for each department, for inclusion in Budget Paper No.5 *Statement of Finances*.
3	23	Future budget papers clearly identify initiatives that continue programs released in previous budgets.	The Government supports the principle of this recommendation. However, further work is required to test the feasibility of its implementation. In the 2012-13 budget papers the Department of Treasury and Finance will identify opportunities to disclose funding which has been provided to departments to continue lapsing programs announced in previous budgets.
3	51	In terms of the presentation of 'Other Commonwealth Grants' in the budget papers, the Department of Treasury and Finance differentiate between: (a) grants for specific purposes and grants for on-passing; and (b) grants that are ongoing and those that are one-off in nature.	The Government supports the principle of this recommendation. However, further work is required to test the feasibility of its implementation. Other Commonwealth grants is a combination of a number of minor grants provided to the State. The Department of Treasury and Finance will review the presentation of this information in Budget Paper No.5 *Statement of Finances* to better improve the transparency surrounding this item in the 2013-14 budget.

Source: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates

A7.10.3 Responses classified as 'support' where the Committee recommended additional disclosure but the Government considers that current disclosure is sufficient

Part	No	Recommendation	Government response
3	11.3	Expenditures are classified according to departments as well as on a whole-of-government basis. A break-down according to economic (e.g. employee expenses, interest expense and capital items) and functional categories (expenses according to government purpose) is provided in the budget papers. To enhance accountability and decision making, there is scope for providing a greater break-down of functions for the larger categories of education (e.g. into primary, secondary and tertiary) and health (e.g. into hospitals and other key components).	The Government supports the principle of this recommendation. Budget Paper No.5 *Statement of Finances* currently presents departmental statements by Government Purpose Classification in the *Estimated Financial Statements* (EFS). It also includes an outline of major state revenue categories and Commonwealth grants, as well as an overview of tax expenditures and concessions. Data is not currently collected at a lower level to provide a greater break-down of functions. **No further action is required.**
3	20	Departmental annual reports disclose any impacts on service delivery of budget savings measures.	The Government supports the principle of this recommendation. The impact on service delivery of budget decisions (including savings measures, growth funding, election commitments and indexation etc) are reflected in the changes to the services to be delivered or in changes to performance measures and targets. These expected impacts are already disclosed within Budget Paper No.3 *Service Delivery*, as appropriate. **No further action is required.**
3	67	The 2012-13 budget papers details the effects of enterprise bargaining agreements established in 2011-12, including: (a) quantifying the effects of the agreements on estimates for 'employee expenses'; and (b) detailing any productivity savings targets established as part of the process.	The Government supports the principle of this recommendation. The Department of Treasury and Finance advises that the *Estimated Financial Statements* will reflect the updated estimates for the impact of the new Enterprise Bargaining Agreements and any other factors having an effect on employee expenses. **No further action is required.**
3	71	The cost, outcomes, impact on Government policy decisions and impact on forward expenditure of reviews, inquiries, studies, audits and evaluations commissioned by the Government be explained in future budget papers or in a separate report referenced in the budget papers.	The Government supports the principle of this recommendation. The cost, outcomes, impact on Government policy decisions and impact on forward expenditure of reviews, inquiries, studies, audits and evaluations commissioned by the Government are reflected in the budget papers which detail the funding of new initiatives. **No further action is required.**

Source: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates

A7.10.4 Responses classified as 'under review' where the commentary indicates 'support'

Part	No.	Recommendation	Government response
3	76	The Department of Transport publish details, as soon as they are known, of the impacts of the deferrals of Commonwealth funding for the Regional Rail Link, including quantifying the additional costs that will be incurred as a result and how those costs will be met.	The Department of Transport is currently finalising project timelines and costs. The revised timeline and costs will be published once approved and announced by the Government.

Source: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates

APPENDIX A8 LIST OF PEOPLE AND DEPARTMENTS PROVIDING EVIDENCE AT THE PUBLIC HEARINGS AND RESPONSES TO THE BUDGET ESTIMATES QUESTIONNAIRE

A8.1 People providing evidence at the public hearings

4 May 2012

Portfolios: Treasurer
Premier
Arts

Department of Treasury and Finance
Department of Premier and Cabinet

Mr K. Wells, Treasurer,
Mr G. Hehir, Secretary,
Mr D. Yates, Deputy Secretary, Budget and Financial Management Division,
Mr B. Flynn, Deputy Secretary, Economic and Financial Policy Division, and
Mr D. Webster, Deputy Secretary, Commercial Division, Department of Treasury and Finance.

Mr T. Baillieu, Premier,
Ms H. Silver, Secretary,
Dr P. Philip, Deputy Secretary, Policy and Cabinet Group,
Ms J. de Morton, Deputy Secretary, Government and Corporate Group, and
Mr D. Speagle, Deputy Secretary, Federalism, Citizenship and Climate Change Group,
Department of Premier and Cabinet.

Mr T. Baillieu, Minister for the Arts,
Ms H. Silver, Secretary,
Mr D. Carmody, Deputy Director, Agencies and Infrastructure,
Mr G. Andrews, Deputy Director, Policy and Programs, and
Ms P. Hutchinson, Director, Arts Victoria, Department of Premier and Cabinet.

7 May 2012

Portfolios: Parliament
Corrections
Crime Prevention
Minister responsible for the establishment of an anti-corruption commission

Parliamentary Departments
Department of Justice

Mr K. Smith, Speaker of the Legislative Assembly,
Mr B. Atkinson, President of the Legislative Council,
Mr R. Purdey, Clerk of the Legislative Assembly,
Mr W. Tunnecliffe, Clerk of the Legislative Council, and
Mr P. Lochert, Secretary, Department of Parliamentary Services.

Mr A. McIntosh, Minister for Corrections,
Ms P. Armytage, Secretary,
Ms J. Griffith, Executive Director, Corrections, Health and Crime Prevention, and
Mr R. Hastings, Commissioner, Corrections Victoria, Department of Justice.

Mr A. McIntosh, Minister for Crime Prevention,
Ms P. Armytage, Secretary,
Ms J. Brennan, Director, Community Crime Prevention, and
Ms J. Griffith, Executive Director, Corrections, Health and Crime Prevention, Department of Justice.

Mr A. McIntosh, Minister responsible for the establishment of an anti-corruption commission,
Ms P. Armytage, Secretary, Department of Justice,
Ms J. de Morton, Deputy Secretary, Government and Corporate Group, and
Mr S. Widmer, Director, Anti-Corruption and Integrity Taskforce, Department of Premier and Cabinet.

8 May 2012

Portfolios: **Health**
Ageing
Ports
Regional Cities
Racing
Major Projects

Department of Health
Department of Transport
Department of Planning and Community Development
Department of Justice
Department of Business and Innovation

Mr D. Davis, Minister for Health,
Mr L. Wallace, Acting Secretary,
Professor C. Brook, Executive Director, Wellbeing, Integrated Care and Ageing,
Mr P. Fitzgerald, Executive Director, Strategy and Policy, and
Ms F. Diver, Executive Director, Hospital and Health Service Performance, Department of Health.

Mr D. Davis, Minister for Ageing,
Mr L. Wallace, Acting Secretary,
Professor C. Brook, Executive Director, Wellbeing, Integrated Care and Ageing,
Mr P. Fitzgerald, Executive Director, Strategy and Policy, and
Ms J. Herington, Director, Ageing and Aged Care, Department of Health.

Dr D. Napthine, Minister for Ports,
Mr J. Betts, Secretary,
Mr T. Garwood, Executive Director, Freight, Logistics and Marine Division, and
Mr R. Oliphant, Chief Finance Officer, Department of Transport.

Dr D. Napthine, Minister for Regional Cities,
Mr A. Tongue, Secretary,
Mr G. Forck, Chief Finance Officer,
Mr L. Bruce, Chief Executive, Regional Development Victoria, and
Ms L. Healy, Executive Director, Policy and Programs, Department of Planning and Community Development.

Dr D. Napthine, Minister for Racing,
Ms P. Armytage, Secretary,
Mr R. Kennedy, Executive Director, Racing and Gaming, and
Mr S. Condron, Chief Finance Officer, Department of Justice.

Dr D. Napthine, Minister for Major Projects,
Mr H. Ronaldson, Secretary,
Mr P. Noble, Acting Deputy Secretary, Investment and Major Projects, and
Mr T. Bamford, Executive Director, Major Projects Victoria, Department of Business and Innovation.

9 May 2012

Portfolios: Public Transport
Roads
Innovation, Services and Small Business
Tourism and Major Events

Department of Transport
Department of Business and Innovation

Mr T. Mulder, Minister for Public Transport,
Mr J. Betts, Secretary,
Mr R. Oliphant, Chief Finance Officer, Department of Transport,
Mr I. Dobbs, Chief Executive, and
Mr N. Gray, Director, Network Operations, Public Transport Victoria.

Mr T. Mulder, Minister for Roads,
Mr J. Betts, Secretary, and
Mr R. Oliphant, Chief Finance Officer, Department of Transport, and
Mr G. Liddle, Chief Executive, and
Mr B. Gidley, Chief Operating Officer, VicRoads.

Ms L. Asher, Minister for Innovation, Services and Small Business,
Mr H. Ronaldson, Secretary,
Mr R. Straw, Deputy Secretary, Innovation and Technology,
Mr J. Hanney, Deputy Secretary, Trade and Industry Development, and
Mr J. Strilakos, Chief Finance Officer, Department of Business and Innovation.

Ms L. Asher, Minister for Tourism and Major Events,
Mr H. Ronaldson, Secretary,
Mr L. Harry, Chief Executive Officer, Tourism Victoria, and Deputy Secretary, Tourism and Aviation,
Mr J. Strilakos, Chief Finance Officer, and
Mr J. Dalton, Director, Tourism Strategy and Policy, Department of Business and Innovation.

10 May 2012

Portfolios: **Police and Emergency Services**
Bushfire Response
Regional and Rural Development
Employment and Industrial Relations
Manufacturing, Exports and Trade

Department of Justice
Department of Planning and Community Development
Department of Business and Innovation

Mr P. Ryan, Minister for Police and Emergency Services,
Ms P. Armytage, Secretary,
Mr N. Robertson, Executive Director, Police and Emergency Management, Department of Justice, and
Chief Commissioner K. Lay, Victoria Police.

Mr P. Ryan, Minister for Bushfire Response,
Ms P. Armytage, Secretary, and
Mr N. Robertson, Executive Director, Police and Emergency Management, Department of Justice.

Mr P. Ryan, Minister for Regional and Rural Development,
Mr A. Tongue, Secretary,
Mr G. Forck, Chief Finance Officer,
Mr L. Bruce, Chief Executive, Regional Development Victoria, and
Ms S. Jaquinot, Deputy Secretary, Local Government and Community Development, Department of Planning and Community Development.

Mr R. Dalla-Riva, Minister for Employment and Industrial Relations,
Mr H. Ronaldson, Secretary,
Mr J. Hanney, Deputy Secretary, Trade and Industry Development,
Mr T. Sharard, Director, Private Sector Workplace Relations, and
Mr J. Strilakos, Chief Finance Officer, Department of Business and Innovation.

Mr R. Dalla-Riva, Minister for Manufacturing, Exports and Trade,
Mr H. Ronaldson, Secretary,
Mr J. Hanney, Deputy Secretary, Trade and Industry Development,
Mr J. Strilakos, Chief Finance Officer, and
Mr D. Latina, Executive Director, Industry Development, Department of Business and Innovation.

11 May 2012

Portfolios: **Attorney-General**
Finance
Education

Department of Justice
Department of Treasury and Finance
Department of Education and Early Childhood Development

Mr R. Clark, Attorney-General,
Ms P. Armytage, Secretary,
Ms G. Moody, Executive Director, Strategic Projects and Planning, and
Ms C. Gale, Executive Director, Community Operations and Strategy, Department of Justice.

Mr R. Clark, Minister for Finance,
Mr G. Hehir, Secretary,
Mr D. Yates, Deputy Secretary, Budget and Financial Management Division, and
Mr B. Flynn, Economic and Financial Policy Division, Department of Treasury and Finance.

Mr M. Dixon, Minister for Education,
Mr R. Bolt, Secretary,
Dr J. Watterston, Deputy Secretary, School Education Group,
Mr C. Wardlaw, Deputy Secretary, Strategy and Review Group, and
Mr J. Miles, Deputy Secretary, Infrastructure and Finance Services Group, Department of Education and Early Childhood Development.

15 May 2012

Portfolios: **Higher Education and Skills**
Minister responsible for the teaching profession
Sport and Recreation
Veterans' Affairs
Planning

Department of Education and Early Childhood Development
Department of Planning and Community Development

Mr P. Hall, Minister for Higher Education and Skills,
Mr R. Bolt, Secretary,
Ms K. Peake, Deputy Secretary, Higher Education and Skills Group,
Mr J. Miles, Deputy Secretary, Infrastructure and Finance Services Group, and
Mr D. Clements, Executive Director, Tertiary Education Policy and Strategic Projects, Department of Education and Early Childhood Development.

Mr P Hall, Minister responsible for the teaching profession,
Mr T. Bugden, Executive Director, Human Resources,
Dr J. Watterston, Deputy Secretary, School Education Group,
Mr J. Miles, Deputy Secretary, Infrastructure and Finance Services Group, and
Mr R. Bolt, Secretary, Department of Education and Early Childhood Development.

Mr H. Delahunty, Minister for Sport and Recreation,
Mr A. Tongue, Secretary,
Dr P. Hertan, Deputy Secretary, Sport and Recreation and Veterans' Affairs,
Ms S. George, Director, Community Sport and Recreation, and
Mr G. Forck, Chief Finance Officer, Department of Planning and Community Development.

Mr H. Delahunty, Minister for Veterans' Affairs,
Mr A. Tongue, Secretary,
Mr G. Forck, Chief Finance Officer,
Dr P. Hertan, Deputy Secretary, Sport and Recreation and Veterans' Affairs, and
Mr D. Roberts, Manager, Veterans Unit, Department of Planning and Community Development.

Mr M. Guy, Minister for Planning,
Mr A Tongue, Secretary,
Mr G. Forck, Chief Finance Officer,
Ms P. Digby, Deputy Secretary, Planning, Building and Heritage, and
Mr J. Ginivan, Acting Executive Director, Planning and Building Reform, Department of Planning and Community Development.

16 May 2012

Portfolios: **Gaming**
Consumer Affairs
Energy and Resources
Children and Early Childhood Development
Housing
Multicultural Affairs and Citizenship

Department of Justice
Department of Primary Industries
Department of Education and Early Childhood Development
Department of Human Services
Department of Premier and Cabinet

Mr M. O'Brien, Minister for Gaming,
Ms P. Armytage, Secretary,
Mr R. Kennedy, Executive Director, Racing and Gaming,
Ms C. Carr, Director, Gambling Policy and Research, and
Mr S. Condron, Chief Finance Officer, Department of Justice.

Mr M. O'Brien, Minister for Consumer Affairs,
Ms P. Armytage, Secretary,
Mr S. Condron, Chief Finance Officer,
Dr C. Noone, Executive Director, Consumer Affairs, and
Ms C. Gale, Executive Director, Community Operations and Strategy, Department of Justice.

Mr M. O'Brien, Minister for Energy and Resources,
Mr J. Rosewarne, Secretary,
Mr D. Sceney, Acting Executive Director, Energy and Earth Resources,
Mr C. O'Farrell, Chief Financial Officer, and
Mr M. Feather, Acting Executive Director, Energy Sector Development, Department of Primary Industries.

Ms W. Lovell, Minister for Children and Early Childhood Development,
Mr R. Bolt, Secretary,
Mr P. Linossier, Acting Deputy Secretary, Early Childhood Development Group,
Mr J. Miles, Deputy Secretary, Infrastructure and Finance Services Group, and
Mr M. Maher, Executive Director, Programs and Partnerships Division, Department of Education and Early Childhood Development.

Ms W. Lovell, Minister for Housing,
Ms G. Callister, Secretary,
Mr D. Craig, Acting Executive Director, Housing and Community Building,
Ms J. McInerney, Acting Director, Policy Planning and Strategy, Housing and Community Building, and
Mr R. Jenkins, Assistant Director, Budget and Performance, Housing and Community Building, Department of Human Services.

Mr N. Kotsiras, Minister for Multicultural Affairs and Citizenship,
Mr H. Akyol, Director, Office of Multicultural Affairs and Citizenship, and
Mr D. Speagle, Deputy Secretary, Federalism, Citizenship and Climate Change Group, Department of Premier and Cabinet.

17 May 2012

Portfolios: Agriculture and Food Security
Water
Mental Health
Women's Affairs
Community Services

Department of Primary Industries
Department of Sustainability and Environment
Department of Health
Department of Human Services

Mr P. Walsh, Minister for Agriculture and Food Security,
Mr J. Rosewarne, Secretary,
Mr C. O'Farrell, Chief Financial Officer, and
Professor G. Spangenberg, Executive Director, Biosciences Research Division, Department of Primary Industries.

Mr P. Walsh, Minister for Water,
Mr G. Wilson, Secretary,
Dr J. Doolan, Deputy Secretary, Water, and
Mr M. Clancy, Acting Chief Finance Officer, Department of Sustainability and Environment.

Ms M. Wooldridge, Minister for Mental Health,
Mr L. Wallace, Acting Secretary,
Dr K. Edwards, Executive Director, Mental Health, Drugs and Regions, and
Mr P. De Carlo, Director, Policy Planning and Strategy, Mental Health, Drugs and Regions Division, Department of Health.

Ms M. Wooldridge, Minister for Women's Affairs,
Ms G. Callister, Secretary,
Mr J. Higgins, Acting Executive Director, Corporate Services, and
Ms C. Mathieson, Acting Director, Office of Women's Policy, Department of Human Services.

Ms M. Wooldridge, Minister for Community Services,
Ms G. Callister, Secretary,
Mr J. Higgins, Acting Executive Director, Corporate Services,
Ms C. Asquini, Executive Director, Children, Youth and Families, and
Mr A. Rogers, Executive Director, Disability Services, Department of Human Services.

18 May 2012

Portfolios: **Local Government**
Aboriginal Affairs
Environment and Climate Change
Youth Affairs
Assistant Treasurer
Technology
Minister responsible for the aviation industry

Department of Planning and Community Development
Department of Sustainability and Environment
Department of Human Services
Department of Treasury and Finance
Department of Business and Innovation

Mrs J. Powell, Minister for Local Government,
Mr A. Tongue, Secretary,
Mr G. Forck, Chief Finance Officer,
Ms S. Jaquinot, Deputy Secretary, Local Government and Community Development, Department of Planning and Community Development, and
Ms K. Pope, Director, Sector Development, Local Government Victoria.

Mrs J. Powell, Minister for Aboriginal Affairs,
Mr A. Tongue, Secretary,
Mr G. Forck, Chief Finance Officer,
Mr I. Hamm, Executive Director, Aboriginal Affairs Victoria, and
Ms J. Samms, Executive Director, Aboriginal Affairs Taskforce, Department of Planning and Community Development.

Mr R. Smith, Minister for Environment and Climate Change,
Mr G.Wilson, Secretary,
Mr A. Fennessy, Deputy Secretary, Natural Resources and Environmental Policy,
Mr P. Appleford, Deputy Secretary, Land and Fire, and
Mr M. Clancy, Acting Chief Finance Officer, Department of Sustainability and Environment.

Mr R. Smith, Minister for Youth Affairs,
Ms G. Callister, Secretary,
Mr J. Higgins, Acting Executive Director, Corporate Services, and
Ms S. Reichstein, Acting Director, Office For Youth, Department of Human Services.

Mr G. Rich-Phillips, Assistant Treasurer,
Mr D. Yates, Acting Secretary,
Mr D. Bloomfield, Acting Deputy Secretary, Government Services Division, Department of Treasury and Finance,
Ms T. Slatter, Acting Chief Executive Officer, Transport Accident Commission, and
Mr G. Tweedly, Chief Executive Officer, WorkSafe Victoria.

Mr G. Rich-Phillips, Minister for Technology,
Mr H. Ronaldson, Secretary,
Mr R. Straw, Deputy Secretary, Innovation and Technology, and
Mr J. Strilakos, Chief Finance Officer, Department of Business and Innovation.

Mr G. Rich-Phillips, Minister responsible for the aviation industry,
Mr H. Ronaldson, Secretary,
Mr J. Strilakos, Chief Finance Officer,
Mr J. Dalton, Director, Strategy and Policy, Tourism and Aviation, and
Mr A. Ferrington, Director, Aviation Services, Tourism and Aviation, Department of Business and Innovation.

A8.2 Responses received to the Committee's 2012-13 budget estimates questionnaire

Department of Business and Innovation
Department of Education and Early Childhood Development
Department of Health
Department of Human Services
Department of Justice
Department of Planning and Community Development
Department of Premier and Cabinet
Department of Primary Industries
Department of Sustainability and Environment
Department of Transport
Department of Treasury and Finance
Parliamentary Departments