



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

115th Report to Parliament

**Report on the 2011-12
Financial and Performance
Outcomes**

May 2013

Ordered to be printed

No. 219
Session 2010-13

By Authority
Government Printer for the State of Victoria

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**Parliament of Victoria
Public Accounts and Estimates Committee**

Report on the 2011-12 Financial and Performance Outcomes

ISBN 978 0 9873472 2 0

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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

| | |
|---|--|
| (Asset) investment through other sectors | Funding for ‘asset investment’ provided by the ‘general government sector’ to an ‘agency’ within the ‘public non-financial corporations sector’ for an asset that becomes part of the ‘public non-financial corporations sector’. |
| AFR | Annual Financial Report for the State |
| 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 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 products and services (‘outputs’). |
| 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). |
| DEECD | Department of Education and Early Childhood Development |
| Department | Large government entities. In 2011-12 there were 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’. |
| DFM | Departmental Funding Model |
| 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. |
| DTF | Department of Treasury and Finance |
| 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 2011-12 Budget was 2011-12 to 2014-15 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'. |
| GSP/Gross state product | 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 |
| HVHR | High-Value, High-Risk |
| 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'. |
| Liabilities | Amounts that an organisation is obliged to pay in future years. Examples include borrowings and defined benefits superannuation plans. |
| MPV | Major Projects Victoria |
| 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 | A measure of a body's financial performance in a year which is calculated by taking the 'net result from transactions' and then adding other economic flows, such as revaluations and changes in the volumes of assets and liabilities. The net result is different to the 'net result from transactions' (see below). 'Asset investment' is not included in either the net result or the 'net result from transactions'. |
| Net result from transactions | See 'operating balance'. |
| Non-financial public sector | The 'general government sector' and 'public non-financial corporations 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. |
| 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 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. |
| PPP/Public private partnership | 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’. |
| Public financial corporations sector | Government ‘agencies’ which provide financial services, such as the Treasury Corporation of Victoria or the Transport Accident Commission. |
| Public non-financial corporations sector | Government ‘agencies’ which provide goods or services 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 corporations sector’). |
| Public sector as a whole | The ‘general government sector’, ‘public non-financial corporations sector’ and ‘public financial corporations sector’ consolidated together. Referred to in the budget papers and Annual Financial Report as the ‘State of Victoria’. |
| 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. 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. |
| State of Victoria | See ‘Public sector as a whole’. |
| TAFE | Technical and Further Education |
| TEI/Total estimated investment | An estimate of the total amount of expenditure required to deliver an ‘asset investment’ project. |
| VET | Vocational education and training |

CHAIRMAN'S FOREWORD

It is my pleasure to present this *Report on the 2011-12 Financial and Performance Outcomes*, my first report as Chair of the Public Accounts and Estimates Committee.

The principal focus of the report is the State's financial position at the conclusion of the 2011-12 year, and how that compared to expectations at the time of the 2011 Budget.

In these challenging economic times, the management of the State's finances will have significant long-term implications for Victoria. I commend this report to the Parliament as a way for members to better understand both the current economic circumstances and the Government's response.

Despite the challenges, the Government delivered an operating surplus of \$571.2 million in 2011-12, at the same time delivering \$5.4 billion of infrastructure and other assets. Net debt at the end of the financial year was less than had been expected in the budget papers.

To achieve that outcome the Government introduced at the mid-year review a number of measures that had not been originally anticipated. This meant that some of the sources from which revenue came in 2011-12 differed from what was expected at Budget time. Similarly, the actual goods and services delivered also differed in some way from expectations on Budget day.

This report examines these and other issues in more detail, including the causes and implications of the outcomes.

The intention, however, is not to simply establish what happened during the year, but also to identify areas where there may be potential for improved disclosure. The report suggests a number of areas where additional information in the budget papers and the Annual Financial Report for the State would be useful to Parliamentarians and the community.

In addition, the report makes recommendations about areas where additional monitoring would be beneficial. Specifically, the Committee has highlighted planned productivity gains, and changes to the composition of the public service, as important areas of interest.

Finally, I would like to express my gratitude to all of the people whose contribution has made this report possible, including my Committee colleagues, the Ministers and departmental staff who provided responses to our substantial questionnaires, and the Committee's secretariat.

DAVID MORRIS MP
Chair

FINDINGS AND RECOMMENDATIONS OF THE COMMITTEE

CHAPTER 2 Overall Financial Outcomes

2.2 The Government's finances in 2011-12

FINDING: The Government's operating surplus in 2011-12 was \$571.2 million, \$430.8 million more than the budget estimate. This was a result of revenue being substantially higher than the budget estimate due to the timing by the Commonwealth of some specific purpose payments, while output expenditure was relatively consistent with the budget estimate. *page 9*

FINDING: Asset investment in 2011-12 was \$5.4 billion. *page 9*

FINDING: Cash borrowings were consistent with the budget estimate, despite asset investment being less than expected and more cash than expected being available from other sources. This resulted in larger-than-expected cash reserves at the end of the financial year. This contributed to net debt at the end of 2011-12 being \$15.2 billion, 9 per cent less than estimated in the 2011-12 Budget. *page 10*

FINDING: The Government's net worth was lower than forecast due mostly to the accounting loss associated with superannuation liability, less growth than expected in the value of existing assets and delays to new assets. *page 11*

2.3 Economic conditions that influenced outcomes

FINDING: The Government faced a number of economic challenges which reduced its revenue from some sources compared to expectations, including:

- weaker national and international economic conditions;
- a subdued property market resulting in reduced taxes on property;
- lower GST revenue than expected; and
- variation in national economic performance between the states.

page 12

2.4 Government actions that influenced outcomes

FINDING: The Government implemented a number of initiatives in the 2011-12 Budget Update which it indicated were to improve the State's financial sustainability. These initiatives were anticipated to generate an additional \$231.0 million in revenue. The Government expected that these measures would keep the surplus at a level similar to the original budget estimate.

page 14

FINDING: In addition to initiatives in the Budget Update, other actions taken by the Government increased revenue for the general government sector by approximately \$744.3 million in 2011-12.

page 14

FINDING: The Department of Treasury and Finance currently provides additional information outside the audited financial statements disclosing the effect of removing one-off Commonwealth asset investment grants on the operating surplus. The impact of other one-off transactions is not disclosed.

page 16

RECOMMENDATION 1: The Department of Treasury and Finance provide additional information outside the audited financial statements disclosing the impact of all one-off transactions in aggregate on the operating result of the general government sector and the public sector as a whole (the 'State of Victoria'), as is currently done for one-off Commonwealth grants for asset investment.

page 16

2.5 Financial outcomes compared to objectives

FINDING: The Government identified a fiscal strategy and objectives in the 2011-12 budget papers. As many of the objectives relate to medium-term goals, it is difficult to assess the Government's progress at this time. The Government considers that the 2011-12 results are consistent with its fiscal strategy.

page 18

FINDING: As the fiscal objectives for 'stabilising net debt' and 'reducing net liabilities' do not include a point of comparison, the Committee is unable to assess whether the Government is on track to meet these targets.

page 19

RECOMMENDATION 2: The Department of Treasury and Finance clarify the level of net debt relative to which the planned reduction will be assessed.

page 19

FINDING: The Government identified four medium-term goals in the 2011-12 Budget. Actions have been taken relating to each goal. The goals have now been incorporated into the Victorian Government's broader economic reform strategy. *page 20*

CHAPTER 3 Revenue

3.2 Sources of revenue

FINDING: The Government's revenue totalled \$47.9 billion in 2011-12. Nearly half of this came from Commonwealth grants. State taxation revenue provided nearly one third of the State's revenue for the year. *page 22*

FINDING: Weaker-than-expected economic conditions led to less revenue than anticipated coming from some revenue sources. The Government responded by increasing revenue from other sources. Overall, the total revenue for 2011-12 was \$443.1 million more than the original budget. *page 23*

3.3 Sources providing less than originally expected

FINDING: Revenue from interest and 'sales of goods and services' for 2011-12 was \$361.5 million below original expectations. This was mainly caused by the delay in commissioning the Victorian Desalination Plant. *page 25*

FINDING: Taxation revenue for 2011-12 was \$15.0 billion, which was \$361.0 million less than originally expected. The main reason for this was a weaker-than-expected property market. *page 25*

3.4 Sources providing more than originally expected

FINDING: The Government received \$564.6 million less than expected through general purpose (GST) grants in 2011-12. An additional \$647.7 million was received through other Commonwealth grants, which are tied to specific purposes. This meant that less than expected was available from the Commonwealth for services funded at the discretion of the State Government. *page 27*

FINDING: Initiatives in the 2011-12 Budget Update increased the anticipated revenue from dividends during the year. These initiatives increased the number of entities that pay dividends and also increased the dividend rates paid by entities that already pay dividends. However, dividend revenue was \$18.3 million less than the revised budget figure. *page 28*

FINDING: The Government received \$718.3 million more than estimated from sources classified as 'other revenue'. This primarily came from assets received below their value and housing reforms. Some of these transactions occurred after the 2011-12 Budget Update had been framed. *page 30*

RECOMMENDATION 3: Where reforms that have significant effects on the State's finances are not detailed in the budget papers, the Department of Treasury and Finance should include the following details in the Annual Financial Report:

- (a) details of the reform;
- (b) how the reform affects the State's finances;
- (c) the effects of the reform on relevant sectors; and
- (d) whether the effect is one-off or recurring.

page 30

3.5 Revenue foregone

FINDING: Relevant departments reported a total of \$1.5 billion in concessions and subsidies for 2011-12. This is \$180.1 million above expectations for the year. *page 31*

FINDING: A total of \$5.6 billion in tax expenditures was provided during 2011-12. This is close to expectations for the year. *page 32*

CHAPTER 4 Borrowings, Debt and Liabilities

4.2 Borrowings and net debt

FINDING: The general government sector's borrowings increased by \$4.7 billion in 2011-12 to \$22.4 billion. This is \$4.0 billion less than the budget estimate, primarily because of the delayed delivery of the Victorian Desalination Plant. *page 34*

FINDING: General government sector net debt increased by \$3.4 billion to \$15.2 billion in 2011-12. This is \$1.6 billion less than the budget estimate, primarily because of a higher-than-predicted cash balance at the end of the year.

page 34

4.3 Factors influencing borrowings, debt and liabilities

FINDING: The Government spent less on asset investment than the 2011-12 Budget estimated and had more cash available to fund it than expected. This led to \$1.1 billion of capital funds being unused, and being held as cash and deposits on 30 June 2012.

page 36

FINDING: PPP liabilities raised borrowings and net debt by \$916.0 million in 2011-12. At the time of the 2011-12 Budget, four PPP projects were expected to be commissioned during the year. Three of these projects were not commissioned during the year.

page 38

FINDING: The budget papers do not contain estimates of the effects that individual PPP projects will have on borrowings and net debt when they are commissioned, nor does the Annual Financial Report detail the actual contributions made by individual projects.

page 38

RECOMMENDATION 4: The Department of Treasury and Finance should include in the budget papers:

- (a) a list of individual PPP projects that are anticipated to be commissioned during the year;
- (b) an estimate of the contribution to borrowings and net debt resulting from each PPP project that is anticipated to be commissioned during the year.

page 38

RECOMMENDATION 5: The Department of Treasury and Finance should disclose in the Annual Financial Report the actual contribution to borrowings and net debt made by individual PPP projects that were commissioned during the year.

page 38

FINDING: The present value of the superannuation liability increased by \$9.8 billion in 2011-12, primarily as a result of a fall in the discount rate. However, the revaluation of the liability has had little or no effect on the actual amounts payable over the forward estimates under the defined benefits schemes.

page 39

4.4 Government targets and indicators

FINDING: General government sector net debt was 4.6 per cent of GSP at 30 June 2012. This is 0.8 percentage points higher than the level at 30 June 2011, as a result of borrowings for asset investment during the year. *page 41*

FINDING: The proportion of general government net debt in GSP was 0.4 percentage points below the level predicted in the 2011-12 budget papers. This was primarily because of the increased cash and deposits held at the end of the year. *page 41*

FINDING: General government sector net financial liabilities were 16.7 per cent of GSP in June 2012, up from 13.1 per cent in June 2011. This is above the original forecast of 13.6 per cent. *page 42*

FINDING: The revaluation of the superannuation liability has been the main cause of the increase in net financial liabilities as a share of GSP, both in comparison to last year and to expectations. *page 42*

FINDING: Net debt plus superannuation liability as a proportion of operating revenue (in the non-financial public sector) has risen to 113.2 per cent, largely as a result of the revaluation of the superannuation liability. *page 43*

4.5 Interest cost of borrowings

FINDING: The Government's borrowings (including some PPP expenses) required \$1.2 billion of interest payments in 2011-12. This is 2.6 per cent of the total revenue. *page 44*

CHAPTER 5 Output Expenditure and Delivery

5.2 Goods and services provided

FINDING: The 2011-12 budget papers estimated that expenditure would increase in the areas of 'public order and safety', education and 'housing and community amenities'. Expenditure did increase in these areas, but by less than estimated. *page 47*

FINDING: Expected decreases in expenditure in the ‘social security and welfare’ and ‘transport and communications’ areas did not occur. *page 47*

FINDING: The total output expenditure in 2011-12 was \$47.3 billion, less than 1 per cent more than had been budgeted. However, the way the money was spent differed from the budget estimates in a number of areas. *page 49*

RECOMMENDATION 6: In future Annual Financial Reports for the State, the Department of Treasury and Finance explain significant variances between budget estimates and actual results for operating expenses by government purpose classification. *page 49*

FINDING: According to the break-down by outputs, the major area in which more was spent in 2011-12 than expected was education. This was mostly connected to vocational education and training. *page 51*

5.3 Departmental performance in output delivery

FINDING: Overall, the actual results for 73 per cent of performance measures were close to the targets for 2011-12, which was higher than recent years. However, for some departments, much smaller proportions of results were close to targets. Only 55 per cent of the Department of Business and Innovation’s measures were close to target. *page 52*

FINDING: According to the ‘purchaser-provider’ model of funding, departments’ funding is supposed to be dependent on them achieving the targets set in their performance measures. In practice, this model has not been reflected in actual funding allocations. *page 53*

FINDING: At the time of the 2012-13 Budget, departments were only able to accurately identify 56 per cent of the performance measures where the actual result would exceeded the target significantly in 2011-12. The Department of Treasury and Finance has committed to working with departments in this area. *page 55*

RECOMMENDATION 7: The Government clarify who is ultimately responsible for performance measures, targets and the expected outcomes published in the budget papers. *page 55*

RECOMMENDATION 8: The Department of Treasury and Finance ensure that its guidance is clear, consistent and unambiguous regarding who is ultimately responsible for performance measures, targets and the expected outcomes published in the budget papers. *page 55*

5.4 Measures to reduce spending

FINDING: Government initiatives announced in various budget papers were expected to achieve \$316.3 million of savings in 2011-12 compared to 2010-11. *page 56*

FINDING: Departments indicated that they had achieved their savings targets, though not necessarily in the ways detailed in the budget papers. *page 57*

FINDING: In 2011-12, in addition to savings initiatives, departments were expected to find \$184.4 million of funding through 'reprioritisation and adjustment'. *page 58*

FINDING: The 2011-12 Budget Update included an 'administrative variation' which sought to reduce expenses by \$300 million in 2011-12 and \$100 million in 2012-13. However, no details of how this reduction would be achieved were provided. *page 58*

RECOMMENDATION 9: Where measures to significantly reduce spending are introduced in budget papers or budget updates through means other than savings or efficiency initiatives, these measures be clearly identified and detailed descriptions be provided. *page 58*

5.5 Employee expenses

FINDING: Employee expenses in 2011-12 were \$17.1 billion, \$471.1 million (3 per cent) more than the 2011-12 budget estimate. This was primarily a result of changes in the health sector. This additional expenditure was offset by reductions in expenditure in other areas. *page 60*

FINDING: Major enterprise bargaining agreements were reached with the police and with nurses and midwives in 2011-12. In each case, the Government has indicated that productivity measures will be introduced to offset the costs. *page 62*

RECOMMENDATION 10: The Government ensure that appropriate oversight mechanisms are in place to monitor whether or not departments successfully achieve the productivity savings agreed to in enterprise bargaining agreements. This should include public reporting of quantified productivity improvements where possible. *page 62*

FINDING: Public service numbers decreased by 1,469 (full-time equivalent) during 2011-12, as intended by a number of savings initiatives. This was mostly achieved through not replacing staff who resigned, retired or whose contracts expired. *page 63*

FINDING: Changes to the public service during 2011-12 have continued a trend towards an increased proportion of employees at higher classifications. *page 64*

RECOMMENDATION 11: As reductions in staff numbers continue, the State Services Authority monitor and report to the Government on whether the proportions of public service employees in the different classifications are efficient and appropriate to service delivery needs. *page 64*

FINDING: Staff numbers in public entities outside the public service (especially health care, police and government schools) generally increased in 2011-12. *page 66*

CHAPTER 6 Asset Investment

6.2 What money was spent?

FINDING: In 2011-12, asset investment, including direct investment and investments through other sectors, was \$5.4 billion. This is \$1.0 billion less than had been anticipated in the budget papers. *page 69*

FINDING: The net investment in asset projects during 2011-12 was above the target of 1.3 per cent set by the Government as part of its 2012-13 medium-term fiscal strategy. *page 69*

FINDING: Direct investment by the general government sector was higher than depreciation, meaning that it was sufficient to maintain existing assets and provide new assets. *page 69*

FINDING: The budget papers and Annual Financial Report do not specifically detail expenditure on commissioned PPP projects for the year. *page 70*

FINDING: The Department of Treasury and Finance stated that it is unable to provide information on the proportion of relevant line items in the Annual Financial Report that are related to PPP projects. *page 70*

RECOMMENDATION 12: The Department of Treasury and Finance modify its system so that it is able to identify what proportions of relevant line items in the financial statements are related to public private partnership projects. *page 70*

RECOMMENDATION 13: The Department of Treasury and Finance in the Annual Financial Report, or alternatively departments in the individual annual reports, disclose the expenditure made during the year specifically on the provision of assets through operating public private partnership arrangements. *page 71*

6.3 Asset provision by purpose

FINDING: Almost \$3.6 billion of direct asset investment was delivered by the general government sector in 2011-12. Approximately 80 per cent of this was for education, 'transport and communications' and health-related projects. *page 71*

FINDING: In six out of seven government purpose classifications, actual asset provision fell from 2010-11. For five out of seven government purpose classifications, the budget papers had anticipated a growth in asset provision, but actual spending did not meet expectations. *page 72*

FINDING: Asset provision, when broken down by government department, was lower than anticipated for all departments. *page 73*

FINDING: Asset investment through other sectors totalled \$1.8 billion in 2011-12. This was primarily for transport-related projects. This was \$0.5 billion less than budgeted because of an accounting change to the treatment of some projects and rescheduling of *Regional Rail Link* payments. *page 73*

6.4 Changes to projects during the year

FINDING: The proportion of projects with expenditure outcomes within 10 per cent of budget has fallen from over half in 2009-10 to just over one sixth in 2011-12. The proportion of projects where spending is less than 90 per cent of the amount budgeted has increased from one third in 2009-10 to two thirds in 2011-12. *page 75*

FINDING: The increased number of projects where spending has been less than 90 per cent of the amount budgeted has resulted in a rise in unexpended allocated funds from \$1.1 billion in 2009-10 to \$1.7 billion in 2011-12. The impact of projects where spending has exceeded budget by more than 10 per cent has also increased, with expenditure over budget rising from \$235.4 million in 2009-10 to \$391.9 million in 2011-12. *page 75*

FINDING: Scope and project schedule changes were the primary reasons given by departments for variances of expenditure for asset investment. Scope changes and schedule changes have caused both cost over-runs and under-runs in various projects. *page 76*

FINDING: The Annual Financial Report notes only what major projects have contributed to the difference between the budget estimate and actual asset investment. *page 77*

RECOMMENDATION 14: Explanations in future Annual Financial Reports for variances note general trends where these are material, as well as the impact of the largest projects. *page 77*

FINDING: Projects provided through other sectors have performed similarly to those provided directly through Government departments. *page 77*

FINDING: Budgets for three projects accounting for 15 per cent of the total asset investment for the State during 2011-12 were not disclosed. *page 78*

RECOMMENDATION 15: For projects that do not have disclosed estimated expenditure figures, the Department of Treasury and Finance disclose these figures in the Budget Update following the establishment of a budget. *page 78*

FINDING: A small number of projects had adjustments made to the total estimated investment. There are a range of reasons for these changes. *page 79*

FINDING: A significant number of projects included in the 'completed projects' lists in the 2012-13 budget papers were not actually completed during 2011-12. When the lists were compiled, these projects were expected to have been completed by the end of the financial year. *page 80*

RECOMMENDATION 16: Projects that are included in the 'completed projects' lists in the budget papers that are not actually completed at the time the list is compiled but are expected to be completed by the end of the financial year should be marked as such. *page 80*

FINDING: Adjustments were made to completion dates of 149 asset projects during 2011-12, which is an increase on previous years. The large majority of these adjustments were delays. The average length of delay has decreased compared to the previous year, but is above levels observed in 2008-09. *page 81*

FINDING: The PPP projects expected to be commissioned in the upcoming year are detailed in the budget papers in a footnote to a table about the application of cash resources for the general government sector. *page 82*

FINDING: Of the four public private partnership projects that were anticipated to be commissioned during 2011-12, one was actually commissioned. Of the balance, two have since been commissioned while the last project is now anticipated during 2013-14. *page 82*

6.5 Largest projects

FINDING: Data presented to the Committee suggest some improvements for projects managed by Major Projects Victoria. *page 85*

CHAPTER 7 Government Responses to the Previous Report

7.2 Responses to recommendations

FINDING: The Government and Auditor-General expressed some level of support for 71 per cent of the recommendations from the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*. page 88

7.3 Implementation of recommendations

FINDING: Of the recommendations which were supported or under review, the Government has implemented or partially implemented 14 (29 per cent) to date. Departments have indicated that they are undertaking work on a further 22 (46 per cent). page 89

FINDING: There are eight recommendations (17 per cent) which have not been implemented to date in the Committee's view and where the Committee has not been informed of plans to implement them in the future. This includes four recommendations where the Committee does not consider that the actions taken fully address the issues which led to the recommendation. page 90

RECOMMENDATION 17: The Government address the issues identified with the implementation of the recommendations in Table 7.1 of this report. page 91

7.4 Quality of the Government's responses

FINDING: In four cases, the Government's response suggested that the Government's view of the nature of the problem differed from that of the Committee. The Government did not indicate the basis upon which it formed its view. page 91

RECOMMENDATION 18: In future responses to Committee recommendations, where the Government's view of the cause of a problem differs from that expressed in the Committee's report in support of a recommendation, the Government should indicate why it does not accept the Committee's view. page 91

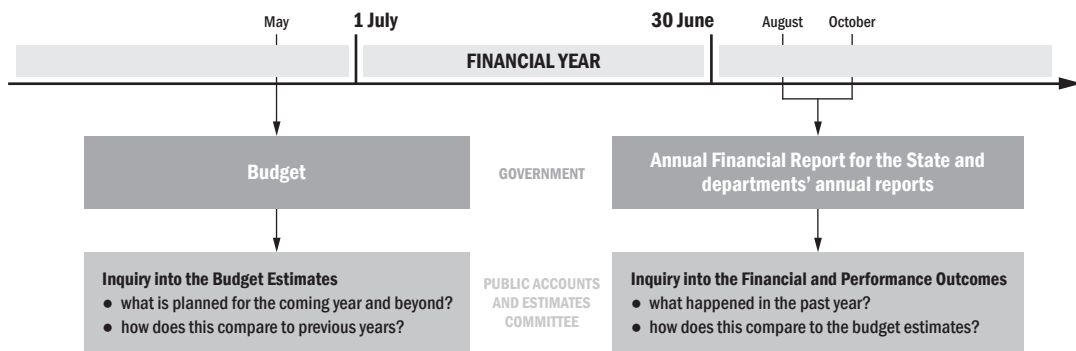
1.1 Background

This report presents the Committee’s findings from its Inquiry into the 2011-12 Financial and Performance Outcomes. The main aims of the inquiry are to:

- understand what was achieved in 2011-12;
- identify potential areas for improvement; and
- ensure that information about the year’s achievements is appropriately disclosed.

This inquiry is a part of the regular cycle of accountability that begins with the Budget before the start of each financial year and ends with this report (see Figure 1.1).

Figure 1.1 Accountability cycle



Source: Public Accounts and Estimates Committee

1.2 Structure and content of the report

Chapter 2 of this report provides an overview of the Government’s finances in 2011-12 and how these compare to the estimates made in the budget papers. It introduces many of the issues discussed in later chapters and relates the different components of the Government’s finances to each other.

Chapter 2 also examines the Government’s stated financial aims for the year and the extent to which these were achieved.

Chapters 3-6 investigate four key components of the Government’s finances in more detail:

- revenue;
- borrowings, debt and liabilities;
- output expenditure and delivery; and
- asset investment (primarily infrastructure projects).

For each topic, the Committee examines what occurred in 2011-12 and how that compares to what was planned in the 2011-12 Budget. Plans and variations to estimates announced in the Budget Update are also examined where relevant.

Chapter 7 looks at the Government's responses to the Committee's *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*. It looks at how many responses were supported and what progress has been made at implementing the supported recommendations to date.

1.3 Scope of the report

This report is primarily focused on the general government sector. The general government sector includes all government departments and those agencies which do not charge for their services or charge much less than the real costs (such as hospitals, TAFEs and emergency services). The general government sector is only one part of the Victorian public sector, which also includes:

- the public non-financial corporations sector, which consists of agencies (like water bodies) that recover most of their costs through selling their goods and services; and
- the public financial corporations sector, which provides financial services to the Government and wider community.¹

The outcomes for the public sector as a whole (that is, all three sectors) are discussed by the Auditor-General in the *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011-12*.

Rather than repeat those findings, this report concentrates on the general government sector, which is the sector most associated with government policy and services. However, where appropriate, the Committee has commented on other sectors, especially where the interaction between sectors was a significant factor in 2011-12.

As shown in Figure 1.1, the Committee's Inquiry into the 2011-12 Budget Estimates examined how the budget estimates for 2011-12 compared to expenditure in previous years. This report generally does not repeat those earlier analyses. Rather, it focuses on the extent to which those expectations were actually achieved. That is, it compares the actual outcomes to the budget estimates. Changes to the estimates in the Budget Update are also discussed in some cases.

As part of previous inquiries into financial and performance outcomes, the Committee assessed the quality of disclosure in departments' annual reports. Last year's *Report on the 2009-10 and 2010-11 Annual Reports* included a large number of recommendations about ways that this disclosure could be improved. The Government has supported many of these recommendations, but was not able to implement them prior to the 2011-12 annual reports. The Committee has therefore not investigated the 2011-12 annual reports in detail in this inquiry. However, the Committee expects to assess the 2012-13 annual reports in next year's inquiry, once enough time has passed for the recommendations to be implemented.

In all cases where comparisons have been made to amounts of revenue, expenditure or fiscal aggregates in previous years, the comparisons have been made in nominal terms rather than real terms. That is, the dollar amounts have been compared without being adjusted for inflation.

1 Such as the Treasury Corporation of Victoria, Rural Finance Corporation of Victoria and the Transport Accident Commission.

1.4 The inquiry process

In undertaking this inquiry, the Committee has primarily drawn on five sources of information:

- the *2011-12 Financial Report* for the State;
- departmental annual reports;
- a general questionnaire on a range of topics, sent to all departments and selected agencies;
- a questionnaire relating to the *2011-12 Financial Report* sent to the Department of Treasury and Finance and the Victorian Auditor-General's Office; and
- clarification questions sent to a number of departments as required.

Table A1.1 in Appendix A1 contains a list of the departments and agencies to which the general questionnaire was sent.

Responses to the questionnaires and clarification questions have been published on the Committee's website (www.parliament.vic.gov.au/paec).

In previous reports, the Committee noted problems with some departments providing late or incomplete responses to questionnaires.² The Committee observed improvements in departments this year. However, there were still a number of responses not received by the due date (see Tables A1.2-1.3 in Appendix A1).

1.5 Acknowledgement

The Committee notes that most departments' responses exceeded 50 pages. The Committee is grateful for the time and effort that departmental staff and ministers put into the responses.

1.6 Cost

The cost of this inquiry was approximately \$112,700.

² Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, pp.8-9

CHAPTER 2 OVERALL FINANCIAL OUTCOMES

2.1 Introduction

This chapter provides an overview of the Government's financial outcomes in 2011-12 compared to the targets set out in the 2011-12 Budget. A number of the themes introduced here will be explored in more detail in the following chapters of this report.

The chapter seeks to answer the following key questions:

- What were the major components the Government's finances in 2011-12? (Section 2.2.1)
- What were the key variances between the budget estimates and the actual results? (Section 2.2.2)
- What impact did the economic environment have on the 2011-12 results? (Section 2.3)
- What actions did the Government take during the year that had not been anticipated in the 2011-12 Budget? (Section 2.4)
- Did the Government achieve its objectives? (Section 2.5)

As discussed in Chapter 1, the analyses in this chapter are focused on the general government sector (that is, departments and agencies that do not generally charge for their services) except where specified.

2.2 The Government's finances in 2011-12

2.2.1 Key components

Figure 2.1 illustrates the key components of the Government's finances in 2011-12. Most of these components are examined and discussed further in this report. This diagram is intended to provide an overall understanding of how the components are connected to each other and how money flows from one area to another.

The amounts in the diagram are the actual amounts for 2011-12, rather than the budget estimates. Table A2.1 in Appendix 2 provides details of these amounts and indicates where these items can be found in the *2011-12 Financial Report*.

The first component of the diagram is **revenue**, which mostly consists of State taxation and grants from the Commonwealth Government. In 2011-12, the Government received \$47,882.3 million in revenue.³ 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. This totalled \$47,311.0 million in 2011-12.⁴ Output expenditure is discussed in Chapter 5 of this report.

³ Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.27

⁴ *ibid.*

The Government's **annual public private partnership (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. All departments informed the Committee of their annual PPP expenditure with the exception of the Department of Justice (which indicated that this information is commercial in confidence). Based on this information, excluding the *Prisons, County Court* and *Emergency Service Telecommunications* projects, the Government spent \$209.2 million on PPP projects in 2011-12.⁵ Section 6.2.2 of this report looks at this expenditure.

The amount of revenue that remains after output expenditure has been funded is the **operating surplus** (\$571.2 million in 2011-12).⁶ This was used to partly fund asset investment, along with depreciation and similar, proceeds from asset sales and borrowings.

Depreciation and similar are 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 was available from revenue to fund asset investment.

The remaining asset investment costs were funded through **asset sales** and **cash borrowings**. Borrowings are discussed further in Chapter 4.

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. Asset investment in 2011-12 totalled \$5,396.0 million.⁷ Chapter 6 looks at annual asset investment.

Annual asset investment is delivered through two avenues. **Direct investment** covers projects directly delivered by the general government sector. **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 public transport).

5 Departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire

6 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.27

7 *ibid.*, p.12

Figure 2.1 Key components of the Government's finances, 2011-12



2.2.2 Budget estimates and actual outcomes

The 2011-12 Budget was the Coalition Government's first budget since its election in 2010. The 2011-12 Budget was presented after the *Victorian Economic and Financial Statement* and the *Interim Report* of the Independent Review of State Finances. These two documents suggested that there were a number of potential weaknesses in the State's finances. Among other things, the budget papers include details of the Government's plans 'to make Victoria's public finances more sustainable'⁸ and deliver its election commitments.

The 2011-12 Budget provided for 359 new output initiatives (including 196 identified as election commitments). The Government anticipated that the new initiatives would cost \$1.9 billion in 2011-12.⁹ These additional costs were expected to be partly offset by reprioritisation and adjustment of previous funding (\$184.2 million), savings initiatives (\$163.6 million to be achieved in 2010-11, with a further \$310.9 million in 2011-12) and the release of contingencies (\$755.8 million).¹⁰ The impact of the new output initiatives after taking into account those offsetting factors was predicted to be an additional expenditure of \$464.8 million in 2011-12.¹¹

As a result of these initiatives and other factors, output expenditure was expected to increase to \$47,298.8 million. Revenue was expected to increase to \$47,439.2 million, providing an operating surplus of \$140.4 million.¹²

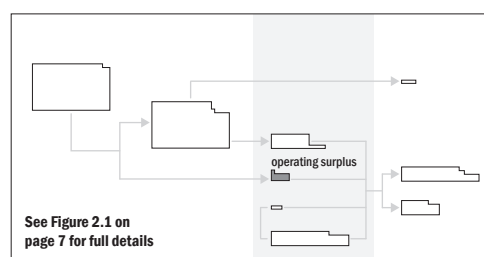
The 2011-12 Budget also provided for 82 asset initiatives, expected to cost \$596.4 million in 2011-12.¹³ Based on these and previous asset commitments, the Government expected to spend \$6,445.8 million on asset investment in 2011-12, with 57 per cent of that to be funded through cash borrowings.¹⁴

This section compares the actual results to the original 2011-12 budget estimates. More details about the figures discussed below are provided in Appendix A2.2.

Operating surplus

The Government's \$571.2 million operating surplus was \$430.8 million higher than the 2011-12 budget estimate of \$140.4 million.¹⁵ The overall increase in operating surplus was a result of:¹⁶

- revenue exceeding the budget estimate by \$443.1 million; and
- output expenditure being only \$12.3 million higher than the budget estimate.



8 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.25

9 *ibid.*, p.30

10 *ibid.*; Department of Treasury and Finance, *Efficiency Savings Background Brief*, n.d., p.1.

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

12 *ibid.*, p.26

13 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, Chapters 1-2

14 Committee calculations based on Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31

15 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.118

16 *ibid.*

The *2011-12 Financial Report* notes that:¹⁷

Excluding the net impact of higher than budgeted Commonwealth grants in 2011-12 of around \$427 million since the 2012-13 Budget, the net result from transactions would be \$144 million in 2011-12 which is consistent with the Government's revised estimate [of \$126 million] as published in the 2012-13 Budget.

As discussed in Sections 2.3, 2.4 and Chapter 3 of this report, though, there were a number of changes to revenue sources compared to the original budget estimates. Economic conditions impacted on some sources of revenue. The Government introduced a number of measures intended to increase revenue or reduce expenditure in the 2011-12 Budget Update.

Similarly, although the actual output expenditure was close to the budget estimate, there were a number of differences between the planned areas of expenditure and how the money was actually spent. These are discussed in Chapter 5 of this report.

FINDING: The Government's operating surplus in 2011-12 was \$571.2 million, \$430.8 million more than the budget estimate. This was a result of revenue being substantially higher than the budget estimate due to the timing by the Commonwealth of some specific purpose payments, while output expenditure was relatively consistent with the budget estimate.

Asset investment and borrowings

A total of \$5,396.0 million was spent on asset investment in 2011-12, 16 per cent less than the budget estimate.¹⁸ The Department of Treasury and Finance identified the main cause as 'changes to cash flow phasings' of *Regional Rail Link* and other transport projects.¹⁹ In addition, less was spent than expected for a large number of other asset projects in 2011-12, for a variety of project-specific reasons (see Section 6.4.1).

The funding available from the operating surplus, asset sales and 'depreciation and similar' was more than the budget estimate (\$2,924.6 million compared to \$2,784.7 million).²⁰

Borrowings in addition to this resulted in larger-than-expected cash reserves at the end of the financial year,²¹ which partly offset the Government's net debt (see further in Section 4.3.3 of this report). Net debt at 30 June 2012 was \$15,236.9 million, 9 per cent less than the budget estimate.²²

FINDING: Asset investment in 2011-12 was \$5.4 billion.

17 *ibid.*, p.5

18 *ibid.*, p.124

19 *ibid.*, p.125

20 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.12

21 Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.11; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.125

22 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.122

FINDING: Cash borrowings were consistent with the budget estimate, despite asset investment being less than expected and more cash than expected being available from other sources. This resulted in larger-than-expected cash reserves at the end of the financial year. This contributed to net debt at the end of 2011-12 being \$15.2 billion, 9 per cent less than estimated in the 2011-12 Budget.

Other economic flows

The financial statements also detail accounting adjustments to assets and liabilities to reflect changes in market conditions. Certain key adjustments are shown in the financial statements as 'other economic flows included in the net result'. These primarily include impacts of changes in financial markets.

As they have no cash impact, these other economic flows are not included in the operating surplus.

In 2011-12, these other economic flows totalled a loss of \$10,298.6 million.²³ This amount was mainly attributed to a \$9,327.0 million actuarial loss on the State's defined benefits superannuation liability due to unfavourable movements in financial markets.²⁴ This is discussed further in Section 4.3.5.

The Committee notes that other economic flows can fluctuate considerably from one year to the next as a result of market conditions and are outside the control of the Government. As noted by the Department of Treasury and Finance, '*increases in reported superannuation liability arising from bond rate movements have no impact on the amount of cash required to fund the liability over time*'.²⁵

Net worth

The Government's net worth as at 30 June 2012 was \$110.7 billion, \$15.0 billion lower than the estimate in the 2011-12 budget papers.²⁶ The reduced net worth was largely the result of:²⁷

- the actuarial losses relating to superannuation liability (see Section 4.3.5);
- land, building, infrastructure and equipment being valued at \$2.8 billion less than the budget estimate due to:
 - increases in the value of existing assets²⁸ being lower than expected, primarily for roads; and
 - delays in the development of new assets (see Chapter 6).

23 *ibid.*, p.27

24 *ibid.*, pp.118-121

25 *ibid.*, p.9

26 *ibid.*, p.122

27 *ibid.*

28 Due to changes in property value and similar factors.

FINDING: The Government's net worth was lower than forecast due mostly to the accounting loss associated with superannuation liability, less growth than expected in the value of existing assets and delays to new assets.

2.3 Economic conditions that influenced outcomes

Victorian economic conditions were generally weaker than forecast. 'Gross state product' is a measure of the total value of goods and services produced by the State. It can be used as an indicator of the overall strength of the State's economy. Overall, Victoria's gross state product in 2011-12 was \$328.6 billion.²⁹

Table 2.1 lists the main economic projections underpinning the 2011-12 Budget.³⁰

Table 2.1 Victorian economic projections underpinning the 2011-12 Budget

| Change to | 2011-12 budget estimate (percentage change) | 2011-12 actual ^(b) (percentage change) | Variance (percentage points) |
|----------------------------------|--|--|---------------------------------|
| Real gross state product | 3.0 | 2.3 | -0.7 |
| Employment numbers | 1.8 | 0.8 | -1.0 |
| Unemployment rate ^(a) | -4.8 | 6.3 | 11.1 |
| Consumer price index | 2.8 | 2.3 | -0.5 |
| Wage price index | 3.8 | 3.5 | -0.3 |
| Population | 1.5 | 1.6 ^(c) | 0.1 |

(a) Percentage change calculated by the Committee using unemployment rates provided by the Department of Treasury and Finance

(b) Based on figures in the 2012-13 Budget Update

(c) Estimate, actual not yet available

Sources: Committee calculations based on Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.9; Department of Treasury and Finance, *2012-13 Budget Update*, December 2012, p.10; Department of Treasury and Finance, 'Macroeconomic Indicators 2012-13' data set, <[www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/\\$File/Macroeconomicindicators2012-13BUDec2012.xlsx](http://www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/$File/Macroeconomicindicators2012-13BUDec2012.xlsx)>, accessed 8 February 2013

The *2011-12 Financial Report* for the State identifies a series of economic conditions which impacted on the Government's finances in 2011-12 (see Table 2.2).

The main revenue sources affected by these conditions were GST revenue, 'payroll and labour force taxes' and taxes on property. Together, these revenue sources made up 42 per cent of the total revenue in 2011-12.³¹

29 Department of Treasury and Finance, 'Macroeconomic Indicators 2012-13' data set, <[www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/\\$File/Macroeconomicindicators2012-13BUDec2012.xlsx](http://www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/$File/Macroeconomicindicators2012-13BUDec2012.xlsx)>, accessed 8 February 2013

30 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.9

31 Committee calculations based on: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.27, 70, 72

Table 2.2 Movements in key economic conditions impacting on financial outcomes, 2011-12

| Economic conditions | Movement | Committee comment |
|------------------------------------|--|--|
| Business conditions and confidence | The Department of Treasury and Finance indicated that business investment grew by less than trend, although in line with budget estimates. ³² The Committee notes that gross state product was lower than expected. ³³ | Due to national conditions, GST revenue was \$564.6 million lower than the budget estimate |
| Employment growth | Lower than forecast ^(a) | Revenue from 'payroll and labour force taxes' was \$39.6 million less than the budget estimate |
| Unemployment rate | Higher than forecast ^(a) | |
| House prices | Declined over the year | Taxes on property were \$367.4 million less than the budget estimate |
| House sales volumes | Below the levels in recent years | |
| Auction clearance rates | Below the levels in recent years | |
| Australian dollar | Remained high | These economic conditions affect multiple financial outcomes |
| Global economy | Weak | |
| Export growth | Stronger than expected | |
| Population growth | Increase | |

(a) As seen in Table 2.1, employment numbers were lower and the unemployment rate was higher than the original budget estimates. In the Annual Financial Report, the Department of Treasury and Finance noted 'higher employment growth' and 'slightly lower unemployment' compared with the estimates made at the time of the 2012-13 budget papers.

Sources: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.1-2, 70, 72; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp.24, 26

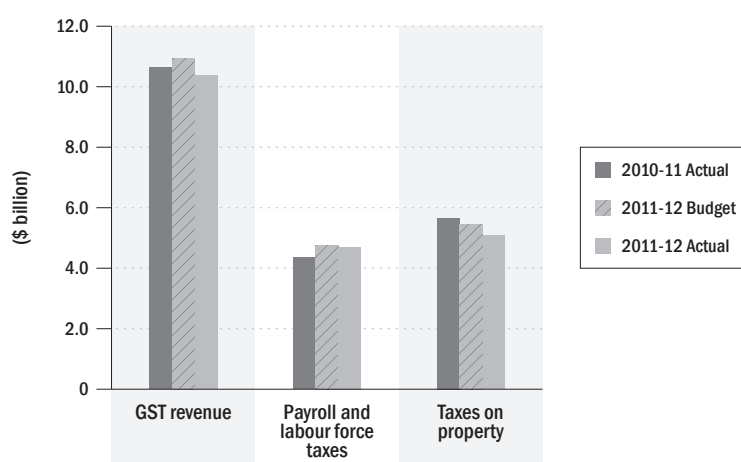
Figure 2.2 illustrates what was predicted to happen with these three sources of revenue between 2010-11 and 2011-12 and what did actually happen. All three revenue sources were lower than the budget estimate and 'payroll and labour force taxes' was the only category to actually increase from the previous year. GST revenue had been expected to increase, though it actually decreased. Taxes on property had been expected to decrease compared to 2010-11 and actually decreased by more than expected.

FINDING: The Government faced a number of economic challenges which reduced its revenue from some sources compared to expectations, including:

- weaker national and international economic conditions;
- a subdued property market resulting in reduced taxes on property;
- lower GST revenue than expected; and
- variation in national economic performance between the states.

32 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.1

33 Department of Treasury and Finance, 'Macroeconomic Indicators 2012-13' data set, <www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/File/Macroeconomicindicators2012-13BUDec2012.xlsx>, accessed 8 February 2013

Figure 2.2 Revenue sources affected by economic conditions, 2010-11 to 2011-12

Sources: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.70, 72; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp.24, 26

2.4 Government actions that influenced outcomes

2.4.1 Budget Update initiatives

The Government implemented a number of initiatives in the 2011-12 Budget Update, which it explained were ‘*to deliver a more sustainable financial position*’.³⁴ These initiatives were mostly designed to increase revenue, although a number of additional expenses were also announced. Their estimated impact is outlined in Table 2.3.

Table 2.3 2011-12 Budget Update initiatives

| Initiative | | 2011-12 estimated impact (\$ million) |
|------------------------------------|---|--|
| Revenue initiatives | Receipt of Dividends from the Victorian WorkCover Authority | 147.0 ^(b) |
| | Shorten Land Transfer Duty Payment Period | 47.0 |
| | Increase Motor Vehicle Registration Fee | 37.0 ^(c) |
| Total impact on revenue | | 231.0 |
| Savings initiative | Maintain a Sustainable Public Service ^(a) | 67.0 ^(d) |
| Output initiatives | Various output initiatives provided to individual departments | 62.3 |
| Total impact on expenditure | | 129.3 |

(a) An second initiative (*Capping Departmental Expenditure Growth*) was also released in the Budget Update but was not expected to have any impact in 2011-12.

(b) The full amount estimated (\$147 million) was received from the Authority.

(c) The actual result was that revenue from motor vehicle taxes increased by \$22 million.

(d) This initiative was expected to increase costs in 2011-12 but decrease costs in future years.

Sources: Department of Treasury and Finance, *2011-12 Budget Update*, December 2011, pp.113-5; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.120-1

The 2011-12 Budget Update also included a number of administrative variations, including *'the implementation of tighter controls on departmental spending which is expected to reduce expenses by \$300 million in 2011-12'*.³⁵ This is discussed further in Section 5.4.3 of this report.

The revenue initiatives are discussed further in Sections 3.3-3.4 of this report. The savings initiative is discussed in Section 5.4.

At the time of the Budget Update, the Government considered that the overall effect of these initiatives, combined with other factors (such as economic conditions and Commonwealth variations) would be to maintain the surplus at a similar level to the original 2011-12 budget estimate (\$147.7 million compared to an original estimate of \$140.4 million).³⁶

FINDING: The Government implemented a number of initiatives in the 2011-12 Budget Update which it indicated were to improve the State's financial sustainability. These initiatives were anticipated to generate an additional \$231.0 million in revenue. The Government expected that these measures would keep the surplus at a level similar to the original budget estimate.

2.4.2 Other actions

In addition to the initiatives announced in the 2011-12 Budget Update, the Government took a number of other actions during 2011-12 to increase the revenue of the general government sector, as shown in Table 2.4. These included a legislative change to alter dividend rates³⁷ and agreements with agencies outside the general government sector. These are discussed further in Section 3.4 of this report.

FINDING: In addition to initiatives in the Budget Update, other actions taken by the Government increased revenue for the general government sector by approximately \$744.3 million in 2011-12.

35 *ibid.*, p.25

36 *ibid.*, p.22

37 Accident Compensation Amendment (Repayments and Dividends) Bill 2012

Table 2.4 Other actions increasing revenue in 2011-12

| Action | Description | Impact on general government sector revenue |
|--|---|--|
| Housing portfolio reforms | Treasurer formalised payments required by the Director of Housing from 2012 until 2023 | One-off \$400.0 million increase |
| Transfer of Department of Health liability | A liability incurred by the Department of Health was transferred to the Victorian Managed Insurance Authority | One-off \$100.4 million increase |
| Change in dividend payments | Deferred dividends from April 2011 were paid in 2011-12 | \$102.4 million payment |
| | A larger proportion of water entities' profits (75 per cent) was taken as dividends in 2011-12 than 2010-11 | Provided an additional \$101.5 million in 2011-12 ^(a) |
| | A larger proportion of the Transport Accident Commission's profits (75 per cent) was taken as dividends in 2011-12 than 2010-11 | Provided an additional \$40.0 million in 2011-12 ^(a) |
| Total increase in revenue | | \$744.3 million |

(a) The amount received was also influenced by the amount of profit achieved by the entities.

Sources: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.118-21; Department of Human Services, *Annual Report 2011-12*, pp.156, 193; Victorian Managed Insurance Authority, *Annual Report 2011-12*, p.80; Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011-12*, November 2012, p.13; Transport Accident Commission, *Annual Report 2012*, pp.22

2.4.3 Disclosure of one-off transactions

The financial statements in the *2011-12 Financial Report* meet the disclosure requirements of the Australian Accounting Standards.³⁸ In addition, outside the audited financial statements, the Department of Treasury and Finance provides further information disclosing the effect on the operating surplus of removing one-off Commonwealth asset investment grants.³⁹ The Committee supports this initiative and considers this information useful in understanding the Government's finances. The Committee believes that the Government can build on this initiative by disclosing the impact of other one-off transactions, such as those identified in Sections 2.4.1 and 2.4.2.

A number of private sector companies disclose a 'statutory profit' and an 'underlying profit'. The statutory profit represents the operating surplus in accordance with Australian Accounting Standards. This is subsequently adjusted for one-off transactions to give an underlying profit. This enables the reader of the financial report to assess the underlying performance of the organisation in the absence of one-off transactions. Under previous accounting standards, this disclosure was mandatory. Disclosure of this information outside the financial statements is now voluntary.

As can be seen from Table 2.4, \$500.4 million of revenue came from one-off transactions in 2011-12. Similarly, initiatives such as the *Shorten Land Transfer Duty Payment Period* initiative were also one-off and will only provide revenue in 2011-12. Given the impact of these transactions, the Committee considers that it would be in the public interest for the

38 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.24-5

39 Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement' data set <[www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/ConsolidatedComprehensiveOperatingStatementGG2012-13BudgetUpdate/\\$File/ConsolidatedComprehensiveOperatingStatementGG2012-13BudgetUpdate.XLS](http://www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/ConsolidatedComprehensiveOperatingStatementGG2012-13BudgetUpdate/$File/ConsolidatedComprehensiveOperatingStatementGG2012-13BudgetUpdate.XLS)>, accessed 7 February 2013

Government to include figures for the underlying operating result for the general government sector and the public sector as a whole in its commentary on the financial statements. This would improve transparency and enable the reader to attain a better understanding of the underlying financial performance of the State.

FINDING: The Department of Treasury and Finance currently provides additional information outside the audited financial statements disclosing the effect of removing one-off Commonwealth asset investment grants on the operating surplus. The impact of other one-off transactions is not disclosed.

RECOMMENDATION 1: The Department of Treasury and Finance provide additional information outside the audited financial statements disclosing the impact of all one-off transactions in aggregate on the operating result of the general government sector and the public sector as a whole (the 'State of Victoria'), as is currently done for one-off Commonwealth grants for asset investment.

2.5 Financial outcomes compared to objectives

In the 2011-12 Budget, the Government set out:

- a fiscal strategy and objectives (Section 2.5.1); and
- medium-term goals (Section 2.5.2).

This section compares the actual results in 2011-12 to those objectives and goals. The Committee notes that the Government replaced these objectives with new fiscal parameters in the 2012-13 Budget.⁴⁰

2.5.1 Fiscal strategy and objectives

The 2011-12 budget papers outlined a series of steps the Government was taking under the heading 'fiscal strategy and objectives'. These were designed 'to make Victoria's public finances more sustainable'.⁴¹ The key objectives identified in the 2011-12 budget papers are detailed in Table 2.5 below.⁴² Most of those objectives were re-iterated in the Budget Update (the reduction in net financial liabilities was not repeated).⁴³ The Government indicated in the *2011-12 Financial Report* that:⁴⁴

The 2011-12 results are consistent with the Government's fiscal strategy. The Government has taken important steps toward improving the State's financial sustainability by implementing substantial savings, constraining overall spending

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

41 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.25

42 *ibid.*, p.4

43 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.4

44 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.5

growth over the forward estimates, and committing to a new medium-term fiscal strategy in the 2012-13 Budget.

Table 2.5 compares the Government's fiscal strategy and objectives with the actual outcomes in 2011-12.

Table 2.5 Government's performance against fiscal strategy and objectives, 2011-12

| Objective | Outcome |
|---|--|
| Surplus of at least \$100 million | The Government achieved a \$571.2 million surplus in the general government sector. Further commentary is provided in Section 2.2. |
| Delivering \$2.2 billion over five years through initiatives to reduce spending | All departments informed the Committee that targets have been met to date. Initiatives to reduce spending are explored in Section 5.4 of this report. |
| Constraining expenditure growth to an average 3.2 per cent per annum over the forward estimates | At the time of the 2011-12 Budget, the Government expected expenditure to grow by 4.7 per cent in 2011-12 and then to drop in the later years of the forward estimates. ⁴⁵ Actual expenditure growth was 4.0 per cent in 2011-12. ⁴⁶ Latest estimates predict an average 2.4 per cent per annum growth in expenditure from 2011-12 to 2014-15. ⁴⁷ |
| Addressing cost overruns for major asset investment projects by increasing the oversight to provide more rigour in delivering against timelines and budgets | The Government introduced the High-Value and High-Risk Framework in 2011 to increase oversight. It is too early to accurately assess the impact of the Framework. This is further discussed in Section 6.5.1 of this report. |
| Stabilising debt as a percentage of gross state product (GSP) | Net debt was 4.6 per cent of GSP in 2011-12, slightly lower than the budget estimate (5.0 per cent). ⁴⁸ Net debt to GSP is expected to rise to 6.4 per cent in 2013-14 before falling to 6.0 per cent in 2015-16. ⁴⁹ Net debt as a percentage of GSP is discussed further in Section 4.4.1 of this report and below. |
| Net financial liabilities as a percentage of GSP falling by 2014-15 | Net financial liabilities were 16.7 per cent of GSP in 2011-12. ⁵⁰ This was significantly higher than the budget estimate (13.6 per cent) and prior year (13.1 per cent). ⁵¹ This report examines net financial liabilities as a percentage of GSP in more detail in Section 4.4.2 and below. |

⁴⁵ Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.26

⁴⁶ Committee calculations based on Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.27

⁴⁷ Committee calculations based on: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.27; Department of Treasury and Finance, *2012-13 Budget Update*, December 2012, p.45

⁴⁸ Committee calculations based on: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.29; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.10; Department of Treasury and Finance, 'Macroeconomic indicators 2012-13' data set, <www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/File/Macroeconomicindicators2012-13BUDec2012.xlsx>, accessed 1 March 2013

⁴⁹ Department of Treasury and Finance, *2012-13 Budget Update*, December 2012, p.19

⁵⁰ Committee calculations based on: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.29; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.10; Department of Treasury and Finance, 'Macroeconomic indicators 2012-13' data set, <www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/File/Macroeconomicindicators2012-13BUDec2012.xlsx>, accessed 1 March 2013

⁵¹ *ibid.*

| Objective | Outcome |
|---|---|
| No public sector wage outcome greater than 2.5 per cent unless funded by productivity gains | <p>The Government approved 36 enterprise bargaining agreements in 2011-12.⁵²</p> <p>The Department of Treasury and Finance advised the Committee that '<i>all public sector wage outcomes are consistent with Government wages policy</i>'.⁵³</p> <p>The largest agreements are discussed in Section 5.5.1.</p> |

Sources: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, pp.4, 25; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.27-9

FINDING: The Government identified a fiscal strategy and objectives in the 2011-12 budget papers. As many of the objectives relate to medium-term goals, it is difficult to assess the Government's progress at this time. The Government considers that the 2011-12 results are consistent with its fiscal strategy.

Stabilising net debt and reducing net liabilities

The 2011-12 budget papers include the following fiscal objectives:⁵⁴

- stabilising debt as a percentage of gross state product; and
- net financial liabilities as percentage of GSP falling by 2014-15.

The first objective was repeated in the 2011-12 Budget Update.⁵⁵ In the 2012-13 Budget, this objective became part of the Government's medium-term fiscal strategy as:⁵⁶

General government net debt reduced as a percentage of GSP over the decade to 2022.

The Committee considers that there is some ambiguity in these objectives, as no baseline level of net debt or net financial liabilities has been specified. That is, the budget papers do not specify whether these indicators would be stabilised or reduced compared to the 2011 level, the 2012 level or some other point.

In the Questionnaire on the Annual Financial Report, the Committee requested specific details of the baselines for these indicators. The Department of Treasury and Finance did not provide the requested data.⁵⁷ The Committee sent a clarification letter to the Department on this matter. The Department's response again failed to clearly specify a baseline, although it noted that declines are predicted for both indicators from June 2014.⁵⁸ The response did not explicitly say, however, that the June 2014 figures were the baseline intended in any of the budget papers in which these objectives were set out.

52 Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.9

53 *ibid.*

54 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, pp.4, 25

55 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.4

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

57 Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.8

58 Department of Treasury and Finance, response to the Committee's Clarification Questions Relating to the Questionnaire on the Annual Financial Report, received 1 May 2013, p.2

The Department of Treasury and Finance's responses to the Committee's questions can be read on the Committee's website (www.parliament.vic.gov.au/paec).

The Department of Treasury and Finance informed the Committee that it considers the 2011-12 results for both indicators to be '*consistent with the Government's medium-term fiscal strategy*'.⁵⁹ However, in the absence of any baselines, the Committee is unable to form an independent opinion on the Government's performance relative to these objectives.

FINDING: As the fiscal objectives for 'stabilising net debt' and 'reducing net liabilities' do not include a point of comparison, the Committee is unable to assess whether the Government is on track to meet these targets.

RECOMMENDATION 2: The Department of Treasury and Finance clarify the level of net debt relative to which the planned reduction will be assessed.

2.5.2 Medium-term goals

The Government announced four medium-term goals in the 2011-12 Budget '*to promote Victoria's competitiveness and boost productivity growth*'.⁶⁰

The Committee sought advice from the Department of Treasury and Finance regarding progress towards each goal and a detailed response was provided (see Table A2.3 in Appendix A2). The Committee has summarised the Government's assessment of its performance against the medium-term goals (based on this information) in Table 2.6.

In the 2012-13 Budget, the Government provided details of an economic reform strategy, which included these goals along with several others.⁶¹

59 Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.8

60 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.16

61 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, Chapter 3

Table 2.6 Government's assessment of its performance against medium-term goals, 2011-12

| Medium-term goal | Government's description of progress in 2011-12 |
|--|---|
| Cut the costs of regulation for Victorian businesses by 25 per cent over the next three years | The Department of Treasury and Finance indicated that ' <i>the Government is on track to meet its target to cut red tape</i> '. ⁶² The Government's initiatives include: <ul style="list-style-type: none"> • the reintroduction of the Victorian Civil and Administrative Tribunal major cases planning list in January 2012; • simplified small lot housing rules in 2012; and • the appointment of a Red Tape Commissioner in January 2013. |
| Improve the efficiency and responsiveness of public services... to reduce costs, increase choice and improve the quality of frontline services to Victorians | The Department of Treasury and Finance has provided the following achievements: <ul style="list-style-type: none"> • the Better Services Implementation Taskforce was established in March 2012 and expected to introduce reforms in 2012-13 and beyond; and • the <i>Maintain a Sustainable Public Service</i> initiative was announced in the Budget Update to reduce public sector expenditure. |
| Enhance knowledge and skills through initiatives in schools, early childhood education and reform in vocational education and training | The Department of Treasury and Finance cited: <ul style="list-style-type: none"> • participation rates for Maternal and Child Health Key Ages and Stages Consultations were maintained; • the <i>Towards Victoria as a Learning Community</i> position paper and <i>New Directions for School Leadership and the Teaching Profession</i> discussion paper outline the Government's commitment to lift education outcomes; and • the <i>Refocusing Vocational Education in Victoria</i> initiative was announced in May 2012. |
| Enhance productivity through capital investment | The Department of Treasury and Finance noted that the Government's asset investment program includes funding for transport, health and education. See further discussion in Chapter 6. |

Sources: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, pp.6, 15-19; Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, pp.15-17

FINDING: The Government identified four medium-term goals in the 2011-12 Budget. Actions have been taken relating to each goal. The goals have now been incorporated into the Victorian Government's broader economic reform strategy.

⁶² Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.15

CHAPTER 3 REVENUE

3.1 Introduction

The total revenue for the general government sector in 2011-12 was \$47.9 billion.⁶³ This was close to (less than 1 per cent higher) than the original amount budgeted, which was \$47.4 billion.⁶⁴ However, the sources of the revenue varied from expectations.

Economic conditions in the State were generally weaker than had been originally expected.

This led to the amount of revenue coming from some sources being lower than had been anticipated. The Government undertook a number of actions in 2011-12 to increase revenue from other sources.

In investigating revenue, this chapter seeks to answer the following questions:

- What are the main sources of Victoria's revenue? (Section 3.2.1)
- How did the actual amounts received compare to expectations? (Section 3.2.2)
- Why did some sources provide less revenue than expected? (Section 3.3)
- Why did some sources provide more revenue than expected? (Section 3.4)
- How much revenue was foregone by the Government in concessions, subsidies and exemptions? (Section 3.5)

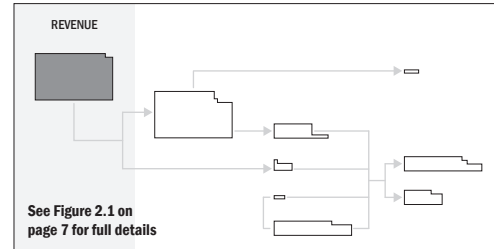
As with the rest of this report, this chapter is focused on the general government sector (that is, government entities that provide services with no charge or charges significantly below cost). However, a number of revenue sources in 2011-12 were affected by transfers between this sector and the other two components of the public sector:

- the public non-financial corporations sector (that is, entities that recover the majority of their costs through charges to users); and
- the public financial corporations sector, which provides financial services to the Government and community.

3.2 Sources of revenue

In preparing the Budget, the Government estimates how much revenue will be received from each of the major sources. These estimates are included in the budget papers.

However, economic and other conditions change during the year, resulting in changes to the amount of revenue from some sources. The main economic conditions are discussed in Section 2.3 of this report.



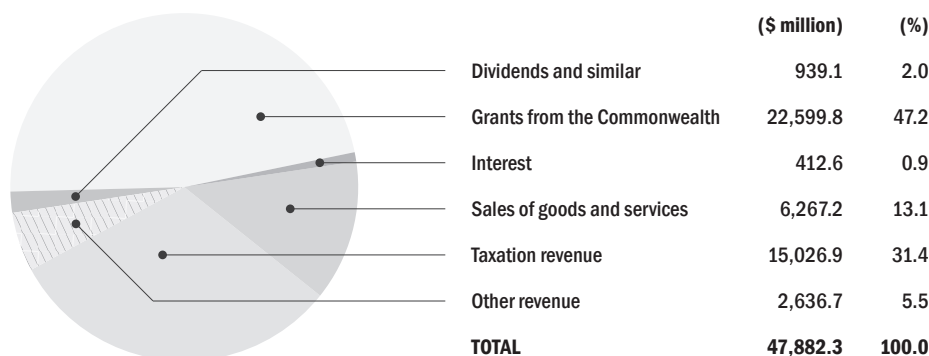
63 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.27

64 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.9

3.2.1 Major sources

Figure 3.1 below shows the six major sources of revenue, as defined in the budget papers. Table A3.1 in Appendix A3 details the amounts of revenue under these six headings.

Figure 3.1 Sources of revenue in 2011-12



Source: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.27

Figure 3.1 shows the importance of grants from the Commonwealth as a revenue source. This provided 47 per cent of all revenue for the State. This will be discussed further in Section 3.4.1.

State taxation revenue (such as payroll tax and land transfer duty) provided \$15.0 billion, or 31 per cent of the State's revenue (see Section 3.3.2).

Other sources, while smaller, have been most affected by Government actions in 2011-12. As a result, some of these sources provided significantly more revenue than expected in 2011-12 (see Section 3.2.2).

FINDING: The Government's revenue totalled \$47.9 billion in 2011-12. Nearly half of this came from Commonwealth grants. State taxation revenue provided nearly one third of the State's revenue for the year.

3.2.2 Variances from budget estimates

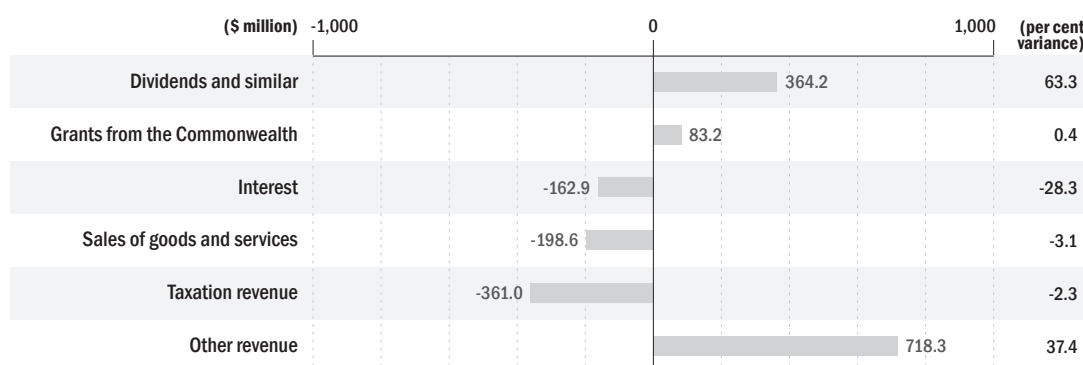
The total revenue in 2011-12 exceeded the budget estimate by \$443.1 million.⁶⁵ Figure 3.2 below shows how the major revenue components varied from the original estimates.

As discussed in Section 2.3, weaker economic conditions than expected resulted in a decrease in revenue from taxation compared to budget estimates. Weaker national economic conditions led to a smaller-than-expected amount of revenue from general purpose (GST) grants from the Commonwealth. Other Commonwealth grants rose, but these grants are tied to specific purposes. This reduced the money available to the Victorian Government to fund its priorities.

The Government responded by increasing revenue from other sources. These were primarily dividends received from government business enterprises and a number of other transactions with the public non-financial corporations sector (see Sections 3.4.2-3.4.3).

⁶⁵ Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.118

Figure 3.2 Variances between the original budget estimates and actual revenue, major categories, 2011-12



Source: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.118

FINDING: Weaker-than-expected economic conditions led to less revenue than anticipated coming from some revenue sources. The Government responded by increasing revenue from other sources. Overall, the total revenue for 2011-12 was \$443.1 million more than the original budget.

3.3 Sources providing less than originally expected

Sources that provided less than had been anticipated in the 2011-12 Budget were:

- interest;
- sales of goods and services; and
- taxation revenue.

The total revenue coming from these sources as a whole was \$722.6 million below the estimates in the 2011-12 Budget. The main reasons for this were the weaker-than-expected general economic conditions (see Section 2.3) and the delay in the commissioning of the Victorian Desalination Plant.

3.3.1 Interest and ‘sales of goods and services’

Interest revenue is earned on loans made to public bodies, including those outside the general government sector. The contribution of interest revenue was \$162.9 million less than originally budgeted.⁶⁶

Revenue from the sales of goods and services comes mostly from health, education and transport-related services. Revenue from the sales of goods and services was \$198.6 million less than the budget estimates.⁶⁷

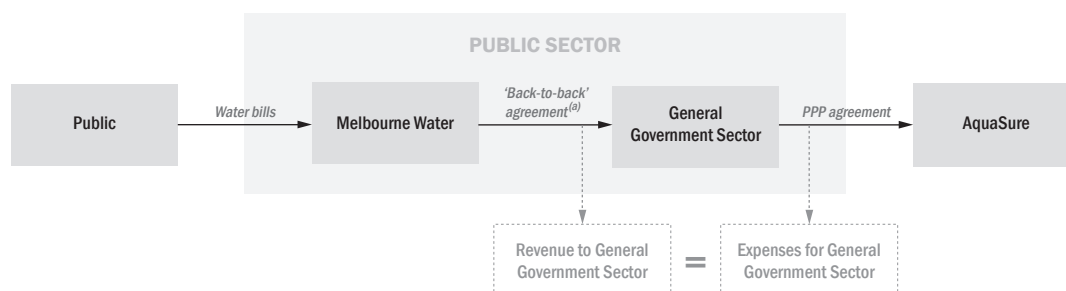
⁶⁶ *ibid.*

⁶⁷ *ibid.*

The variances for both revenue sources (totalling \$361.5 million) were primarily caused by the delay of the Victorian Desalination Plant, which had been expected to commence operations in 2011-12⁶⁸ (see Section 6.4.4 in Chapter 6).

The commencement of operations of the plant was to begin a series of payments each year under the public private partnership agreement (see Figure 3.3). These would be paid by the general government sector to AquaSure, the private sector partner.⁶⁹

Figure 3.3 Operational payments for the Victorian Desalination Plant



(a) The agreement between Melbourne Water and the general government sector is covered by the 'Water Interface Agreement' and the 'Supplementary Water Interface Agreement'.

Source: Public Accounts and Estimates Committee

However, the general government sector has a 'back-to-back' agreement with Melbourne Water, so that the general government sector will recoup all payments made under the PPP agreement.⁷⁰ Money received from Melbourne Water will exactly balance payments made by the general government sector, with the net effect on the general government sector being zero. This money was expected to appear in the budget papers as 'interest revenue' and (the Committee understands) 'sales of goods and services'.

As the Victorian Desalination Plant was expected to commence operations in 2011-12, these costs and revenues were anticipated in the 2011-12 Budget. As the plant was delayed, the streams were also delayed, but the net effect was zero.

As well as the annual revenues, a one-off payment of \$319.5 million was anticipated in the 2011-12 budget papers from Melbourne Water to the general government sector to give Melbourne Water the right to take over the plant at the end of the contract period from the general government sector.⁷¹

Because the plant was delayed, this payment did not occur (the payment was made during 2012-13⁷²). This contributed further to the lower-than-expected revenue in 'sales of goods and services'. This reduction in revenue was not offset by any reduction in expenditure.

68 *ibid.*, p.120

69 The Committee understands that the costs would be classified under two line items: 'other operating expenses' (being purchases of water); and 'interest expense' (being finance charges on the finance lease).

70 'The Statement of Obligations for the Melbourne Water Corporation requires them to pay all costs under the Project Deed with AquaSure, and gives rise to a receivable equal to the value of the finance lease liability.' (Department of Sustainability and Environment, *Annual Report 2012*, September 2012, p.99). See also Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011-12*, November 2012, p.30. This arrangement results in the commitment for expenditure figures for the Victorian Desalination Plant being identical in the annual reports of both the Department of Sustainability and Environment (as part of the general government sector) and Melbourne Water (Department of Sustainability and Environment, *Annual Report 2012*, September 2012, p.100; Melbourne Water, *Annual Report 2011-12*, September 2012, p.97).

71 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.28; Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011-12*, November 2012, p.31

72 Mr G. Wilson, Secretary, Department of Sustainability and Environment, correspondence to the Auditor-General, received 9 November 2012, published in Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011-12*, November 2012, p.64

FINDING: Revenue from interest and ‘sales of goods and services’ for 2011-12 was \$361.5 million below original expectations. This was mainly caused by the delay in commissioning the Victorian Desalination Plant.

3.3.2 Taxation revenue

State taxation revenue is determined to a large extent by activity within the wider economy, such as property and motor vehicle sales, insurance sales and the amount of gambling. As discussed in Section 2.3 of this report, economic conditions in 2011-12 were less favourable than expected, reducing taxation revenue from some sources.

Government action, such as changes in tax rates, can affect taxation revenue, though the effects of such adjustments are only one factor in determining total tax revenue.

Initiatives released by the Government in the 2011-12 Budget and the 2011-12 Budget Update were expected to increase taxation revenue by \$43.6 million (or 0.3 per cent of total taxation revenue).⁷³

However, as discussed in Section 2.3 of this report, economic conditions reduced taxation revenue. In particular, \$460.3 million less than expected was received through land transfer duty, which the Government attributed primarily to there being fewer transactions.⁷⁴ The decrease would have been more severe had the Government not shortened the payment period for land tax assessments, which was expected to bring forward \$47.0 million of revenue from 2012-13.⁷⁵

Overall, the combination of the Government’s initiatives and weaker economic conditions led to taxation revenue for 2011-12 being \$361.0 million less than originally expected.⁷⁶

FINDING: Taxation revenue for 2011-12 was \$15.0 billion, which was \$361.0 million less than originally expected. The main reason for this was a weaker-than-expected property market.

3.4 Sources providing more than originally expected

Sources that provided more than had been anticipated in the 2011-12 Budget were:

- grants from the Commonwealth Government;
- revenue from dividends; and
- ‘other revenue’ (which includes fines, donations, assets received by the general government sector free of charge and miscellaneous other sources of revenue).

73 Committee calculation based on: Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.91, 148; Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.114

74 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.120

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

76 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.118

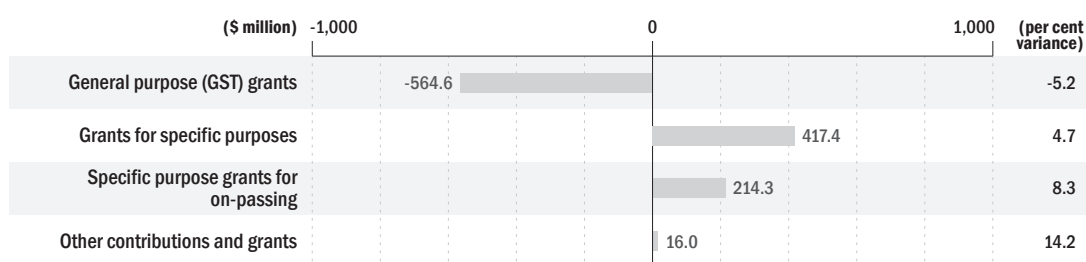
Together, these sources of revenue provided \$1,165.6 million more than had been anticipated in the 2011-12 Budget.

3.4.1 Grants from the Commonwealth

As noted in Section 3.2.1, grants from the Commonwealth are the largest contributor to overall revenue. The value of these grants is mainly determined by the decisions of the Commonwealth Government and the Commonwealth Grants Commission, as well as general economic factors. The Victorian Government has very limited control over this revenue stream.

Overall, grants revenue was \$83.2 million (0.4 per cent) above the value originally expected.⁷⁷ However, there was some movement between types of grants (see Figure 3.4 and Table A3.2 in Appendix A3).

Figure 3.4 Components of grant revenue, variance from expected, 2011-12



Sources: Committee calculations based on Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.26; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.72

General purpose (GST) grants

Revenue from 'general purpose grants' (mainly revenue raised under the Commonwealth Goods and Services Tax) was \$564.6 million below the level originally expected. This was due to slower-than-expected growth in the national GST pool.⁷⁸

Other Commonwealth grants

In contrast, other Commonwealth grants were \$647.7 million more than estimated, mainly because of:⁷⁹

- a rescheduling of payments worth \$166 million from 2010-11 and 2012-13⁸⁰ for the Victorian Comprehensive Cancer Centre;
- a \$73 million grant for the Housing Affordability Fund;
- the early payment of \$201 million of grants from 2012-13 and 2013-14 for accelerated works on the Western Ring Road; and
- a \$167 million increase in grants for on-passing to local government.

77 *ibid.*

78 *ibid.*, p.120

79 *ibid.*

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

In contrast to the general purpose grants, the increased grants are tied to specific projects and programs.

A large proportion of the increase in specific grants for 2011-12 is due to changes in timing. That is, the changes were a result of receiving funds expected in future years earlier, rather than altering previously agreed amounts. The Government has said that around \$427 million of grant payments from future years were received during 2011-12.⁸¹

FINDING: The Government received \$564.6 million less than expected through general purpose (GST) grants in 2011-12. An additional \$647.7 million was received through other Commonwealth grants, which are tied to specific purposes. This meant that less than expected was available from the Commonwealth for services funded at the discretion of the State Government.

3.4.2 Dividends and similar revenue

Dividend revenue makes up the bulk of the ‘dividends and similar’ revenue stream.⁸² This is received from entities such as water corporations by the general government sector.

The amount of dividends paid to the Government is based on a proportion of the profit made by the entities, but the final amount is a matter of negotiation. As the owner, the Government effectively determines dividend payments, and takes its own budget position into account when doing so.⁸³

The 2011-12 budget papers anticipated \$415.6 million from dividends.⁸⁴

During the year, the Government made the decision to increase revenue from dividends. This led to the following announcements in the 2011-12 Budget Update:

- the Victorian WorkCover Authority would pay dividends for the first time, increasing revenue by \$147.0 million;⁸⁵ and
- dividend payout rates would change for the Transport Accident Commission and water entities.⁸⁶

These initiatives increased the amount anticipated in dividends revenue for 2011-12 to \$683.5 million.⁸⁷

Actual dividends received for the year were \$665.2 million,⁸⁸ which was \$18.3 million less than the revised budget figure.

81 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.6

82 Most of the balance of ‘dividends and similar’ revenue is made up of income tax equivalent revenue, which is levied on government business enterprises and is primarily determined by the profits in those entities.

83 Department of Treasury and Finance, *Corporate Planning and Performance Reporting Requirements — Government Business Enterprises*, October 2009, p.13

84 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.25

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

86 *ibid.*, p.23

87 *ibid.*, p.56

88 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.71

Dividends are reported in aggregate in the Annual Financial Report for the State, and are reported by the individual contributing agencies in each agency's own annual report. Dividends paid by the major contributing entities for 2010-11 and 2011-12 are shown in Table 3.1 below. The Table includes only those entities that contributed more than \$10.0 million for 2011-12.

Table 3.1 Dividends paid by major contributing entities, 2010-11 and 2011-12

| Entity | 2010-11 (\$ million) | 2011-12 (\$ million) | Increase (\$ million) |
|----------------------------------|-------------------------|-------------------------|--------------------------|
| City West Water | 15.7 | 45.2 | 29.5 |
| Melbourne Water | 26.5 | 118.4 | 91.9 |
| Port of Melbourne Corporation | 13.4 | 34.4 | 21.0 |
| Rural Finance Corporation | 11.6 | 13.8 | 2.2 |
| South East Water | 16.7 | 50.0 | 33.3 |
| Transport Accident Commission | 100.0 | 140.0 | 40.0 |
| Treasury Corporation of Victoria | 36.2 | 52.6 | 16.4 |
| Victorian WorkCover Authority | 0.0 | 147.0 | 147.0 |
| Yarra Valley Water | 12.4 | 56.1 | 43.7 |

Note: Only includes entities that contributed \$10.0 million or more during 2011-12.

Source: Agencies' annual reports

Table 3.1 shows that the dividends paid by entities for 2011-12 have increased over the levels seen in 2010-11. The decisions detailed above are one cause of this. In addition, \$102.4 million of dividends relating to 2010-11 were deferred to 2011-12,⁸⁹ decreasing the 2010-11 amount and increasing the 2011-12 amount.

FINDING: Initiatives in the 2011-12 Budget Update increased the anticipated revenue from dividends during the year. These initiatives increased the number of entities that pay dividends and also increased the dividend rates paid by entities that already pay dividends. However, dividend revenue was \$18.3 million less than the revised budget figure.

3.4.3 Other revenue

'Other revenue' is a miscellaneous item including fines, donations and gifts, and assets received below their value. Overall, revenue received in this category was \$2.6 billion, \$718.3 million above the original budget of \$1.9 billion.⁹⁰

The largest contributors to this are three transactions that were not anticipated in the 2011-12 budget papers (see Table 3.2).

89 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011-12*, November 2012, p.13

90 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.118

Table 3.2 Transactions in ‘other revenue’ in 2011-12 that were not anticipated in the 2011-12 budget papers

| Transaction | Value (\$ million) |
|---|-----------------------|
| Victorian Managed Insurance Authority and Royal Children’s Hospital ^(a) | 128.0 |
| Housing portfolio reforms ^(a) | 400.0 |
| Assets received by the Department of Transport from local government ^(b) | 56.5 |

Sources: (a) Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.120

(b) Department of Transport, *Annual Report 2011-12*, October 2012, pp.135-6

Further details for some of these transactions are provided in Section 2.4.2 of this report.

Transfers between sectors

Transferring a liability from one sector to another is the equivalent of one sector paying a bill on behalf of the other sector. Because of this, it is recorded as revenue for one sector, and an expense for the other.⁹¹ Assets received below their value by the general government sector for the year contributed \$268.9 million to revenue.⁹² The original budget estimate for this had been \$1.0 million,⁹³ which was revised in the 2011-12 Budget Update to \$123.0 million.⁹⁴

Major contributions to this revenue included:

- the one-off effect of a transfer of liability to the Victorian Managed Insurance Authority from the Department of Health;⁹⁵
- assets received free of charge from the Melbourne City Council for the Royal Children’s Hospital site;⁹⁶ and
- higher-than-anticipated hospital donations.⁹⁷

The Committee approached the Department of Treasury and Finance for an explanation of this item, and why the increase had not been anticipated at the time of the original budget. The Department responded, with respect to the Royal Children’s Hospital site, that:⁹⁸

An estimate of the site value receipt was not included in the 2011-12 Budget papers due to uncertainty associated with the site’s valuation, which had not occurred at the time of the preparation of the budget.

91 This is included in the State’s finances as ‘fair value of assets received free of charge or for nominal consideration’, which is part of ‘other revenue’.

92 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.72

93 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.26

94 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.57

95 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.120

96 *ibid.*

97 *ibid.*

98 Department of Treasury and Finance, response to the Committee’s 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.5

Housing reforms

‘Other miscellaneous revenue’⁹⁹ for 2011-12 was \$1,383.9 million,¹⁰⁰ \$381.9 million higher than originally expected.¹⁰¹ Reforms made during the year to the public housing portfolio were the primary cause of this variation.¹⁰²

The reforms alter the system of payments made from the Director of Housing to the general government sector, which were owed as a result of the general government sector taking housing’s debt in 1997. Previously, payments were discretionary and the amount was determined each year. This made payments unpredictable. The reforms set the payments at fixed rates until 2023. The creation of this future income stream is recognised as a one-off revenue item in the State’s financial statements.¹⁰³

The explanation included in the *2011-12 Financial Report* was a note that there were:¹⁰⁴

...housing portfolio reforms, which formalise the long standing financial obligations of the Director of Housing.

The Committee considers that an alternative approach would show:

- what the transaction was;
- how these reforms translate into a contribution to income for the general government sector; and
- whether this is a one-off effect.

FINDING: The Government received \$718.3 million more than estimated from sources classified as ‘other revenue’. This primarily came from assets received below their value and housing reforms. Some of these transactions occurred after the 2011-12 Budget Update had been framed.

RECOMMENDATION 3: Where reforms that have significant effects on the State’s finances are not detailed in the budget papers, the Department of Treasury and Finance should include the following details in the Annual Financial Report:

- (a) details of the reform;
- (b) how the reform affects the State’s finances;
- (c) the effects of the reform on relevant sectors; and
- (d) whether the effect is one-off or recurring.

99 ‘Other miscellaneous revenue’ is a subcategory of ‘other revenue’ in the State’s finances.

100 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.72

101 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.26

102 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.120

103 Department of Treasury and Finance, response to the Committee’s 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.7; Department of Human Services, *2011-12 Annual Report*, p.193

104 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.120

3.5 Revenue foregone

3.5.1 Concessions and subsidies

Concessions can take the form of either a direct payment from a Government entity or a reduction in an amount charged for particular categories of people.

The amount of concessions in 2011-12 was expected to be \$1,536 million.¹⁰⁵ This was revised to \$1,487 million as part of the 2012-13 Budget.¹⁰⁶ The Committee notes that this figure is for all public sector entities, and not just the general government sector.

Table A3.3 in Appendix A3 shows concessions and subsidies reported by departments. This shows that the amount of revenue foregone was \$1,460.3 million, which is \$180.1 million (14 per cent) higher than the amount anticipated by these departments.

FINDING: Relevant departments reported a total of \$1.5 billion in concessions and subsidies for 2011-12. This is \$180.1 million above expectations for the year.

The Department of Transport gives a discounted registration fee on heavy vehicles for primary producers. During 2011-12 the Department expected to give concessions of \$9.4 million under this plan. However, according to the Department, concessions actually given totalled \$25.6 million. The Department explained that ‘*Registrations in this category were greater than expected*’.¹⁰⁷

The Department of Health reported variations in two programs: ‘dental services and spectacles’ and ‘community health programs’. Together, these programs granted \$64 million less than the amount originally expected.¹⁰⁸

The explanations included in the Department of Health’s response for these two items were identical:¹⁰⁹

Better information systems are now available which allow for a more accurate breakdown between concession cardholders and the general community. The percentage of general community use has increased.

The Committee notes that as part of its Inquiry into the 2009-10 and 2010-11 Financial and Performance Outcomes, variances in the same programs in 2010-11 were explained with an almost identical explanation. The Department explained that:¹¹⁰

... better information systems are now available which indicate a large increase in percentage of general community usage.

105 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.182

106 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.194

107 Department of Transport, response to the Committee’s 2011-12 Financial and Performance Outcomes General Questionnaire, received 7 February 2013, p.44

108 Department of Health, response to the Committee’s 2011-12 Financial and Performance Outcomes General Questionnaire, received 12 February 2013, p.46

109 *ibid.*

110 Department of Health, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 6 January 2012, p.59

Specific items are included in the departmental responses to the Committee's questionnaire, which are on the Committee's website (www.parliament.vic.gov.au/paec).

3.5.2 Tax expenditures

Tax expenditures involve less tax revenue being received by the Government due to exemptions set by the Government. These include certain categories of people or businesses being exempt from paying particular taxes or allowed to pay at reduced rates.

Appendix A3.4 shows that total tax expenditure was \$5.6 billion, which is \$104.7 million less than anticipated in the budget papers.

The largest variance in estimates for tax expenditures was in 'other stamp duties', which is mainly stamp duty for principal places of residence. The Department of Treasury and Finance explained that the variance is largely driven by lower-than-expected:¹¹¹

- land transfer duty concessions for first homebuyers (of properties valued up to \$600,000); and
- stamp duty for corporate reconstruction.

FINDING: A total of \$5.6 billion in tax expenditures was provided during 2011-12. This is close to expectations for the year.

111 Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire, received 6 March 2013, p.17

CHAPTER 4 BORROWINGS, DEBT AND LIABILITIES

4.1 Introduction

This chapter examines the debt and borrowings position of the Victorian public sector and, in particular, of the general government sector.

At 30 June 2012, the general government sector had total borrowings of \$22.4 billion. Net debt, which is a measure of borrowings and other debt less 'liquid' assets (that is, cash and assets that can easily be converted to cash), was \$15.2 billion.¹¹²

Both borrowings and net debt rose over the course of 2011-12. Neither, however, rose to the levels originally predicted in the 2011-12 Budget (see Figure 4.1 below and Table A4.1 in Appendix A4).

This chapter seeks to answer the following questions:

- What was the debt position at the end of 2011-12, and how did this compare with expectations? (Section 4.2)
- Why was the position different from the original budget estimates? (Section 4.3)
- How did this compare with targets set previously? (Section 4.4)
- What are the implications of the growth in borrowings? (Section 4.5)

4.2 Borrowings and net debt

Government borrowings primarily consist of loans to assist with the cost of infrastructure projects constructed by the Government. Liabilities for assets delivered through public private partnerships (see Section 4.3.4) are also included in borrowings.

As noted above, net debt is a measure of the Government's financial position that incorporates borrowings but subtracts cash and assets that can easily be converted to cash.

Figure 4.1 shows movements in borrowings and net debt for the general government sector over the past five years.

Borrowings increased by \$4.7 billion between 30 June 2011 and 30 June 2012 to \$22.4 billion.¹¹³ This is significantly less than the budget estimate, primarily due to the late delivery of the Victorian Desalination Plant. This and other contributing factors are discussed in Section 4.3.

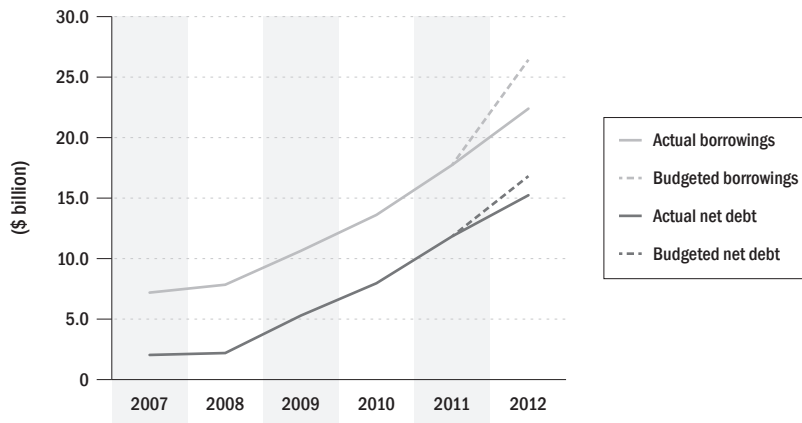
Net debt also rose during the course of the year, from \$11.8 billion to \$15.2 billion.¹¹⁴ The increase was less than predicted at budget time due to the Government having a higher cash balance at the end of 2011-12 than had been estimated. This is also discussed further in Section 4.3.

112 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.29

113 *ibid.*

114 *ibid.*

Figure 4.1 General government sector borrowings and net debt as at 30 June, 2007 to 2012



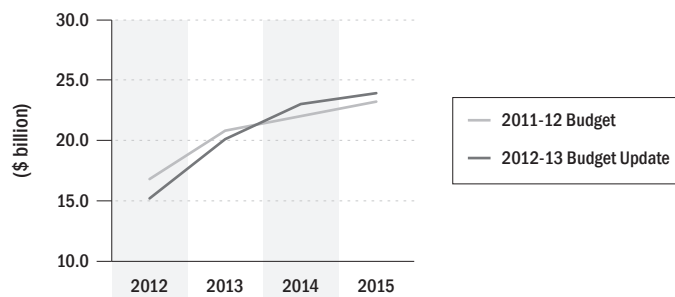
Sources: Department of Treasury and Finance, 'Consolidated Balance Sheet 2012-13' data set, <[www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/ConsolidatedBalanceSheetGG2012-13BudgetUpdate/\\$File/ConsolidatedBalanceSheetGG2012-13BudgetUpdate.XLS](http://www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/ConsolidatedBalanceSheetGG2012-13BudgetUpdate/$File/ConsolidatedBalanceSheetGG2012-13BudgetUpdate.XLS)>, accessed 13 February 2013; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.10

FINDING: The general government sector's borrowings increased by \$4.7 billion in 2011-12 to \$22.4 billion. This is \$4.0 billion less than the budget estimate, primarily because of the delayed delivery of the Victorian Desalination Plant.

FINDING: General government sector net debt increased by \$3.4 billion to \$15.2 billion in 2011-12. This is \$1.6 billion less than the budget estimate, primarily because of a higher-than-predicted cash balance at the end of the year.

Although net debt was less at 30 June 2012 than had been predicted in the 2011-12 Budget, the Government does not believe that this will lead to net debt remaining below the 2011-12 estimates in the longer term. The 2012-13 Budget Update forecasts that net debt will rise above the levels that were predicted in the 2011-12 Budget in 2014 and 2015 (see Figure 4.2).

Figure 4.2 Net debt predictions as at 30 June, 2012 to 2015 (2011-12 Budget and 2012-13 Budget Update)



Sources: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.22; Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.32

The Committee notes that 'net debt' does not include superannuation liabilities. These liabilities are included in some indicators to be discussed below and have increased significantly (see Section 4.3.5).

4.3 Factors influencing borrowings, debt and liabilities

Five main factors influenced the level of borrowings, debt and liabilities in 2011-12:

- the cash available for asset investment;
- the demand for capital funds;
- cash and deposit holdings;
- liabilities for public private partnerships; and
- the value of the superannuation liability.

Figure 4.3 shows the variation for these factors from the original budget. These figures are presented in greater detail in Table A4.4 in Appendix A4.

Figure 4.3 Key factors influencing borrowings, debt and liabilities, 2011-12 (variances between budget and actual)

| | (\$ million) | -10,000 | 0 | 10,000 | (per cent variance) |
|-------------------------------------|------------------|---------|----------|---------|---------------------|
| Cash available for asset investment | | | 139.9 | | 5.0 |
| Demand for capital funds | | | -1,049.8 | | -16.3 |
| Unused capital funds | | | 1,143.7 | | 919.4 |
| PPP liabilities ^(a) | approx. -4,500.0 | | | | n/a |
| Superannuation liability | | | | 9,913.7 | 43.7 |

(a) As estimates and actuals for this figure are not published, this figure has been estimated by the Committee (see Table A4.4 in Appendix A4) and it is not possible to calculate a variance.

Sources: Committee calculations based on Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp.9-11; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.12, 27, 29, 30

4.3.1 Cash available for asset investment

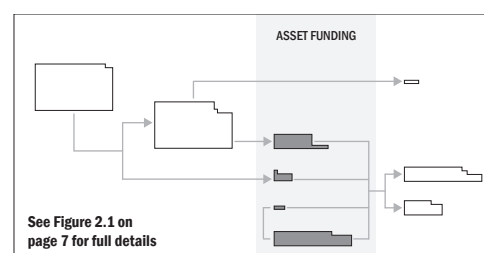
As discussed in Chapter 2, asset investment is partly funded by borrowings, but also partly funded by cash from asset sales, the operating surplus and the cash equivalent of depreciation and similar.

Figure 4.3 shows that there was \$139.9 million more cash available for asset investments in 2011-12 than had been predicted in the 2011-12 Budget. This was due to:

- the operating surplus for the year being higher than expected (see Chapter 2);

offset by:

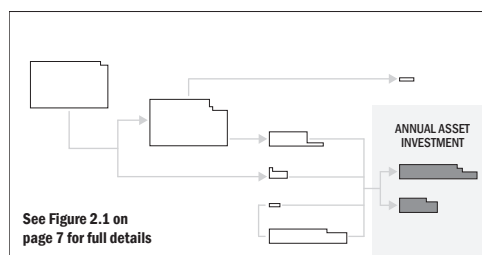
- depreciation and similar allowances being lower than expected; and
- less revenue than expected from asset sales.



4.3.2 Demand for capital funds

Figure 4.3 shows that there was \$1,049.8 million less demand for capital funds in 2011-12 than had been predicted in the 2011-12 Budget. This was principally due to:

- lower-than-expected direct investment on traditional capital projects for the year; and
- lower-than-expected investment through other sectors for the year.



This is discussed further in Chapter 6 of this report.

4.3.3 Unused capital funds

The Government's cash borrowings for the year were \$3,739.5 million, only \$46.0 million less than the \$3,785.5 million expected at the time of the Budget.¹¹⁵ Given the lower-than-anticipated demand for capital funds and the additional cash available, the borrowings resulted in \$1,143.7 million in capital funds being unused.

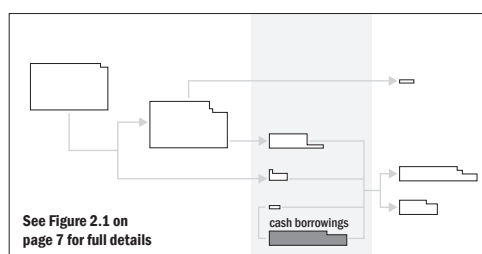


Table A4.1 in Appendix A4 shows that the level of cash and deposits had originally been expected to decrease by \$829.2 million (to \$2,838.4 million¹¹⁶). However, the actual outcome was an increase of \$932.9 million (to \$4,600.5 million¹¹⁷). The unused capital funds contributed the bulk of the difference between the actual balance and the budget estimate. This additional cash is included in the calculation of net debt and is the principal reason for net debt being less than expected.

The Committee is not aware of any reasons why the additional deposits were being held at the end of the financial year. The *2011-12 Financial Report* does not contain any discussion of the matter.

FINDING: The Government spent less on asset investment than the 2011-12 Budget estimated and had more cash available to fund it than expected. This led to \$1.1 billion of capital funds being unused, and being held as cash and deposits on 30 June 2012.

115 *ibid.*, p.124

116 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.10

117 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.29

4.3.4 Public private partnership (PPP) liabilities

On acceptance of a PPP, the value of the PPP commitment is included in public sector borrowings, also increasing net debt.

The contribution to general government sector net debt by PPPs commissioned during the year was forecast in the 2011-12 budget papers to be \$1,250.9 million.¹¹⁸ However, only \$916.0 million was actually added,¹¹⁹ as several projects expected to be commissioned in 2011-12 were delayed.

The Government does not break down the expected or actual contribution by individual PPP project. This makes understanding the causes for the increase in borrowings and net debt more difficult.

At the time of the 2011-12 Budget, the Committee understands that four PPP projects were expected to be completed during the year.¹²⁰ In fact, only one project (the Royal Children's Hospital) was commissioned. The Committee attempted to estimate the effect these changes had on borrowings and net debt.

The four PPP projects expected to be commissioned during 2011-12 were:¹²¹

- the *Ararat Prison* (\$332.9 million);
- the *Victorian Desalination Plant* (\$4,112.4 million);
- the *Biosciences Research Centre* (\$168.5 million); and
- the *Royal Children's Hospital* (\$1,014.7 million).

The *Royal Children's Hospital* project was commissioned in November 2011. The liability for this project was therefore added to borrowings and net debt as expected.

The *Ararat Prison*, the *Biosciences Research Centre* and the *Victorian Desalination Plant* projects have been delayed, which means that, while they were anticipated to increase borrowings and net debt, this did not occur. As noted in Section 6.4.4, two of these projects have now been commissioned, with the third expected in late 2014.

In the case of the *Victorian Desalination Plant*, there is a 'back-to-back' lease arrangement between the general government sector and Melbourne Water (see Section 3.3.1). This means that, on commissioning, 'advances paid' (an asset which reduces net debt) increases by the same amount that borrowings increase. Therefore, while the *Victorian Desalination Plant* was expected to increase borrowings significantly, there would have been no effect on net debt.

118 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31

119 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.12

120 This is based on a footnote in Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31. However this footnote does make clear that this is a complete list.

121 Amounts associated with these projects are present values of minimum lease payments as reported in the *2010-11 Financial Report for the State of Victoria* (p.152) prior to the 2011-12 Budget and differ from the figures that would have been used in the Budget. The Committee believes these figures are the closest disclosed values to what the Government anticipated the addition to borrowings or liabilities was going to be. However, the sum of the values of the three projects that contribute to net debt (that is, excluding the *Victorian Desalination Plant*) differs from the total given in the budget papers by \$265.2 million. This means there is a significant difference in one or more of the projects. Which project or projects caused this difference is not known, as the budget papers do not break down the total.

FINDING: PPP liabilities raised borrowings and net debt by \$916.0 million in 2011-12. At the time of the 2011-12 Budget, four PPP projects were expected to be commissioned during the year. Three of these projects were not commissioned during the year.

FINDING: The budget papers do not contain estimates of the effects that individual PPP projects will have on borrowings and net debt when they are commissioned, nor does the Annual Financial Report detail the actual contributions made by individual projects.

RECOMMENDATION 4: The Department of Treasury and Finance should include in the budget papers:

- (a) a list of individual PPP projects that are anticipated to be commissioned during the year;
- (b) an estimate of the contribution to borrowings and net debt resulting from each PPP project that is anticipated to be commissioned during the year.

RECOMMENDATION 5: The Department of Treasury and Finance should disclose in the Annual Financial Report the actual contribution to borrowings and net debt made by individual PPP projects that were commissioned during the year.

4.3.5 Superannuation liability revaluation

While it had no direct effect on borrowings or net debt, an important change during the year was:¹²²

... a significant increase in the superannuation liability driven by movements in underlying bond rates ...

That is, the Commonwealth bond rate was lower than it had been in previous budgets. This rate is used to calculate, in present dollars, the value of the defined benefits superannuation payments that the Government will make in future years. Calculating the value of all payments into the future (that is, the total superannuation liability) with a lower discount rate results in a higher present value.

The effect of the bond rate movement was an increase in the liability of approximately \$8.5 billion.¹²³ In addition, there were other actuarial losses of approximately \$0.8 billion, bringing the total actuarial loss to \$9.3 billion.¹²⁴ As a result of the actuarial loss and other

122 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.22

123 *ibid.*, p.121

124 *ibid.*, p.27

factors, the overall value of the liability moved from \$22.8 billion as at 30 June 2011 to \$32.6 billion as at 30 June 2012.¹²⁵ This is a \$9.8 billion increase in the present value of superannuation payments required from Government funds.

The Government has pointed out that:¹²⁶

... changes in the valuation of the liability do not impact the underlying cash flows required to service the superannuation liability.

That is, the valuation of the future payments is an accounting measure, and does not necessarily reflect the payments that will be required over the forward estimates.

However, this revaluation has had a significant effect on two ratios discussed below (see Sections 4.4.2 and 4.4.3).

FINDING: The present value of the superannuation liability increased by \$9.8 billion in 2011-12, primarily as a result of a fall in the discount rate. However, the revaluation of the liability has had little or no effect on the actual amounts payable over the forward estimates under the defined benefits schemes.

4.4 Government targets and indicators

A number of different indicators have been used to show the appropriateness or sustainability of borrowing and debt levels, or have been identified by the Government as targets. The Committee has examined three indicators, as follows:

- general government sector net debt as a proportion of gross state product (GSP);
- general government sector net financial liabilities as a share of GSP; and
- net debt plus superannuation liability as a proportion of operating revenue (in the non-financial public sector).

As discussed in Chapter 2, the Government stated goals for the first two indicators in the 2011-12 budget papers.¹²⁷ The Government has also expressed an intention to maintain Victoria's triple-A credit rating. The Government indicated that the third indicator is critical to the assessment of Victoria's triple-A credit rating. The Committee has therefore examined results for all three indicators.

4.4.1 General government sector net debt as a proportion of GSP

This indicator shows how large general government sector net debt is in relation to the productive capacity of the State as a whole. It is one possible indicator of debt sustainability.

125 *ibid.*, p.29

126 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.35

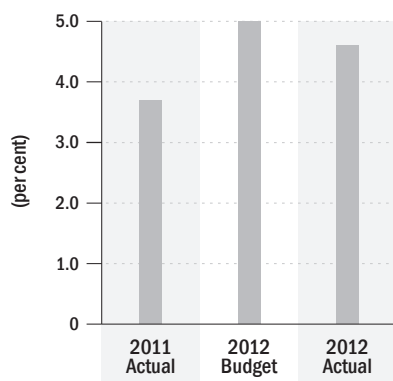
127 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.4

The Government expressed an intention to stabilise this ratio as part of the 2011-12 Budget.¹²⁸ In the 2012-13 Budget, the Government further stated its goal for 'general government net debt [to be] reduced as a percentage of GSP over the decade to 2022'.¹²⁹

Although net debt as a share of GSP rose over 2011-12, the level at 30 June 2012¹³⁰ was lower than had been anticipated in the 2011-12 Budget (see Figure 4.4).¹³¹ The Department of Treasury and Finance considers that:¹³²

... the 2011-12 result is consistent with the Government's medium-term fiscal strategy.

Figure 4.4 Net debt as a proportion of GSP as at 30 June, 2011 to 2012



Sources: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.33; Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.28; Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.32

Net debt for the general government sector at 30 June 2012 was 4.6 per cent of GSP (see Table A4.1 in Appendix A4). This was 0.8 percentage points above the indicator for the previous year.

This indicator was 0.4 percentage points below the level forecast in the 2011-12 Budget. This is primarily due to net debt being less than estimated. The level of GSP was also less than predicted, which had a small impact on the figure.

The slower-than-expected growth in this indicator in 2011-12 is encouraging with respect to the Government's target in the short term. However, as noted in Section 4.2, the Government is predicting higher levels of net debt in 2014 and 2015¹³³ than had been predicted at the time of the 2011-12 Budget.¹³⁴ The Government's progress with this indicator to date may therefore not be indicative of progress over the longer term.

128 *ibid.*

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

130 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.32

131 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.22

132 Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.8

133 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.32

134 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.33

FINDING: General government sector net debt was 4.6 per cent of GSP at 30 June 2012. This is 0.8 percentage points higher than the level at 30 June 2011, as a result of borrowings for asset investment during the year.

FINDING: The proportion of general government net debt in GSP was 0.4 percentage points below the level predicted in the 2011-12 budget papers. This was primarily because of the increased cash and deposits held at the end of the year.

4.4.2 General government sector net financial liabilities as a share of GSP

General government sector net financial liabilities as a share of GSP is another measure of debt sustainability. In addition to net debt, this measure also takes account of a wider range of assets and liabilities, the most significant of which is the superannuation liability (see Table A4.2 in Appendix A4).

The Government has indicated its intention to decrease the proportion of net financial liabilities in GSP by 2014-15.¹³⁵

The Committee notes that the budget papers do not specify a reference year or level, meaning there is no point from which to measure a 'decrease' (see Section 2.5.1 of this report). In response to the Committee's inquiry, the Department of Treasury and Finance responded that:¹³⁶

General Government sector net financial liabilities as a per cent of GSP is not stated as a financial measure for measuring progress for the Government's medium-term fiscal strategy. However DTF does consider the 2011-12 result is consistent with the Government's medium-term fiscal strategy.

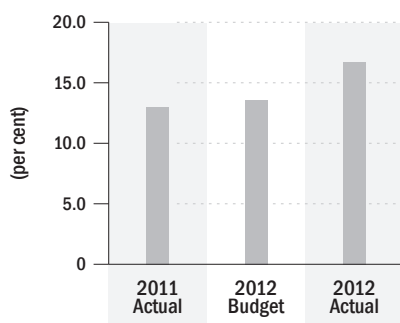
Net financial liabilities increased by 3.6 percentage points in 2011-12 to 16.7 per cent of GSP (see Table A4.2 in Appendix A4). This is shown in Figure 4.5.

Net financial liabilities as a share of GSP were 3.1 percentage points higher than the level forecast in the 2011-12 Budget (see Figure 4.5). This was due to:

- net debt being lower than expected (see Section 4.2); and
- the increased superannuation liability, which had not been predicted in the budget forecasts (see Section 4.3.5).

¹³⁵ *ibid.*, p.25

¹³⁶ Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.8

Figure 4.5 Net financial liabilities as a share of GSP as at 30 June, 2011 to 2012

Sources: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.33; Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.28; Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.32

FINDING: General government sector net financial liabilities were 16.7 per cent of GSP in June 2012, up from 13.1 per cent in June 2011. This is above the original forecast of 13.6 per cent.

FINDING: The revaluation of the superannuation liability has been the main cause of the increase in net financial liabilities as a share of GSP, both in comparison to last year and to expectations.

4.4.3 Net debt plus superannuation liability as a proportion of operating revenue (in the non-financial public sector)

In assessing the State's credit rating, Standard & Poor's considers the ratio of net debt (excluding advances paid) plus superannuation liability to total operating revenue¹³⁷ for the non-financial public sector. The non-financial public sector is an amalgamation of the general government sector and the public non-financial corporations sector.

In May 2012, the Victorian budget papers noted that:¹³⁸

... S&P [Standard & Poor's] has indicated that a potential trigger point for a review of the triple-A credit rating could occur if this ratio exceeded 130 per cent.

As Figure 4.6 shows, the result for 30 June 2012 was forecast to be 106.9 per cent in the 2011-12 Budget.¹³⁹ The actual result was higher, at 113.2 per cent.¹⁴⁰ The primary reason for this increase was the superannuation revaluation discussed in Section 4.3.5. This has been

137 Also described as 'net financial liabilities to revenue' – e.g. Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.44

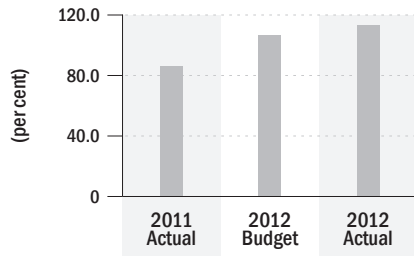
138 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2013, p.60

139 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2012, p.44

140 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.22

partly offset by reduced borrowings, largely driven by the delay in commissioning the Victorian Desalination Plant (see Section 4.3.4).¹⁴¹

Figure 4.6 Net debt plus superannuation liability as a proportion of operating revenue as at 30 June, 2011 to 2012



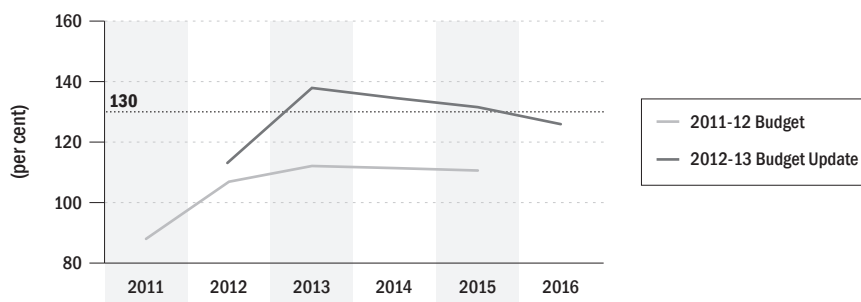
Sources: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.44; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.22

FINDING: Net debt plus superannuation liability as a proportion of operating revenue (in the non-financial public sector) has risen to 113.2 per cent, largely as a result of the revaluation of the superannuation liability.

Although this figure is below the trigger point of 130 per cent, the Government expects this figure to continue rising in 2012-13.

In the 2011-12 budget papers, it was predicted that this figure would peak at 112.1 per cent in 2013.¹⁴² However, the higher-than-expected result for 2012 is expected to continue into future years. Figure 4.7 shows that the Government's latest estimates now expect that the 2013 peak will be 138.1 per cent, and the level is not expected to fall below 130 per cent until 2016.

Figure 4.7 Net debt plus superannuation liability as a proportion of operating revenue as at 30 June, 2011 to 2016 (estimates from the 2011-12 Budget and 2012-13 Budget Update)



Sources: 2011-12 estimate: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2012, p.44; 2012-13 estimate: calculated by the Committee, based on Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, pp.37, 40

¹⁴¹ Though the borrowings for the Victorian Desalination Plant are offset by advances for the general government sector, these advances come from the public non-financial corporations sector. For the non-financial public sector, which combines the two sectors, there is no offset.

¹⁴² Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.44

4.5 Interest cost of borrowings

The main impacts of borrowings on the State are:

- the costs of paying the interest (which are included in the operating expenses); and
- the costs of repaying the capital (which come from the surplus).

As borrowings increase, interest expense will increase. This reduces the amount of revenue available for other operating expenses or for asset investment.

The Committee also notes that a higher level of debt means the Government must repay more capital. This requires consideration around the level of new investment possible or generating larger surpluses.

Interest expense is associated with borrowings for capital investments as well as some payments for PPP projects. In line with the growth in borrowings, this increased from \$985.6 million (2.1 per cent of total revenue) in 2010-11 to \$1,242.6 million (2.6 per cent of revenue) in 2011-12.¹⁴³

FINDING: The Government's borrowings (including some PPP expenses) required \$1.2 billion of interest payments in 2011-12. This is 2.6 per cent of the total revenue.

143 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.27

CHAPTER 5 OUTPUT EXPENDITURE AND DELIVERY

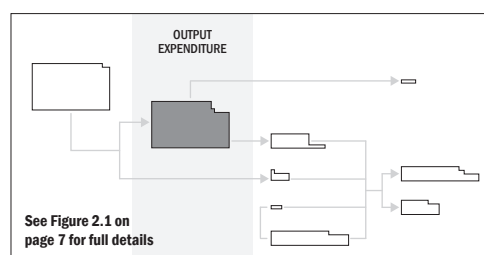
5.1 Introduction

As discussed in Chapter 2, expenditure can be divided into two major categories:

- output expenditure, which is mostly the delivery of goods and services (outputs); and
- asset investment, which includes expenditure on infrastructure (such as roads and hospitals) and other physical assets (such as computers).

This chapter looks at the Government's output expenditure in 2011-12. Chapter 6 looks at asset investment.¹⁴⁴

Overall, the Government spent \$47,311.0 million on outputs in 2011-12, only \$12.3 million (less than 1 per cent) more than had been estimated in the 2011-12 budget papers. However, there were a number of differences between what the money was expected to be spent on and what it was actually spent on. This chapter explores what those differences were and why they occurred.



In particular, this chapter explores the following questions:

- How did the goods and services actually provided compare to what had been planned at the start of the financial year? (Section 5.2)
- How did departments' performance compare to the stated targets? (Section 5.3)
- What was the impact of measures to reduce spending in 2011-12? (Section 5.4)
- What factors impacted on the amount of employee expenses paid in 2011-12? (Section 5.5)

5.2 Goods and services provided

New initiatives expected to cost \$1.9 billion in 2011-12 were announced in the 2011-12 Budget, increasing expenditure in a variety of areas.¹⁴⁵ These increases were partly offset by measures which reduced spending in other areas, such as:

- specified savings initiatives (see Sections 5.4.1-5.4.2);
- 'reprioritised and adjusted' funding and 'administrative variations' (see Section 5.4.3); and
- lapsing programs (programs that were funded in previous budgets up to 2010-11 that were not continued in 2011-12).

¹⁴⁴ Some costs associated with infrastructure (especially expenditure on public private partnerships) are included within output expenditure for accounting purposes, but will be discussed in Chapter 6 of this report.

¹⁴⁵ Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.30

These changes were discussed by the Committee in detail in its *Report on the 2011-12 Budget Estimates — Part Three*.¹⁴⁶

This section seeks to compare the areas where expenditure was planned in the 2011-12 budget papers to where the money was actually spent.

To understand how the money is spent, expenditure is broken down in two different ways in the budget papers and the Annual Financial Report:

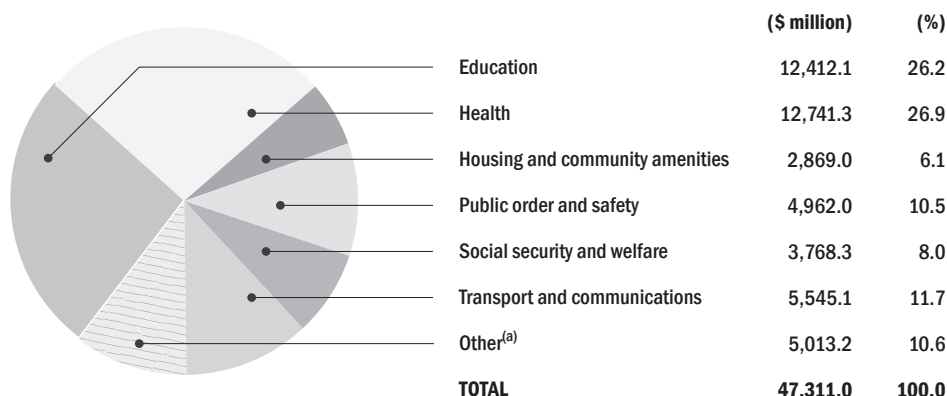
- according to 13 ‘government purpose classifications’ – a series of categories developed by the Australian Bureau of Statistics;¹⁴⁷ and
- according to 139 outputs, each of which describes a group of goods and services and is accompanied by a number of performance measures, including cost measures.¹⁴⁸

Both are examined below.

5.2.1 Expenditure by government purpose classification

Figure 5.1 breaks down the 2011-12 output expenditure according to the largest government purpose classifications.

Figure 5.1 Output expenditure by major government purpose classification, 2011-12



(a) The ‘Other’ category is made up 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’.

Source: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.79

In each of these categories, more was spent in 2011-12 than in the previous year. However, the amounts actually spent in each category vary from what was predicted in the 2011-12 budget papers, as shown in Figure 5.2 (see Table A5.1 and Figure A5.1 in Appendix A5 for more details).

The budget papers estimated that expenditure would increase between 2010-11 and 2011-12 for:

- public order and safety;

146 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Chapter 4

147 Actual figures reported in Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.79, 219-20.

148 Actual figures reported in departments’ annual reports.

- education; and
- housing and community amenities.

In all three cases, expenditure did increase, but not by as much as estimated.

Figure 5.2 Variances between the original budget estimates and actual output expenditure, 2011-12, by government purpose classification

| | (\$ million) | -1,000 | 0 | 1,000 | (per cent variance) |
|---------------------------------|--------------|--------|--------|-------|---------------------|
| Education | | -389.1 | | | -3.0 |
| Health | | | 36.7 | | 0.3 |
| Housing and community amenities | | -604.8 | | | -17.4 |
| Public order and safety | | | -175.8 | | -3.4 |
| Social security and welfare | | | | 705.4 | 23.0 |
| Transport and communications | | | | 806.6 | 17.0 |
| Other ^(a) | | -366.8 | | | -6.8 |

(a) The 'Other' category is made up 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'.

Sources: Committee calculations based on Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.30; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.79

In contrast, there were two areas where the budget papers estimated that expenditure would decrease between 2010-11 and 2011-12 – 'social security and welfare' and 'transport and communications'. However, in both cases, the expected decreases did not occur.

FINDING: The 2011-12 budget papers estimated that expenditure would increase in the areas of 'public order and safety', education and 'housing and community amenities'. Expenditure did increase in these areas, but by less than estimated.

FINDING: Expected decreases in expenditure in the 'social security and welfare' and 'transport and communications' areas did not occur.

Explanations for variances

The Annual Financial Report does not supply explanations for these variances. The Committee considers that this is an area where the report could be improved. An explanation of major differences between the expected and actual expenditure pattern would assist the Parliament and community in understanding how funds were spent and how what actually occurred during the year differed from expectations.

The lack of explanations for variances in government purpose classification is in contrast to the break-down by outputs. Departments are required to explain ‘significant or material variances’ between budget estimates and actual output costs in their annual reports, including any variance from the budget by more than ± 10 per cent.¹⁴⁹

However, the two different ways of breaking down expenditure suggest quite different results. In particular:

- although expenditure on education was \$389.1 million less than budgeted, the main education outputs all significantly exceeded budget (see Section 5.2.2 of this report); and
- expenditure on ‘transport and communications’ was \$806.6 million more than budgeted, though the Department of Transport’s output expenditure was \$91.8 million less than budgeted.

The difference in the two break-downs is at least partly because:¹⁵⁰

- expenses are categorised according to different methodologies;¹⁵¹ and
- as is the norm, a certain proportion of expenditure (\$5.2 billion or 11 per cent in 2011-12) is included in the break-down by government purpose classification but not the break-down by outputs.¹⁵²

This makes it difficult to compare one to the other. However, because these break-downs show a different perspective, explaining the variances in the government purpose classification break-down would provide additional useful information.

The Australian Accounting Standards Board, in reference to providing details of expenditure by government purpose classification, has also indicated that:¹⁵³

Functional classification of financial information [such as the break-down by government purpose classification], where it can be determined reliably, will also assist users in assessing the significance of financial or non-financial performance indicators reported by the government.

That is, the break-down by government purpose classification provides a way for users to determine whether or not the output performance measures are appropriate.

Given these considerations, the Committee believes that future Annual Financial Reports should explain significant and material variances between budget estimates and actual expenditure by government purpose classification.

149 Department of Treasury and Finance, *2011-12 Model Report for Victorian Government Departments*, July 2012 (dated March 2012), p.18

150 Department of Education and Early Childhood Development, response to the Committee’s 2011-12 Financial and Performance Outcomes Questionnaire – Further Clarification Points, received 15 March 2013, p.3

151 For example, education-related expenses in all outputs, not just the education-focused ones, are counted towards the expenditure on education in the government purpose classification. Similarly, some components of the education-focused outputs may contribute to other categories of expenditure. In addition, some expenses, such as the ‘capital assets charge’, are included in outputs but not in the government purpose classification expenditure.

152 This includes the expenditure by general government sector agencies which receive less than half of their revenue from appropriations and expenses related to services that do not contribute to the provision of outputs (such as private practice arrangements and car parks in hospitals or funding for some whole-of-government services).

153 Australian Accounting Standards Board, *AASB 1049: Whole of Government and General Government Sector Financial Reporting*, June 2012, p.29

FINDING: The total output expenditure in 2011-12 was \$47.3 billion, less than 1 per cent more than had been budgeted. However, the way the money was spent differed from the budget estimates in a number of areas.

RECOMMENDATION 6: In future Annual Financial Reports for the State, the Department of Treasury and Finance explain significant variances between budget estimates and actual results for operating expenses by government purpose classification.

5.2.2 Expenditure by output

As noted above, most of the output expenditure is broken down into 139 outputs. The total expenditure on outputs was \$93.8 million (0.2 per cent) more than budgeted in 2011-12.¹⁵⁴

However, the outputs in which the money was spent differed in some instances from what was expected at budget time. This is the same pattern as can be seen from the analysis by government purpose classification – the total expenditure is approximately the same as expected, but the areas in which the money was spent differ from expectations.

For 56 outputs, more was spent than had been originally budgeted, while, for 76 outputs, less was spent than the budget estimate.

Variances

Departments are required to explain significant or material variances in their annual reports. The explanations for the largest variances (in dollar terms) can be found in Table A5.2 of Appendix A5 of this report. In many cases, the variances are explained by changes to the timing of programs or projects. In some cases, departments identify particular programs or projects that were underspent without explaining why those programs or projects were underspent.

The Committee has previously noted areas for improvement in departments' explanations for variances in their annual reports.¹⁵⁵ However, the Committee recognises that there has not been sufficient time for the Committee's recommendations to be addressed. The Committee intends to examine explanations in annual reports more fully as part of future inquiries.

154 This variation is different to the variation in total output expenditure, as the expenditure on outputs does not include \$5.2 billion of expenditure which is included in the total output expenditure.

155 Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, pp.194-8

Education

The largest variance (in dollar terms) was for the Department of Education and Early Childhood Development's *Skills* output, which exceeded its budget estimate by \$468.1 million (23 per cent). The Department's explanation for this was that there was:¹⁵⁶

Higher than expected increase in VET enrolments following the first full year of implementation of the student entitlement system across all age groups and qualification levels.

The Department's annual report indicated that there were 4.8 million government-funded module enrolments and 147 million government-funded student contact hours in 2011-12. These are significantly more than the 3.7 million enrolments and 127 million hours estimated at the time of the 2011-12 Budget.¹⁵⁷ The Minister for Higher Education and Skills also noted at the 2012-13 budget estimates hearings that the financial impact of these reforms had been significantly more than originally estimated.¹⁵⁸

The Department indicated that the additional expenditure had led to:¹⁵⁹

Improved responsiveness to the labour and skills needs of individuals and industry through effective educational, labour market and social participation.

A number of policy changes were introduced through the *Refocusing Vocational Training in Victoria* policy and the *Refocusing Vocational Education in Victoria* initiative in the 2012-13 Budget, commencing from 1 July 2012.¹⁶⁰ As a result of these and other changes, expenditure in the *Higher Education and Skills* output¹⁶¹ in 2012-13 is expected to be \$156.1 million or 6 per cent less than the actual 2011-12 cost.¹⁶²

Three other education-related outputs also spent notably more in dollar terms than their budget estimates, as shown in Table 5.1. Together, the four outputs in Table 5.1 account for \$646.1 million of overspend, 57 per cent of the total output overspend.

Table 5.1 Outputs costs exceeding their budget by large amounts in the education area, 2011-12

| Output | 2011-12 Budget (\$ million) | Variance (\$ million) | Variance (per cent) |
|-----------------------------------|--------------------------------|--------------------------|------------------------|
| Skills | 2,011.3 | 468.1 | 23.3 |
| Later Years and Youth Transitions | 1,764.5 | 84.9 | 4.8 |
| Middle Years (Schools) | 2,869.3 | 47.6 | 1.7 |
| Early Years (Schools) | 2,818.8 | 45.5 | 1.6 |

Source: Department of Education and Early Childhood Development, *Annual Report 2011-12*, pp.25-8, 34

156 Department of Education and Early Childhood Development, response to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire, received 25 January 2013, p.2

157 Department of Education and Early Childhood Development, *Annual Report 2011-12*, p.34

158 Hon. P. Hall MB, Minister for Higher Education and Skills, 2012-13 budget estimates hearings, transcript of evidence, 15 May 2012

159 Department of Education and Early Childhood Development, response to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire, received 29 January 2013, p.2

160 Department of Education and Early Childhood Development, *Refocusing Vocational Training in Victoria*, April 2012, p.6; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.17-18

161 This output is an amalgamation of the former *Skills* and *Adult Community and Further Education* outputs.

162 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.114; Department of Education and Early Childhood Development, *Annual Report 2011-12*, pp.34-5

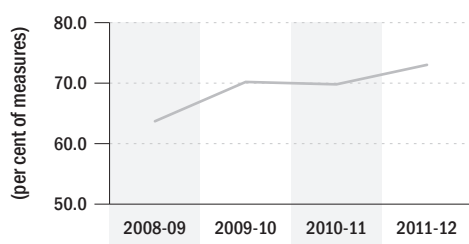
FINDING: According to the break-down by outputs, the major area in which more was spent in 2011-12 than expected was education. This was mostly connected to vocational education and training.

5.3 Departmental performance in output delivery

For each output, a number of performance measures and targets are set in the budget papers before the start of the financial year. These measures detail the cost, quantity, quality and timeliness of the goods and services to be delivered. Under the Standing Directions of the Minister for Finance, departments are required to report on the actual results for these performance measures in their annual reports.¹⁶³ The Department of Treasury and Finance's Model Report requires departments to explain all actual results that vary significantly or materially from the target.¹⁶⁴

In 2011-12, there were 1,242¹⁶⁵ performance measures (including the cost measures) across the departments. Of these measures, the actual results for 73 per cent were close to the targets, which is an increase compared to previous years (see Figure 5.3).

Figure 5.3 Proportion of performance measures close to targets, 2008-09 to 2011-12



Source: Committee calculations based on budget papers and departmental annual reports

The proportion of measures that was close to targets varies considerably from one department to another (see Table A5.3 in Appendix A5). The Department of Planning and Community Development and the Parliamentary Departments have the highest proportions, with almost 80 per cent of measures close to target. The Department of Business and Innovation has the lowest proportion, with only 55 per cent of measures close to target.

The Department of Business and Innovation's performance has been the lowest for a number of years. The Committee notes that the Department undertook substantial revisions to its performance measures as part of the 2012-13 Budget process. The Committee will examine the new output structure to see whether it provides more realistic targets in future reports.

163 Department of Treasury and Finance, *Standing Directions of the Minister for Finance under the Financial Management Act 1994*, May 2012, Direction 4.2(k)

164 Department of Treasury and Finance, *2011-12 Model Report for Victorian Government Departments*, March 2012, p.18

165 This is made up of the 1,233 performance measures published in Budget Paper No.3 (2011-12 Service Delivery, May 2011), plus 9 additional performance measures re-instated in the Budget Update following review by the Committee (see Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, pp.121-4).

FINDING: Overall, the actual results for 73 per cent of performance measures were close to the targets for 2011-12, which was higher than recent years. However, for some departments, much smaller proportions of results were close to targets. Only 55 per cent of the Department of Business and Innovation's measures were close to target.

5.3.1 Quality of performance measures and targets

A number of factors make interpreting overall performance through performance measures difficult. In particular:

- for some measures, exceeding the target can be a desirable outcome (such as satisfaction levels);
- for other measures, results below the target may be preferable (such as waiting times);
- in some cases, actual results may vary from targets because the targets were unrealistic or unchallenging, rather than because of any factors related to departments' performance; and
- for some major areas of expenditure, there are no performance measures – performance measure results may therefore not reflect some important aspects of departments' performance.

In previous inquiries, the Committee has assessed the quality of the performance measures and targets. Recent reports have identified a number of areas for potential improvement and have included a substantial number of recommendations relating to performance measures.¹⁶⁶ The Department of Treasury and Finance has taken a number of positive actions in response. The Department has recently produced new planning and performance frameworks, and updated guidance materials for departments.

As there was not sufficient time for the Committee's recommendations to be implemented before 2011-12, the Committee considers that there would be little value in undertaking a thorough assessment of performance measures and targets as part of this inquiry.

However, the Committee intends to undertake a substantial review of performance measures and targets in future inquiries.

5.3.2 Use of performance measures

Performance measures are designed to play an important role in the accountability of departments for the funding they receive. Documentation from the Department of Treasury and Finance explains that performance measures and targets '*are used to demonstrate the efficiency and effectiveness of output delivery and the achievement of value for money*'.¹⁶⁷

166 Most notably, the Committee's *Report on the 2011-12 Budget Estimates — Part Two* (June 2011) and *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* (April 2012)

167 Department of Treasury and Finance, *Budget and Financial Management Guidances*, 'BFMG-09 Output Specification and Performance Measures', July 2012, p.113

Performance measures are an integral part of the ‘purchaser-provider’ funding model. With this model, the Treasurer is a ‘purchaser’ of specified goods and services from departments (the ‘providers’). The goods and services are specified in the performance measures, and funding is dependent on departments actually providing what has been specified. That is, funding is dependent on departments meeting the targets in the performance measures.¹⁶⁸ As the Department of Treasury and Finance explains:¹⁶⁹

Revenue claimed by Departments is rejected when outputs do not meet their performance measures and service delivery has not occurred.

However, a recent investigation by the Auditor-General has found that funding has been supplied in many cases even when the targets have not been met. According to the Auditor-General, the Department of Treasury and Finance assessed 29 per cent of outputs as being below target or not delivered in 2011-12. However, the Department recommended that 99.97 per cent of the funding be provided.¹⁷⁰ The Department of Treasury and Finance confirmed to the Committee that there was only one output which did not receive all requested funding in 2011-12 due to service delivery not being achieved.¹⁷¹

FINDING: According to the ‘purchaser-provider’ model of funding, departments’ funding is supposed to be dependent on them achieving the targets set in their performance measures. In practice, this model has not been reflected in actual funding allocations.

5.3.3 Setting targets for performance measures

Targets for performance measures are set before the start of each financial year, as part of the budget process. In setting targets, a key consideration is past performance.¹⁷² As part of the budget process, departments are required to estimate the results for all performance measures for the financial year about to end, referred to as ‘expected outcomes’.

The Committee has noted previously that the expected outcomes identify fewer performance measures where the results vary from targets than actually proves to be the case.¹⁷³ A comparison between the expected outcomes and actual results for 2011-12 shows a similar pattern (see Figure 5.4).

In the 2012-13 budget papers, departments estimated that 207 measures would have significant variances. In 180 cases (87 per cent), those estimates were correct. However, there were an additional 144 measures which varied that had not been expected to vary at the time of the budget papers. In total, departments were only able to correctly identify 56 per cent of the measures with significant variances at budget time.

168 Victorian Auditor-General’s Office, *Portfolio Departments and Associated Entities: Results of the 2011-12 Audits*, November 2012, p.21

169 Department of Treasury and Finance, *Budget and Financial Management Guidances*, ‘BFMG – 51 Output Revenue Certification – Year End’, December 2007, p.83

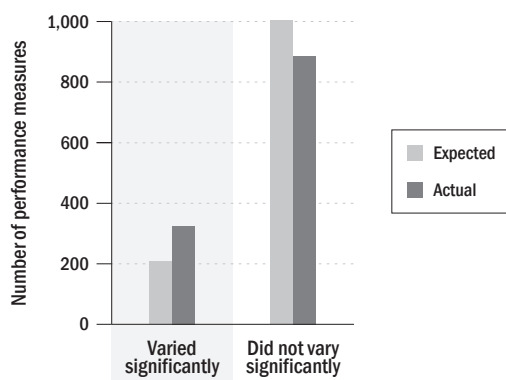
170 Victorian Auditor-General’s Office, *Portfolio Departments and Associated Entities: Results of the 2011-12 Audits*, November 2012, p.22

171 Department of Treasury and Finance, response to the Committee’s 2011-12 Financial and Performance Outcomes General Questionnaire, received 6 March 2013, p.6

172 Department of Treasury and Finance, *Budget and Financial Management Guidances*, ‘BFMG-09 Output Specification and Performance Measures’, July 2012, p.115

173 Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, pp.186-8

Figure 5.4 Performance measures with significant variances in 2011-12, actual numbers compared to expectations at the time of the 2012-13 Budget



Source: Committee calculations based on budget papers and departmental annual reports

In its previous report on financial and performance outcomes, the Committee made several recommendations relating to the calculation of expected outcomes.¹⁷⁴ The Government advised that:¹⁷⁵

The Department of Treasury and Finance will continue to liaise with departments on performance measures and expected outcomes for all targets and ensure that they are appropriately validated.

The Committee notes that this commitment was made after the 2012-13 Budget was delivered. The Committee intends to examine the expected outcomes in the 2013-14 Budget to see whether the Department of Treasury and Finance's actions have improved the estimates.

However, in response to another recommendation, the Government also advised that:¹⁷⁶

While DTF [the Department of Treasury and Finance] takes an active role in reviewing departmental performance measures, the establishment of individual departmental performance measures and expected outcomes is the responsibility of the relevant department and portfolio minister.

Similarly, in response to a recommendation in another report, the Government explained to the Committee:¹⁷⁷

The Department of Treasury and Finance (DTF) takes an active role in reviewing performance measures and providing feedback to departments. However, DTF notes that departments and their ministers are not obliged to accept DTF's feedback, as the established practice is for portfolio ministers to approve their department's output structure.

This view appears to contrast with the *Budget and Financial Management Guidances*, which indicate that 'Government, through the Minister for Finance, is responsible for final determination of ... the performance measures.'¹⁷⁸

174 *ibid.*, Recommendations 37, 38, 40, pp.193-4

175 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 109th Report to the Parliament – Report on the 2009-10 and 2010-11 Financial and Performance Outcomes, tabled 19 October 2012, p.15

176 *ibid.*

177 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report to the Parliament – Report on the 2012-13 Budget Estimates — Part One, tabled 29 November 2012, p.9

178 Department of Treasury and Finance, *Budget and Financial Management Guidances*, 'BFMG-09 Output Specification and Performance Measures', July 2012, p.110

The Committee considers that there needs to be clarity about who is ultimately responsible for performance measures and ensuring the accuracy of data published in the budget papers. Without this clarity, accountability for the performance management system is reduced.

FINDING: At the time of the 2012-13 Budget, departments were only able to accurately identify 56 per cent of the performance measures where the actual result would exceed the target significantly in 2011-12. The Department of Treasury and Finance has committed to working with departments in this area.

RECOMMENDATION 7: The Government clarify who is ultimately responsible for performance measures, targets and the expected outcomes published in the budget papers.

RECOMMENDATION 8: The Department of Treasury and Finance ensure that its guidance is clear, consistent and unambiguous regarding who is ultimately responsible for performance measures, targets and the expected outcomes published in the budget papers.

5.4 Measures to reduce spending

5.4.1 Specified savings initiatives

As noted above, the \$1.9 billion of new output initiatives in the 2011-12 Budget were partly offset by two initiatives identified as ‘savings initiatives’ in the budget papers:

- *Government Election Commitment Savings*; and
- *Measures to Offset the GST Reduction*.

Together, these initiatives were expected to offset the additional expenditure by \$310.9 million in 2011-12.¹⁷⁹ These initiatives sought to reduce expenditure through a combination of efficiencies and reduced programs.¹⁸⁰

Two further savings initiatives were released in the 2011-12 Budget Update, described there as ‘efficiency measures’. One of these measures (*Capping Departmental Expenditure Growth*) was not expected to have an impact in 2011-12. The other (*Maintain a Sustainable Public Service*), although expected by the Government to achieve savings in the long term, was predicted to cost an additional \$67.0 million in 2011-12.¹⁸¹

179 Department of Treasury and Finance, *Victorian Budget: Efficiency Savings Background Brief*, n.d., p.1; \$474.5 million in total was expected to be saved in 2011-12 through these initiatives, but \$163.6 million of that was expected to have already been achieved in 2010-11.

180 Department of Treasury and Finance, *Victorian Budget 2011-12: Efficiency Savings Background Brief*, n.d.

181 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.113

In addition, a savings initiative from the 2009-10 Budget (*General Efficiencies*) was expected by the Government to produce \$72.4 million more savings in 2011-12 than had been achieved in the previous year.¹⁸²

Table 5.2 summarises the expected impact of these initiatives in 2011-12. As can be seen from the table, the total impact of these initiatives was \$316.3 million.

Table 5.2 Expected impact of savings initiatives in 2011-12

| Initiative | Budget released in | Expected impact in 2011-12 (\$ million) |
|---|-----------------------|--|
| General Efficiencies ^(a) | 2009-10 Budget | -72.4 |
| Government Election Commitment Savings ^(a) | 2011-12 Budget | -167.4 |
| Measures to Offset the GST Reduction | 2011-12 Budget | -143.5 |
| Capping Departmental Expenditure Growth | 2011-12 Budget Update | - |
| Maintain a Sustainable Public Service | 2011-12 Budget Update | +67.0 |
| Total | - | -316.3 |

(a) Figures for these initiatives represent the difference in the target from the year before, rather than the total cumulative impact of the initiative.

Sources: Budget Paper No.3, *2009-10 Service Delivery*, May 2009, p.368; Department of Treasury and Finance, *Victorian Budget: Efficiency Savings Background Brief*, n.d., p.1; 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, p.113

FINDING: Government initiatives announced in various budget papers were expected to achieve \$316.3 million of savings in 2011-12 compared to 2010-11.

5.4.2 Actual impact

The Committee sought details from all departments about whether or not they had achieved these savings. Every department indicated that it had entirely achieved its targets. The Government explained:¹⁸³

Departments are responsible for managing expenditure within the funding provided, and in doing so will achieve the overall savings target. In many cases departments have flexibility as to how savings are achieved.

That is, savings targets are always met because departments' funding is reduced by the targets at the start of the year (after having been increased to account for inflation, new programs and other additional expenses).

Responses by departments to the Committee's questionnaire also confirmed that the reductions in spending were not always achieved in the areas identified in the budget papers.

182 Budget Paper No.3, *2009-10 Service Delivery*, May 2009, p.368; \$216.6 million in total was expected to be saved in 2011-12 through this initiative, but \$144.2 million of that was expected to have already been achieved by 2010-11.

183 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 109th Report to Parliament – Report on the 2009-10 and 2010-11 Financial and Performance Outcomes, tabled 19 October 2012, p.8

All departments indicated that some reductions had been achieved through ‘back-office’ efficiencies. Several departments indicated that they had also reduced or discontinued some lower priority programs. Further details can be seen in the departmental responses to the questionnaire, published on the Committee’s website (www.parliament.vic.gov.au/paec/).

FINDING: Departments indicated that they had achieved their savings targets, though not necessarily in the ways detailed in the budget papers.

5.4.3 Other measures to reduce spending

In addition to the savings initiatives listed in Section 5.4.1, other measures were also introduced in the 2011-12 Budget and Budget Update to further reduce expenditure. These measures were introduced as:

- ‘reprioritisation and adjustments’ of previous funding; and
- ‘administrative variations’.

Together, these measures were expected to reduce expenditure by \$484.2 million in 2011-12. The Committee notes that there is limited disclosure of these measures. Each category of measure is discussed below.

Reprioritisation and adjustment of previous funding

The 2011-12 budget papers indicate that \$184.2 million of new expenditure was expected to be offset through previous funding being ‘reprioritised and adjusted’ to fund the new initiatives.¹⁸⁴ No details were provided about what previously funded expenses would be reprioritised.

The Committee sought details from departments through the 2011-12 Financial and Performance Outcomes General Questionnaire.

Two departments¹⁸⁵ indicated their share of the \$184.4 million, totalling \$2.0 million. All other departments responded with the following words (or similar):

As previously outlined in the Government’s response to the Committee’s Report on the 2011-12 Budget Estimates, Part Three, Departments are funded on a global basis in the annual appropriation acts and ministers have the ability to reprioritise funding within their portfolio department.

Reprioritisation decisions were funded through the department’s internal budget allocation process, which included the identification of general efficiencies that could be found in corporate and back of house areas, with no impact on service delivery.

The Committee understands this response to mean that the funding that was reprioritised was not from specific areas determined by the Government. The Committee understands that, rather, it was left to departments’ discretion to determine where best to reprioritise the funding from.

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

185 The Department of Education and Early Childhood Development and the Department of Primary Industries.

FINDING: In 2011-12, in addition to savings initiatives, departments were expected to find \$184.4 million of funding through ‘reprioritisation and adjustment’.

Administrative variations

The Budget Update includes a reference to ‘*the implementation of tighter controls on departmental spending which is expected to reduce expenses by \$300 million in 2011-12 (and \$100 million in 2012-13)*’.¹⁸⁶ This is noted as an ‘administrative variation’ to expenses subsequent to the 2011-12 Budget.

No further details are provided about this measure.

The estimated impact of this measure in 2011-12 is similar to the total impact in 2011-12 of all other savings measures included in budgets since 2009-10 (see Table 5.2). The Committee therefore considers that this measure is significant. Including more details of similar measures in future budget papers would be a valuable improvement.

FINDING: The 2011-12 Budget Update included an ‘administrative variation’ which sought to reduce expenses by \$300 million in 2011-12 and \$100 million in 2012-13. However, no details of how this reduction would be achieved were provided.

RECOMMENDATION 9: Where measures to significantly reduce spending are introduced in budget papers or budget updates through means other than savings or efficiency initiatives, these measures be clearly identified and detailed descriptions be provided.

5.5 Employee expenses

The largest component of output expenditure is ‘employee expenses’, which is typically more than a third of the total expenditure in a year. It includes wages, redundancy payments and some costs associated with superannuation.¹⁸⁷

Employee expenses totalled \$17.1 billion in 2011-12. This is \$471.1 million (3 per cent) more than the 2011-12 budget estimate (see Figure 5.5).¹⁸⁸ The Committee notes that the additional expenditure on employee expenses was mostly offset by less being spent than expected in other areas. Thus, as noted above, the overall amount of output expenditure was only \$12.3 million (less than 1 per cent) more than had been estimated.

186 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.25

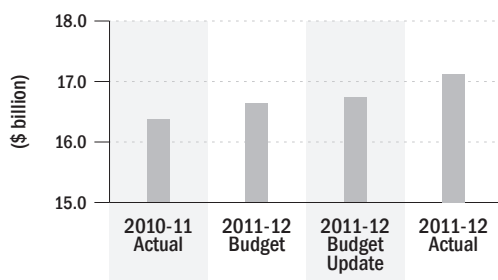
187 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.193

188 *ibid.*, p.118

As can be seen from Figure 5.5, the 2011-12 budget papers estimated that employee expenses would grow from \$16.1 billion in 2010-11 to \$16.6 billion in 2011-12.¹⁸⁹ The Government indicated that this growth (and expected growth in future years) was driven by:¹⁹⁰

- growth in the costs of wages; and
- a need to provide increased services for a growing community.

Figure 5.5 Employee expenses, 2010-11 to 2011-12



Sources: Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.19; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.27; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.9

In terms of the cost of wages, the Treasurer noted in the budget papers the Government's policy that '*wage rises should be 2.5 per cent unless accompanied by productivity gains.*'¹⁹¹ See further discussion in Section 5.5.1 of this report.

In the 2011-12 Budget Update, the Government announced its *Maintain a Sustainable Public Service* initiative, which was designed to reduce the number of public service employees by 3,600 by 2014-15.¹⁹² It also sought to reduce the number of contractors and consultants.¹⁹³ The impact of this initiative, along with other factors, was expected to increase employee expenses in 2011-12 by \$86.7 million to \$16.7 billion (see Figure 5.5). However, estimates for employee expenses in 2013-14 and 2014-15 were revised downwards significantly as a result of this initiative.¹⁹⁴

In explaining the \$471.1 million difference between the budget estimate and the 2011-12 actual result, the Department of Treasury and Finance indicated that it was:¹⁹⁵

... driven mainly by changes in the health sector through the impact of enterprise bargaining agreements, the delivery of health services through directly employed staff (salaries) rather than through external providers, and additional activity funded by own sourced revenue.

The Department of Health and its agencies exceeded their budget estimate for employee expenses by \$438.0 million,¹⁹⁶ accounting for most of the \$471.1 million.

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

190 *ibid.*, p.28

191 Budget Paper No.1, *2011-12 Treasurer's Speech*, May 2011, p.3

192 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, pp.6, 113-4

193 *ibid.*, p.114

194 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.3; Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.39

195 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.121

196 Department of Health, *2011-12 Annual Report*, p.130

FINDING: Employee expenses in 2011-12 were \$17.1 billion, \$471.1 million (3 per cent) more than the 2011-12 budget estimate. This was primarily a result of changes in the health sector. This additional expenditure was offset by reductions in expenditure in other areas.

5.5.1 Enterprise Bargaining Agreements

As noted above, part of the Government's policy for restraining growth in employee expenses was to limit increases in the cost of wages. The Government indicated that any increases in salaries over 2.5 per cent per year would have to be accompanied by productivity gains.

The Government's *Public Sector Workplace Relations Policies* explain that:¹⁹⁷

... enterprise agreement outcomes in excess of the wage guideline rate [2.5 per cent per annum] must be fully offset by genuine productivity gains linked to workforce reform achieved as part of the agreement negotiations. These gains must be bankable, i.e. they must generate savings that will be available to fund any outcome in excess of the wage guideline rate.

In 2011-12, the Government approved 36 enterprise bargaining agreements,¹⁹⁸ including two major agreements – one with the police and one with nurses and midwives.

Nurses' and midwives' agreement

The nurses' and midwives' agreement indicates that wage increases have been restricted to 2.5 per cent per annum.¹⁹⁹ However, in addition to this pay increase, the agreement also provides for a number of other benefits including:²⁰⁰

- a new 'Continuing Professional Development Allowance'; and
- higher permanent night duty penalty rates and on-call rates.

The Department of Health informed the Committee that the outcomes of the agreement were funded 'by DFM [the Departmental Funding Model, which increases funding each year in line with inflation] and productivity improvements'.²⁰¹ In correspondence to hospitals, the Department indicated that:²⁰²

The proposed new enterprise agreement also includes some savings/offset provisions, realisation of which will contribute to meeting the ongoing implementation costs of new or improved benefits.

197 Department of Treasury and Finance, *Public Sector Workplace Relations Policies*, December 2012, p.7

198 Department of Treasury and Finance, response to the Committee's 2011-12 Questionnaire on the Annual Financial Report, received 28 February 2013, p.9

199 Nurses and Midwives (Victorian Public Health Sector) (Single Interest Employers) Enterprise Agreement 2012-2016, Schedule B

200 Australian Nursing Federation (Victorian Branch), '2011 EBA Update No.55', <www.anf.vic.asn.au/campaigns/news/42085.html>, accessed 19 February 2012

201 Department of Health, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire – General Questionnaire, received 12 February 2013, p.57

202 Department of Health, 'Hospital Circular 11/12', <www.health.vic.gov.au/hospitalcirculars/circ12/circ1112.htm>, accessed 21 February 2013

These savings/offsets include (but are not limited to) increased utilisation of Enrolled Nurses in medical/surgical wards/units of larger hospitals/health services and amendments to the current Workload Management clause.

The correspondence also indicates that funding may come from the DFM increases and revenue sources other than the Department of Health, such as Commonwealth funding and the sales of goods and services. In addition, some funding supplementation will be provided for four years 'to support cash flow issues'.²⁰³

Police agreement

The Victoria Police agreement provides for salary increases for most ranks of 3.0 per cent in 2011-12, a further 2.0 per cent on 1 July 2012, followed by increases of 4.04 per cent per annum to 1 July 2014 and 4.55 per cent in the following year.²⁰⁴

In its annual report, Victoria Police explains that:²⁰⁵

Enterprise bargaining negotiations were successfully concluded between Victoria Police and The Police Association (TPA) following year long negotiations conducted in accordance with the Government's wages policy.

The Victoria Police Force Enterprise Bargaining Agreement (EBA) applies to sworn members and contains process reforms, productivity improvements and service efficiencies which, over time, will deliver enhanced community safety outcomes while also improving policing services through a range of changes to increase operational capacity and capability.

Further details of productivity measures were included in the Government Response to the Inquiry into the Command, Management and Functions of the Senior Structure of Victoria Police.²⁰⁶

Monitoring productivity gains

In its *Report on the 2011-12 Budget Estimates*, the Committee recommended that:²⁰⁷

- the impact of these agreements be quantified in the 2012-13 budget papers; and
- any productivity targets be detailed.

The Government expressed support for this recommendation and indicated that the impact would be reflected in the estimated financial statements.²⁰⁸

203 *ibid.*

204 The Victoria Police Force Enterprise Agreement 2011, Schedule A; The Police Association Victoria, *Journal* 77:12, December 2011, pp.8-9

205 Victoria Police, *2011-12 Annual Report*, p.37

206 Victorian Government, Government Response to the Inquiry into the Command, Management and Functions of the Senior Structure of Victoria Police, March 2012, p.4

207 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates*, September 2011, Recommendation 67, p.187

208 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.34

The Committee sought details from both Victoria Police and the Department of Health as part of its General Questionnaire for this report. Neither entity quantified the impact or provided details of the measures to offset additional costs.²⁰⁹

The Committee notes that productivity changes can be difficult to measure. However, the Committee also notes the Government's policy that any productivity gains used to fund wage outcomes in excess of 2.5 per cent must be 'genuine' and 'bankable'.²¹⁰

FINDING: Major enterprise bargaining agreements were reached with the police and with nurses and midwives in 2011-12. In each case, the Government has indicated that productivity measures will be introduced to offset the costs.

RECOMMENDATION 10: The Government ensure that appropriate oversight mechanisms are in place to monitor whether or not departments successfully achieve the productivity savings agreed to in enterprise bargaining agreements. This should include public reporting of quantified productivity improvements where possible.

5.5.2 Employee numbers

Public service

As noted above, the *Maintain a Sustainable Public Service* initiative was intended to reduce the number of public service employees. The *Government Election Commitment Savings* initiative also sought to reduce certain categories of employees. Other savings initiatives sought to introduce efficiencies or reduce certain services in 2011-12 and these changes may also have resulted in reduced employee numbers.

In the 2011-12 Budget Update, the Government estimated that public service numbers would drop from 36,863 to 35,505 (full-time equivalent) between June 2011 and June 2012.²¹¹ In fact, the numbers dropped even more than expected, with the actual figure for June 2012 being 35,394 (full-time equivalent) (see Figure 5.6).²¹²

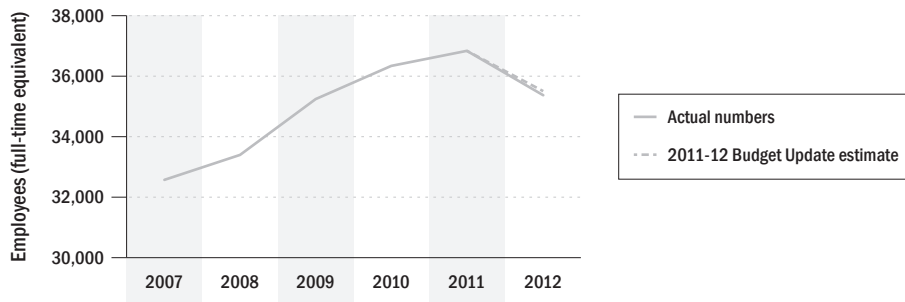
In response to the Committee's questionnaire, departments indicated that the bulk of reductions in 2011-12 occurred through not replacing people who resigned, retired or whose fixed-term contracts came to an end (see Figure 5.7 and Table A5.4 in Appendix A5).

209 Department of Health, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire – General Questionnaire, received 12 February 2013, p.57; Department of Justice, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire – General Questionnaire, received 5 February 2013, p.46

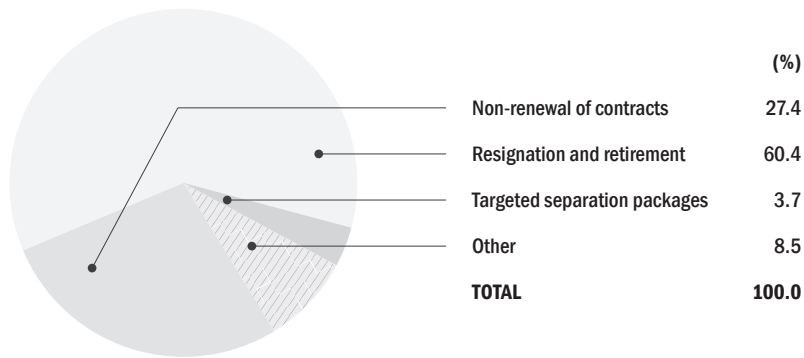
210 Department of Treasury and Finance, *Public Sector Workplace Relations Policies*, December 2012, p.7

211 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.6, with figures supplied by Department of Treasury and Finance, response to the Committee's Financial and Performance Outcomes General Questionnaire, received 6 March 2013, p.39

212 State Services Authority, *The State of the Public Sector in Victoria 2011-12*, 2013, p.6

Figure 5.6 Public service employee numbers as at 30 June, 2007 to 2012

Sources: State Services Authority, *The State of the Public Sector in Victoria*, 2006-07 to 2011-12; Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire, received 6 March 2013, p.39

Figure 5.7 Staff reductions in departments, 2011-12

Note: This figure has been prepared with the data provided by departments. However, some departments were not able to provide complete information. The figures should be understood as indicative rather than precise. See Table A5.4 in Appendix A5 for more details.

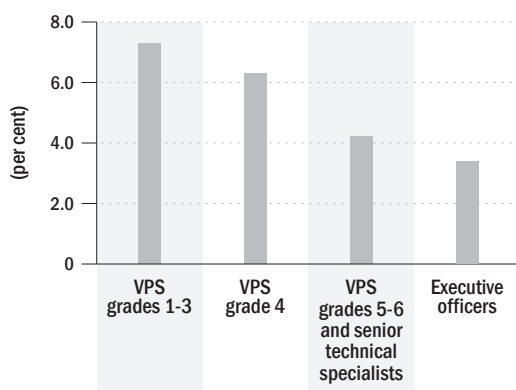
Sources: Departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire

The State Services Authority noted that *'the proportion of staff on fixed term contracts [fell] to 9 per cent of the total workforce, from a relatively constant proportion of around 13 per cent since 2006.'*²¹³

FINDING: Public service numbers decreased by 1,469 (full-time equivalent) during 2011-12, as intended by a number of savings initiatives. This was mostly achieved through not replacing staff who resigned, retired or whose contracts expired.

The reduction in public service staff has also not been even across all grades, with lower grades contracting by larger amounts than the higher grades (see Figure 5.8).

Figure 5.8 Reduction in different classifications within the Victorian public service, 30 June 2010 to 30 June 2011



Sources: Departmental responses to the Committee’s 2011-12 Financial and Performance Outcomes General Questionnaire

This distribution of reductions is in line with longer-term trends towards decreasing the proportion of staff in lower classifications and increasing the proportion at higher classifications.²¹⁴ One department also explained that there is a larger proportion of fixed-term contracts at lower classifications than higher classifications.²¹⁵

The Committee notes that the State Services Authority is monitoring this trend in its annual report on the *State of the Public Sector in Victoria*.²¹⁶

FINDING: Changes to the public service during 2011-12 have continued a trend towards an increased proportion of employees at higher classifications.

RECOMMENDATION 11: As reductions in staff numbers continue, the State Services Authority monitor and report to the Government on whether the proportions of public service employees in the different classifications are efficient and appropriate to service delivery needs.

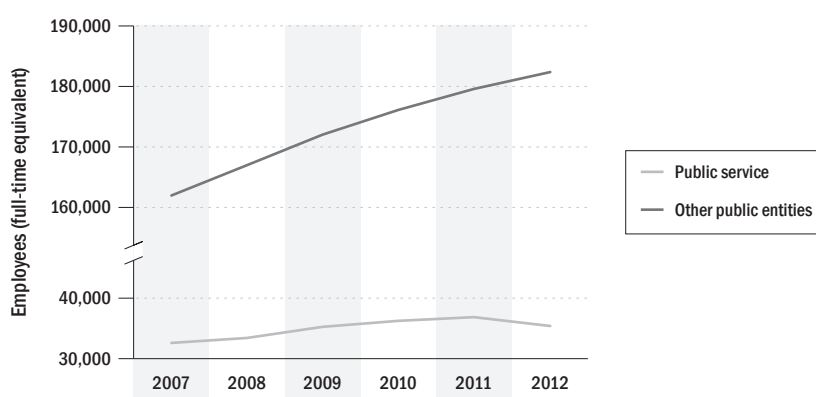
Other public entities

Though the number of public service employees has reduced, employee numbers in other categories of public entities (such as schools, health care and police) have increased in 2011-12 (see Figure 5.9). The majority of these employees are within the general government sector. Their salaries therefore contribute to the \$17.1 billion employee expenses figure.

214 *ibid.*, p.77; see also Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, p.142

215 Department of Sustainability and Environment, response to the Committee’s 2009-10 Financial and Performance Outcomes General Questionnaire, received 29 January 2013, pp.35-6

216 State Services Authority, *The State of the Public Sector in Victoria 2011-12*, 2013, p.77

Figure 5.9 Public service and other public entity employee numbers as at 30 June, 2007 to 2012

Sources: State Services Authority, *The State of the Public Sector in Victoria*, 2006-07 to 2010-11; State Services Authority, *Fact Sheet #5*, February 2013

As Table 5.3 shows, the largest contributors to this growth in 2011-12 were health services and emergency services (including police). Increases in school staff also contributed.

Table 5.3 Major contributors to growth in employee numbers in other public entities, 2011-12

| Entities | Change, June 2011 to June 2012 |
|--|--------------------------------|
| Health care | +1,306 |
| Police and emergency services | +1,028 |
| Government schools | +405 |
| Transfer of staff to Public Transport Victoria | +362 |
| TAFEs and other education | -452 |
| Other entities | +131 |
| Total | +2,780 |

Sources: State Services Authority, *The State of the Public Sector in Victoria 2010-11*, 2012, pp.4-5; State Services Authority, *The State of the Public Sector in Victoria 2011-12*, 2013, pp.4, 6-7

The Government's stated intention in the 2011-12 Budget Update was to increase 'the number of frontline professionals ... in key areas such as health, education and community services and safety, consistent with the Government's election commitments.'²¹⁷ In 2013 the Government indicated that:²¹⁸

The reductions are occurring in areas such as head office and administrative functions across the Victorian public service (VPS) and some Victorian public sector entities, while frontline roles like policing, education and health have increased.

The Committee notes that growth in the number of employees has occurred in health care, 'police and emergency services' and government schools.

217 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.6

218 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.13

In addition, 362 staff (full-time equivalent) were transferred from the public service to Public Transport Victoria, a new agency commencing in 2012.²¹⁹ This both reduced the number of public service employees and increased the number of employees in other public entities.

However, the Committee notes the drop in the number of people employed in 'TAFEs and other education bodies'. This category is primarily TAFEs but also includes the Adult Multicultural Education Services, Centre for Adult Education and the Victorian Institute of Teaching. Universities and schools are not included. This drop is despite the fact that TAFE enrolments grew considerably in 2012 compared to 2011.²²⁰

The State Services Authority indicated that:²²¹

This contraction coincided with the first full year of operation of the contestable training market, which commenced from January 2011, and changes to funding arrangements for the VET sector which have led to reductions in staffing at some TAFEs in some faculties.

FINDING: Staff numbers in public entities outside the public service (especially health care, police and government schools) generally increased in 2011-12.

219 *ibid.*

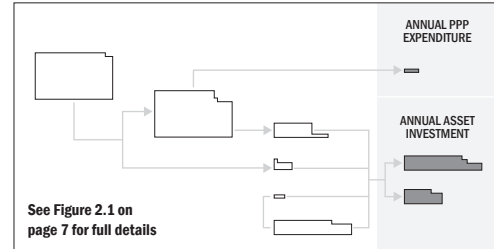
220 Department of Education and Early Childhood Development, *Victorian Training Market Quarterly Report Q2 2012*, August 2012, p.27

221 State Services Authority, *The State of the Public Sector in Victoria 2011-12*, 2013, p.97

CHAPTER 6 ASSET INVESTMENT

6.1 Introduction

This chapter examines the provision of assets by the Victorian Government. This includes projects that are provided directly by the general government sector (that is, government departments and other entities that do not recover most of their costs through charges). It also includes projects funded by the general government sector but provided through other sectors (mostly rail infrastructure). In addition, this chapter examines the provision of assets through public private partnerships (PPPs).



The Government spent \$5.4 billion on asset projects during 2011-12 (see Table A6.1 in Appendix A6). This was \$1.0 billion less than originally estimated in the budget papers. A variety of reasons specific to individual projects were cited.

The Committee was unable to accurately determine the expenditure on asset provision through PPP projects during 2011-12, or to determine how this compared with expectations. The budget papers do not specifically detail how much expenditure is made on PPP projects during the year. This is discussed further in Section 6.2.2.

This chapter addresses the following questions:

- What was spent on asset provision? (Section 6.2)
- For what purposes were assets provided? (Section 6.3)
- Were asset projects delivered as had been planned? (Section 6.4)
- What happened with the State's largest projects? (Section 6.5)

6.2 What money was spent?

Assets are acquired by government in two main ways:

- asset investment (either directly by the general government sector or indirectly through other sectors); or
- through public private partnerships (PPPs).

In 'traditional' asset investment, the Government manages the design and construction of projects and funds them through its own revenue. The costs of asset investment are not included in operating expenses in the State finances; they are included in investment activities instead.

PPPs are agreements between the Government and the private sector. Under a PPP, the private sector provides the financing, construction and delivery of projects on behalf of the Government and generally manages or maintains the asset for an agreed period of time. Once construction has been completed (at which point the project is classified as 'commissioned'), government payments for PPP projects are made over an agreed number of years. The asset usually becomes the Government's property at the end of the period. Payments for PPP projects are included in operating expenditure in the State's finances.

6.2.1 Total asset investment

Figure 6.1 below shows the expenditure in 2011-12 on asset investment. More details can be seen in Table A6.1 in Appendix 6.

Direct investment, where the Government provides assets through projects owned and managed by departments, was \$3.6 billion.²²² The 2011-12 Budget had anticipated a decrease in direct investment compared to 2010-11 due to the winding down of a number of Commonwealth-funded projects such as *Building the Education Revolution*. The amount actually spent by departments was \$0.6 billion less than the budget estimate,²²³ mainly due to delays or rescheduling of projects and changes in project scope. Section 6.4.1 explores reasons for this less-than-expected investment in more detail.

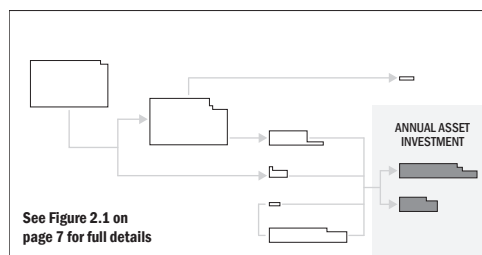
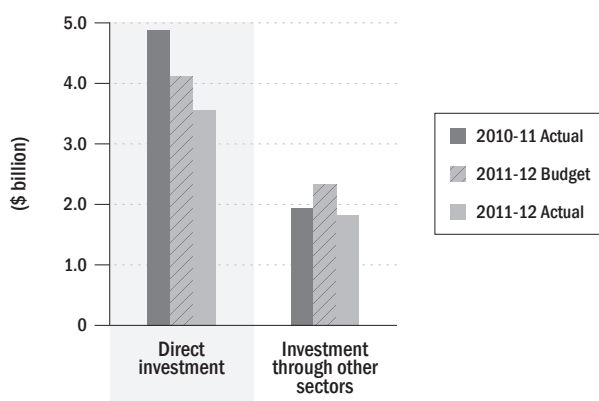


Figure 6.1 Asset investment, 2010-11 to 2011-12



Source: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.30, 124

The 2011-12 Budget anticipated that asset investment provided through bodies outside the general government sector (such as VicTrack) would increase to \$2.3 billion.²²⁴ Actual asset provision through this method was \$1.8 billion,²²⁵ \$0.5 billion less than expected. The Department of Transport has indicated that the actual result was primarily due to changes in accounting treatment and rescheduling of cash flows on the *Regional Rail Link* project.²²⁶

Net investment in asset projects²²⁷ totalled \$5.2 billion,²²⁸ or 1.6 per cent of gross state product.²²⁹ This is above the target of 1.3 per cent (as a five-year average) set by the Government as part of its medium-term fiscal strategy in the 2012-13 Budget.²³⁰

222 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.30

223 *ibid.*, p.124

224 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.11

225 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.30

226 Department of Transport, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire – Further Clarification Points, received 15 March 2013, p.2

227 That is, direct asset investment plus investment through other sectors less proceeds from asset sales.

228 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.30

229 GSP for 2011-12 was \$328.6 billion (Department of Treasury and Finance, 'Macroeconomic indicators 2012-13' data set, <[www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012.xlsx](http://www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/File/Macroeconomicindicators2012-13BUDec2012.xlsx)>, accessed 25 January 2013)

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

Direct investment by the general government sector was also greater than asset depreciation during 2011-12, which was \$2.1 billion.²³¹ This means that asset investment in 2011-12 was enough to pay for the maintenance of existing assets as well as acquiring new assets.

FINDING: In 2011-12, asset investment, including direct investment and investments through other sectors, was \$5.4 billion. This is \$1.0 billion less than had been anticipated in the budget papers.

FINDING: The net investment in asset projects during 2011-12 was above the target of 1.3 per cent set by the Government as part of its 2012-13 medium-term fiscal strategy.

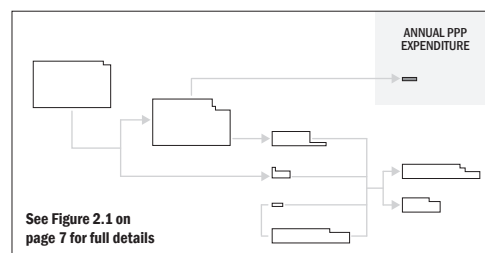
FINDING: Direct investment by the general government sector was higher than depreciation, meaning that it was sufficient to maintain existing assets and provide new assets.

6.2.2 Provision of infrastructure through PPP arrangements

The 2011-12 budget papers indicated that four PPP projects were expected to be commissioned during the year. One project, the *Royal Children's Hospital*, was commissioned during 2011-12, with the other three delayed. Discussion of these delays is included in Section 6.4.4 of this chapter.

Neither the budget papers nor the Annual Financial Report specify expenditure on commissioned PPP projects for the year.

The Committee asked each department for the expenditure on the PPP projects administered by that department. The departments were able to supply data on many, but not all PPP projects.²³² This is summarised in Table A6.4 in Appendix A6, which shows that the total expenditure for the disclosed projects was \$209.2 million for 2011-12. However, because this does not cover all known PPP projects, this figure provides a minimum value for an estimate of the year's PPP expenses.



231 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.27

232 The Department of Justice did not disclose payments for the: *Prisons, County Court, or Emergency Services Telecommunications* projects. Based on the 'Value (\$m)' given in Infrastructure Australia's list of contracted PPPs (Infrastructure Australia, 'PPP Projects Contracted', <www.infrastructureaustralia.gov.au/public_private/files/Contracted_PPPs_Jan_2013.xls>, accessed 26 March 2013) these three projects are around 14 per cent of the PPP projects that were in operation at 30 June 2012.

The Department of Justice did not disclose expenditure under the PPP projects it administers during 2011-12. The Department responded that: *'Public private partnerships are subject to commercial in confidence'*.²³³ This is inconsistent with other departments, which were able to disclose amounts.

FINDING: The budget papers and Annual Financial Report do not specifically detail expenditure on commissioned PPP projects for the year.

The Committee has recommended in the past that *'the budget papers detail expected expenditure for the year ahead for each individual Public Private Partnership project'*.²³⁴ The Government did not support the recommendation, responding that:²³⁵

Figures are reported in the Departmental/Entity Annual Reports and the annual financial report. This PPP disclosure is consistent with other capital investment projects and service contracts as departmental forecasts of expenditure do not disaggregate into specific projects or long-term operating contracts.

The Committee approached the Department of Treasury and Finance for a break-down of certain line items in the Annual Financial Report that were related to PPP projects. The Department responded that it:²³⁶

... is unable to provide disaggregated financial data as requested, as the consolidated chart of accounts utilised by DTF does not provide details at this level.

The Committee considers that an accurate knowledge of expenditure each year on asset provision through PPP projects is critical to the financial management of the State's assets. The Committee further considers that disclosure of this amount to authorised stakeholders such as the Parliament and parliamentary committees is a critical element in the accountability of departments.

FINDING: The Department of Treasury and Finance stated that it is unable to provide information on the proportion of relevant line items in the Annual Financial Report that are related to PPP projects.

RECOMMENDATION 12: The Department of Treasury and Finance modify its system so that it is able to identify what proportions of relevant line items in the financial statements are related to public private partnership projects.

233 Department of Justice, response to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire, received 5 February 2013, p.29

234 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates – Part Two*, September 2012, Recommendation 41, p.138

235 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report to the Parliament – Report on the 2012-13 Budget Estimates – Part Two, tabled 12 March 2013, p.19

236 Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.12

RECOMMENDATION 13: The Department of Treasury and Finance in the Annual Financial Report, or alternatively departments in the individual annual reports, disclose the expenditure made during the year specifically on the provision of assets through operating public private partnership arrangements.

6.3 Asset provision by purpose

Direct asset investment is categorised according to ‘government purpose classifications’ developed by the Australian Bureau of Statistics. Output expenditure is also categorised using this method (see Section 5.2.1 of this report).

Investment through other sectors is not broken down into these classes. However, the bulk of the expenditure is for transport-related projects.

6.3.1 Direct investment

As noted in Section 6.2.1, direct investment totalled \$3.6 billion for 2011-12.

Figure 6.2 shows that the majority of direct investment for 2011-12 was for education, ‘transport and communications’ or health-related projects. Together, these made up 80 per cent of all asset investment for the year.

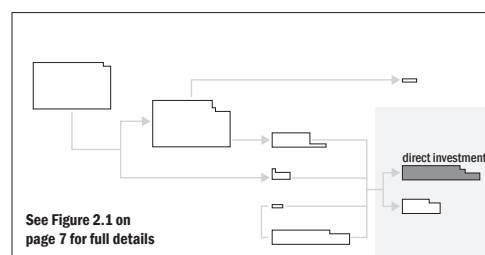
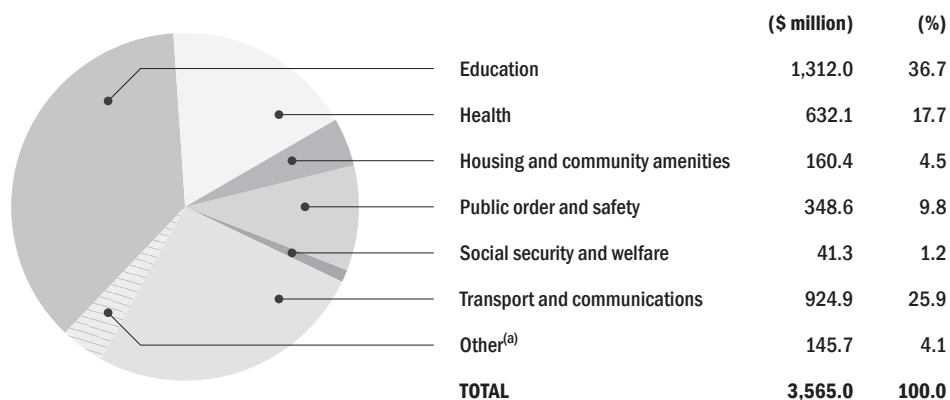


Figure 6.2 Asset provision by major government purpose classification, 2011-12



(a) The ‘Other’ category is made up 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’.

Source: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.103

FINDING: Almost \$3.6 billion of direct asset investment was delivered by the general government sector in 2011-12. Approximately 80 per cent of this was for education, ‘transport and communications’ and health-related projects.

Figure 6.3 shows how the actual asset provision for these categories compared to the budget estimates (see Table A6.2 in Appendix A6 for more details).

Figure 6.3 Variances between the original budget estimates and actual direct asset investment, 2011-12, by government purpose classification

| | (\$ million) | -500 | 0 | 500 | (per cent variance) |
|---------------------------------|--------------|--------|-------|-------|---------------------|
| Education | | | | 371.6 | 39.5 |
| Health | | -237.8 | | | -27.3 |
| Housing and community amenities | | | -79.3 | | -33.1 |
| Public order and safety | | | -5.3 | | -1.5 |
| Social security and welfare | | -148.9 | | | -78.3 |
| Transport and communications | | -277.4 | | | -23.1 |
| Other ^(a) | | -431.8 | | | -74.8 |

(a) The 'Other' category is made up 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'.

Sources: Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.34; Department of Treasury and Finance, 2011-12 Financial Report, October 2012, p.103

Figure 6.3 clearly shows that in nearly every category, departments invested less than had been anticipated. Education was the only category in which asset provision was above expectations.

'Public order and safety' was the only category where actual asset expenditure was close to budget expectations.

Further, Figure A6.1 in Appendix A6 also shows that for the five categories where asset provision was significantly less than expected, the budget papers had actually anticipated increases in investment compared to 2010-11.

The reasons for the variances from the budget estimates are discussed further in Section 6.4.1 of this report.

FINDING: In six out of seven government purpose classifications, actual asset provision fell from 2010-11. For five out of seven government purpose classifications, the budget papers had anticipated a growth in asset provision, but actual spending did not meet expectations.

Table A6.3 in Appendix A6 shows departmental asset expenditure against budgets. This table shows the same overall trends as the government classification figure. That is, asset provision in most areas was less than anticipated.

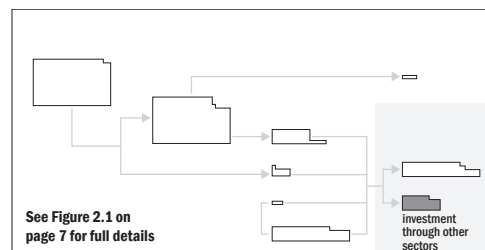
In the education area, the break-down by government purpose classification shows different results to the departmental break-down. As Table A6.3 shows, the Department of Education and Early Childhood Development spent \$12.9 million less than budget. Table A6.2 shows that asset spending on education-related projects was \$371.6 million more than had been anticipated in the budget papers.

FINDING: Asset provision, when broken down by government department, was lower than anticipated for all departments.

6.3.2 Investment through other sectors

In addition to direct asset investment by the general government sector, a substantial amount of investment is made by the general government sector through entities in other sectors.

Investment through other sectors totalled \$1.8 billion in 2011-12.²³⁷ This was \$0.5 billion less than had been anticipated in the 2011-12 budget papers.²³⁸



As part of its inquiry, the Committee received information on 60 projects that contributed to investment through other sectors. Expenditure for these projects totalled \$1.6 billion, or 89 per cent of the amount reported in the Annual Financial Report.

As noted in Section 6.4.1 of this report, half of these projects spent less than the budget estimate.

Figures received from departments and summarised in Table A6.2 in Appendix A6 show that projects funded through the Department of Transport amounted to 94 per cent of investment through other sectors disclosed to the Committee.

The Department of Transport explained that the variances between the budget estimate and actual expenditure in its projects was mainly due to:²³⁹

- *the change in accounting treatment of capital projects delivered on behalf of VicTrack following the establishment of Public Transport Victoria in April 2012, where costs are now reported under the 'Payments for non-financial assets' category [that is, direct investment]; and*
- *changes to cash flow phasings for the Regional Rail Link project. At the time of the 2011-12 State Budget, procurement processes were still underway and not yet completed.*

FINDING: Asset investment through other sectors totalled \$1.8 billion in 2011-12. This was primarily for transport-related projects. This was \$0.5 billion less than budgeted because of an accounting change to the treatment of some projects and rescheduling of *Regional Rail Link* payments.

237 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.30

238 *ibid.*, p.124

239 Department of Transport, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire – Further Clarification Points, received 15 March 2013, p.2

As part of its *Report on the 2012-13 Budget Estimates — Part Two*, the Committee recommended that the Department of Treasury and Finance provide a detailed break-down of investment through other sectors.²⁴⁰ This included what projects are funded and what policy purposes each project supports.

The Government supported this recommendation, responding that:²⁴¹

DTF will outline the major projects funded by 'net cash flows from investments in financial assets for policy purposes' and their primary policy purpose in future budget papers.

The Committee welcomes this commitment and looks forward to its implementation in the 2013-14 budget papers.

6.4 Changes to projects during the year

Changes to asset projects after the budget papers have been produced can include:

- differences between what was planned to be spent on projects and what was actually spent during the year;
- changes to the total estimated investment (TEI) for projects;
- changes to the expected completion dates of projects; and
- changes to the date on which PPP projects are commissioned.

The data in this section have been derived from information provided to the Committee in response to the Financial and Performance Outcomes Questionnaires. The figures differ from the aggregate figures discussed in Section 6.3 of this report, as data were not available for all projects included in the aggregate figures.

6.4.1 Variances in expenditure for the year

Figure 6.4 below shows the proportions of projects with significant under-expenditure or over-expenditure compared to the budget estimates. These graphs show how well departments have been able to stay on budget for asset projects. These graphs are based on figures in Table A6.5 in Appendix A6. This appendix also quantifies the impact of under-expenditure and over-expenditure on projects.

Figure 6.4 shows that increasing proportions of projects have expended less than 90 per cent of budget over the last three years. These projects have increased from just under a third of all projects in 2009-10 to around two thirds of all projects in 2011-12.

The proportion of projects where spending exceeded budget by more than 10 per cent has fallen during 2011-12; however, the impact in dollar terms has continued to rise, with \$0.4 billion being over-spent in 2011-12 (see Figure 6.5).

240 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, Recommendation 38, p.136

241 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report to the Parliament – Report on the 2012-13 Budget Estimates — Part Two, tabled 12 March 2013, p.18

Figure 6.4 Proportions of projects where expenditure was less than 90 per cent of budget estimates, within 10 per cent of budget estimates, or where expenditure exceeded budget estimates by more than 10 per cent, 2009-10 to 2011-12 (per cent)

| | SIGNIFICANTLY UNDER-SPENT | WITHIN 10 PER CENT | SIGNIFICANTLY OVER-SPENT |
|---------|---------------------------|--------------------|--------------------------|
| 2009-10 | 33.2 | 50.9 | 16.0 |
| 2010-11 | 37.4 | 41.9 | 20.6 |
| 2011-12 | 65.5 | 17.3 | 17.3 |

(a) Significant under-spends and over-spends are defined as more than 10 per cent of the budget estimate.

(b) Underspent projects includes projects with no expenditure for the year.

Sources: Departmental responses to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part One; departmental responses to 2011-12 Financial and Performance Outcomes General Questionnaire

Figure 6.5 Impact of variations between budgeted and actual expenditure, 2009-10 to 2011-12 (\$ million)

| | SIGNIFICANTLY UNDER-SPENT | SIGNIFICANTLY OVER-SPENT |
|---------|---------------------------|--------------------------|
| 2009-10 | 1,120.8 | 235.4 |
| 2010-11 | 1,108.2 | 341.2 |
| 2011-12 | 1,654.2 | 391.9 |

(a) Significant under-spends and over-spends are defined as more than 10 per cent of the budget estimate.

(b) Underspent projects includes projects with no expenditure for the year.

Sources: Departmental responses to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part One; departmental responses to 2011-12 Financial and Performance Outcomes General Questionnaire

The number of projects where expenditure has been close to budget has decreased from more than half of all projects in 2009-10 to just over one sixth of all projects in 2011-12.

FINDING: The proportion of projects with expenditure outcomes within 10 per cent of budget has fallen from over half in 2009-10 to just over one sixth in 2011-12. The proportion of projects where spending is less than 90 per cent of the amount budgeted has increased from one third in 2009-10 to two thirds in 2011-12.

FINDING: The increased number of projects where spending has been less than 90 per cent of the amount budgeted has resulted in a rise in unexpended allocated funds from \$1.1 billion in 2009-10 to \$1.7 billion in 2011-12. The impact of projects where spending has exceeded budget by more than 10 per cent has also increased, with expenditure over budget rising from \$235.4 million in 2009-10 to \$391.9 million in 2011-12.

Explanations for variances

The Committee sought explanations for instances where expenditure on individual asset projects was significantly (that is, more than 10 per cent) different to expectations.

The largest under-expenditure in any project was the Victorian Comprehensive Cancer Centre project. This recorded an expenditure of \$39.2 million against a budget of \$166.9 million.²⁴²

The Department of Health explained that the estimates had been:²⁴³

... updated to reflect the new Public-Private Partnership (PPP) arrangements.

The Department reported that 48 projects spent significantly less than budget, with a \$331.9 million impact. There were 16 projects where significantly more than the budget estimate was spent, with a \$24.0 million impact. These are set out in detail in the Department's revised response to the Committee's question 8, which is available on the Committee's website (www.parliament.vic.gov.au/paec).

The Department's overall expenditure on asset investment was 29 per cent below the amount originally anticipated.²⁴⁴

Other common reasons for project under-expenditure and over-expenditure provided by departments included:

- delays in projects;²⁴⁵
- rescheduling of projects (due to accelerations during 2010-11);²⁴⁶
- rescheduling of projects (due to rescheduled Commonwealth funding);²⁴⁷ or
- scope changes.²⁴⁸

FINDING: Scope and project schedule changes were the primary reasons given by departments for variances of expenditure for asset investment. Scope changes and schedule changes have caused both cost over-runs and under-runs in various projects.

As part of its *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, the Committee recommended that information be provided in the Annual Financial Report on under-spending projects.²⁴⁹ The Government did not support the recommendation, responding

242 Department of Health, response to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire, received 12 February 2013, p.34

243 Department of Health, 2011-12 Financial and Performance Outcomes General Questionnaire, Question 8: Asset Investment Projects, Revised Response, received 4 April 2013, p.8

244 Department of Health, *Annual Report 2011-12*, September 2012, p.133

245 For example, the *Goulburn Valley Nagambie Bypass*, or the *TAFE Student Management System*.

246 For example, the *Warrnambool Hospital Redevelopment – Stage 1B*.

247 For example, a number of stages in the M80 Upgrade, some of which have been under-spent and some of which have been over-spent.

248 For example, *Restoring and Re-Opening Victoria's Parks*, *Flood Recovery and Repair on Public Land* or *Science and Language Centres*.

249 Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, Recommendation 4, p.32

that information was already provided in note 31 of the Annual Financial Report.²⁵⁰ The explanation given in note 31 in 2011-12 was:²⁵¹

Total net investment activities in fixed assets and investments in other sectors was \$915 million lower than the original budget mainly affected by changes to cash flow phasings for Regional Rail Link and other transport related projects.

Greater clarity would result from the inclusion of the following information:

- root causes for the under-expenditure in projects;
- variances in projects in non-transport-related areas, such as education and health; and
- any systematic trends or reasons for trends over projects other than the largest ones.

FINDING: The Annual Financial Report notes only what major projects have contributed to the difference between the budget estimate and actual asset investment.

RECOMMENDATION 14: Explanations in future Annual Financial Reports for variances note general trends where these are material, as well as the impact of the largest projects.

Investment through other sectors

The Committee approached departments for information on projects that are delivered through other sectors. A summary of the performance of these projects against budgets is given in Table A6.6 in Appendix A6.

For 2011-12, performance was similar for this group of projects to direct investment projects.

Half of the projects spent less than was anticipated, in total one fifth of the amount budgeted.²⁵²

A smaller number of projects exceeded budget expectations for expenditure.

As noted in Section 6.2.1 of this chapter, the Department of Transport has explained that the decrease in investment through other sectors is mainly due to a number of projects being funded through direct investment instead, as well as a rescheduling in the *Regional Rail Link* project.

FINDING: Projects provided through other sectors have performed similarly to those provided directly through Government departments.

250 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 109th Report to the Parliament – Report on the 2009-10 and 2010-11 Financial and Performance Outcomes, tabled 19 October 2012, p.3

251 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.125

252 The budgeted amount reported by departments does not include two projects that had no budget disclosed. These projects have been excluded from the comparison.

Disclosure

The Committee notes that there were three asset investment projects for which departments reported expenditure, but did not have a budget disclosed. These projects were:

- *Melbourne Wholesale Markets Redevelopment*, which spent \$134.3 million during 2011-12;²⁵³
- *myki (New Ticketing Solution – Technology and Installation)*, which spent \$38.0 million during 2011-12;²⁵⁴ and
- *Regional Rail Link*, which spent \$637.2 million during 2011-12.²⁵⁵

The Committee notes that expenditure on these projects totals \$809.5 million, which is 15 per cent of the total asset investment during 2011-12.

The Auditor-General has also commented on this, specifically about one of these projects:²⁵⁶

A current budget is an important element of effective project management and its absence means that monitoring, accountability and the ability to achieve value-for-money outcomes from the Regional Rail Link project are diminished.

Given that the Government has identified the under-spend in the *Regional Rail Link* as a major factor affecting the cash flow statement,²⁵⁷ the Committee considers that it would be appropriate for this impact to be quantified.

FINDING: Budgets for three projects accounting for 15 per cent of the total asset investment for the State during 2011-12 were not disclosed.

RECOMMENDATION 15: For projects that do not have disclosed estimated expenditure figures, the Department of Treasury and Finance disclose these figures in the Budget Update following the establishment of a budget.

6.4.2 Changes in the total estimated investment (TEI)

The Committee examined 263 projects that were reported in both the 2011-12 and 2012-13 budget papers.

Figure 6.6 shows the proportion of projects where TEIs were significantly revised between the 2011-12 and 2012-13 budget papers, and compares that to the previous two years. The budget papers did not disclose the TEI for one project, *Melbourne Wholesale Markets Redevelopment*, in either 2011-12 or 2012-13.

253 Department of Business and Innovation, response to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire, received 30 January 2013, p.16

254 Department of Transport, response to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire, received 7 February 2013, p.34

255 *ibid.*, p.35

256 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011-12*, November 2012, p.23

257 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.125

The Committee notes that the number of projects with changes to TEI figures is small in comparison to the total number of projects included in the budget papers. The impact of the changes can be seen in Figure 6.7.

Figure 6.6 Proportions of projects with significantly revised TEIs, 2009-10 to 2011-12 (per cent)

| | SIGNIFICANT DECREASES | NO SIGNIFICANT CHANGE | SIGNIFICANT INCREASES |
|---------------------|-----------------------|-----------------------|-----------------------|
| 2009-10 and 2010-11 | 5.4 | 87.5 | 7.1 |
| 2010-11 and 2011-12 | 4.0 | 92.0 | 4.0 |
| 2011-12 and 2012-13 | 5.7 | 90.1 | 4.2 |

Note: Significant changes are defined as more than 10 per cent.

Sources: Budget Information Paper No.1, *Public Sector Asset Investment Program*, 2009-10 to 2010-11; Budget Paper No.4, *State Capital Program*, 2011-12 to 2012-13

Figure 6.7 Impact of significant TEI changes, 2009-10 to 2011-12 (\$ million)

| | TEI DECREASES | TEI INCREASES |
|---------------------|---------------|---------------|
| 2009-10 and 2010-11 | 59.1 | 294.2 |
| 2010-11 and 2011-12 | 50.3 | 348.6 |
| 2011-12 and 2012-13 | 119.1 | 341.7 |

Note: Significant changes are defined as more than 10 per cent.

Sources: Budget Information Paper No.1, *Public Sector Asset Investment Program*, 2009-10 to 2010-11; Budget Paper No.4, *State Capital Program*, 2011-12 to 2012-13

Departments disclosed a range of reasons for changing TEI figures, including:

- additional phases of the project being funded in later budget papers;²⁵⁸
- scope changes to projects;²⁵⁹ and
- section 30 changes (which transfer expenditure from asset funding to output funding).²⁶⁰

FINDING: A small number of projects had adjustments made to the total estimated investment. There are a range of reasons for these changes.

Completed projects

The Committee also received information on departmental projects that were included in the 'completed' lists in the 2012-13 budget papers.²⁶¹ These lists identify the projects that were expected to be completed between the time of the 2011-12 Budget and 30 June 2012.

258 For example, the *Dingley Bypass Planning* and the *Ballarat Western Link Road* projects.

259 For example, the *Trade Training Centres*, *Victoria Police Accommodation Strategy* and the *Broadmeadows Government Services Building* projects.

260 For example, the *Fire Web* and *Walking Trails* projects.

261 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, Chapter 2

For two departments, a significant number of projects that were included in this list had not actually been completed.²⁶²

The budget papers are compiled three to four months prior to the end of the financial year. Projects listed as completed in the budget papers are therefore a mixture of projects actually completed prior to the production of the budget papers and projects expected to be completed in the subsequent months of the financial year. Knowing which projects are actually complete and which are incomplete at the time the list is compiled would add to the clarity of the list.

FINDING: A significant number of projects included in the ‘completed projects’ lists in the 2012-13 budget papers were not actually completed during 2011-12. When the lists were compiled, these projects were expected to have been completed by the end of the financial year.

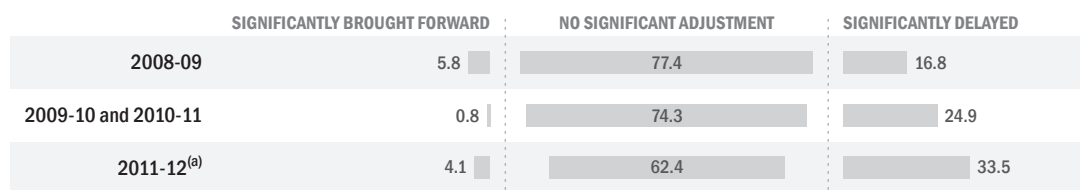
RECOMMENDATION 16: Projects that are included in the ‘completed projects’ lists in the budget papers that are not actually completed at the time the list is compiled but are expected to be completed by the end of the financial year should be marked as such.

6.4.3 Changes in the expected date of completion

In response to the Committee’s questionnaire, departments identified any revisions to project completion dates that were made during 2011-12. Of the 301 projects with disclosed completion dates, 149 had a schedule adjustment made during 2011-12.

Figure 6.8 below summarises this information and compares it with similar data gathered through previous inquiries. Further details are in Table A6.10 in Appendix A6.

Figure 6.8 Departmental projects with revised completion dates, 2008-09 to 2011-12 (per cent)



(a) The 2011-12 group covers all projects in the general government sector, which includes projects carried out by the Country Fire Authority and the Metropolitan Fire and Emergency Services Board. Previous years have included departments only.

Note: Significant changes are defined as three months or more.

Sources: Departmental responses to the Committee’s 2008-09 Financial and Performance Outcomes Questionnaire – Part Two and clarification questions; departmental responses to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part Two; departmental responses to the Committee’s 2011-12 Financial and Performance Outcomes General Questionnaire

262 Department of Education and Early Childhood Development, response to Committee’s 2011-12 Financial and Performance Outcomes General Questionnaire, received 25 January 2013, pp.43-50; Department of Health, response to the Committee’s 2011-12 Financial and Performance Outcomes General Questionnaire, received 12 February 2013, pp.38-40

While the data in Figure 6.8 for 2011-12 include for the first time projects carried out by the Country Fire Authority and the Metropolitan Fire and Emergency Services Board, it nevertheless shows a large difference between the number of projects that are delayed and brought forward, with the large majority of revisions having been delays. This is similar to previous years.

Departments provided a variety of reasons for these delays (see below). However, it is not clear from these reasons why the number of revised projects has increased overall.

The average delay has decreased since the last time the Committee examined delays to projects, but not to the levels observed for 2008-09 (see Table A6.10 in Appendix A6).

FINDING: Adjustments were made to completion dates of 149 asset projects during 2011-12, which is an increase on previous years. The large majority of these adjustments were delays. The average length of delay has decreased compared to the previous year, but is above levels observed in 2008-09.

Reasons for variances

Examples of reasons given by departments for delays to projects include:

- technical issues such as site or zoning problems;²⁶³
- weather issues;²⁶⁴
- project amalgamations and consequent rescheduling of early parts of the amalgamated project;²⁶⁵
- delays in testing and final signoff;²⁶⁶ and
- delays in negotiations with other bodies.²⁶⁷

Reasons for projects being brought forward include:

- early completion or acceleration of works;²⁶⁸ and
- faster-than-expected responses from suppliers.²⁶⁹

6.4.4 Changes in the commissioning dates of PPP projects

The 2011-12 budget papers listed four PPP projects that were expected to be commissioned during the year. These projects were:²⁷⁰

- the *Ararat Prison*;

263 For example, the *Spotswood Fire Station* or the *Melbourne Exhibition Centre Expansion Land Acquisition* projects.

264 For example, the *Fire Protection Access – Bridge Replacement* project and the *Melbourne Wholesale Markets Redevelopment*.

265 For example, the *Northern Victoria Irrigation Renewal Project*.

266 For example, the *Project 000 Response* project.

267 For example, the *Redevelopment of Community Facilities* project.

268 For example, *Stage 4B of the Geelong Ring Road* and the *Automated Number Plate Recognition* project.

269 For example, the *Vehicles – Critical Response* project.

270 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31

- the *Biosciences Research Centre*;
- the *Royal Children's Hospital*; and
- the *Victorian Desalination Plant*.

This list of projects being commissioned during 2011-12 was identified in the budget papers in a footnote to a table on the application of cash resources for the general government sector.

FINDING: The PPP projects expected to be commissioned in the upcoming year are detailed in the budget papers in a footnote to a table about the application of cash resources for the general government sector.

Of the four PPP projects that were anticipated to be commissioned during the year, only one reached this milestone. This was the *Royal Children's Hospital* project, which opened during November 2011.²⁷¹

The *Ararat Prison* project has been delayed due to problems with the private partner. The project is now due to be commissioned in late 2014.²⁷²

The *Biosciences Research Centre* achieved commercial acceptance on 21 August 2012.²⁷³ This will affect the State's finances from 2012-13.

The *Victorian Desalination Plant* achieved commercial acceptance on 30 November 2012. The plant was commissioned on 17 December 2012.²⁷⁴ This will also affect the State's finances from 2012-13.

FINDING: Of the four public private partnership projects that were anticipated to be commissioned during 2011-12, one was actually commissioned. Of the balance, two have since been commissioned while the last project is now anticipated during 2013-14.

6.5 Largest projects

The State's largest projects generally fall into one or both of the following categories:

- High-Value, High-Risk projects, which include projects with a TEI of more than \$100 million and those that have been identified as high-risk; or
- projects managed by Major Projects Victoria.

This section examines the performance of these two groups of projects in 2011-12.

271 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.148-9

272 Hon. A. McIntosh MP, Minister for Corrections, 'Banks appoint new builder to Ararat project', media release, 23 October 2012

273 Partnerships Victoria, 'Biosciences Research Centre Project (AgriBio)', <www.partnerships.vic.gov.au/CA25708500035EB6/0/8EEECC4E3B1B3C20CA25743B00201CC6?OpenDocument>, accessed 27 February 2013

274 Department of Sustainability and Environment, 'Commissioning', <www.water.vic.gov.au/initiatives/desalination/construction-update>, accessed 27 February 2013

6.5.1 High-Value, High-Risk projects

The Government has identified certain projects as ‘High-Value, High-Risk’ (HVHR).²⁷⁵ These projects are subject to increased oversight in an effort to reduce cost over-runs. They include projects in both the general government sector and other parts of the public sector.

The Committee notes the Department of Treasury and Finance’s view that:²⁷⁶

The High Value High Risk (HVHR) process was implemented for the first time in the 2011-12 Budget. Given its relatively recent implementation, it is too early to measure the impact of HVHR on the extent of cost overruns compared to previous years. Projects that have been subject to the full rigours of the HVHR process are still in the construction / delivery phase.

As most of the HVHR measures relate to the planning and tendering phases of projects, rather than delivery,²⁷⁷ the Committee considers that the full effect will not be seen until the next ‘generation’ of projects.

Details of the HVHR projects are set out in Table A6.7 in Appendix A6.

6.5.2 Projects managed by Major Projects Victoria

Major Projects Victoria (MPV) is a unit within the Department of Business and Innovation. The purpose of the unit is to centralise project management expertise and advice to the Government and client departments. The unit deals in traditional infrastructure investment projects and PPPs as well as output initiative projects.

The Committee examined the performance of MPV as part of its *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*.²⁷⁸ In that report, the Committee noted that:²⁷⁹

With respect to expenditure and timeliness, Major Projects Victoria’s projects performed more poorly than the average project for Victoria.

In addition, following a performance audit of the unit, the Auditor-General concluded that:²⁸⁰

MPV is not able to demonstrate that it operates, and manages infrastructure projects effectively, efficiently or economically.

MPV has a performance measure. However, significant problems with this measure have been noted by both the Committee and the Auditor-General.²⁸¹ The Department of Business and Innovation has indicated that it ‘has sought independent advice in the development of its major project performance measures’ but that ‘the measures are still under development.’²⁸²

275 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, pp.3-4

276 Department of Treasury and Finance, response to the Committee’s 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.10

277 Public Accounts and Estimates Committee, *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*, December 2012, pp.19-20

278 Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, pp.226-9

279 *ibid.*, p.228

280 Victorian Auditor-General’s Office, *Managing Major Projects*, October 2012, p.vii

281 *ibid.*, pp.45-9; Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, pp.226-9

282 Department of Business and Innovation, response to the Committee’s 2011-12 Financial and Performance Outcomes General Questionnaire, received 30 January 2013, p.49

The Committee collected information on MPV projects in the general government sector (excluding PPP projects). Performance information on the projects managed by MPV is given in Tables A6.5 and A6.8 in Appendix A6.

Performance against budget

For the seven general government sector projects managed by MPV in 2011-12, one project (*Melbourne Wholesale Market Redevelopment*) did not have a disclosed budget for 2011-12. In addition, one project (*Princes Pier Restoration*) had no budget for 2011-12. The remaining five projects are the source for the year's data in Figures 6.9 and 6.10. These data can be found in Table A6.8 in Appendix A6.

Figure 6.9 shows that MPV has under-spent in a smaller proportion of projects over the past three years. However, the proportion of projects that over-spent has increased.

Figure 6.10 shows that the impact of the disclosed variances for MPV projects was significantly smaller in 2011-12 than in the previous years.

Figure 6.9 Proportions of MPV projects where expenditure was less than 90 per cent of the budget estimates, within 10 per cent of budget estimates, or which exceeded the budget estimates by more than 10 per cent, 2009-10 to 2011-12 (per cent)

| | SIGNIFICANTLY UNDER-SPENT | WITHIN 10 PER CENT | SIGNIFICANTLY OVER-SPENT |
|---------|---------------------------|--------------------|--------------------------|
| 2009-10 | 100.0 | 0.0 | 0.0 |
| 2010-11 | 75.0 | 12.5 | 12.5 |
| 2011-12 | 60.0 | 20.0 | 20.0 |

Note: Significant under-spends and over-spends are defined as more than 10 per cent of the budget estimate.

Sources: Departmental responses to Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; Departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part One

Figure 6.10 Impact of variation between budgeted expenditure and actual expenditure in MPV projects, 2009-10 to 2011-12 (\$ million)

| | SIGNIFICANTLY UNDER-SPENT | SIGNIFICANTLY OVER-SPENT |
|---------|---------------------------|--------------------------|
| 2009-10 | 147.8 | 0.0 |
| 2010-11 | 95.0 | 4.1 |
| 2011-12 | 9.3 | 2.3 |

Note: Significant under-spends and over-spends are defined as more than 10 per cent of the budget estimate.

Sources: Departmental responses to Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; Departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part One

The data provided suggest some improvement in reducing the financial impact of variations in 2011-12.

The Committee also compared the results of projects managed by MPV against all projects for the year (see Table A6.5 in Appendix A6). Overall, the results for MPV projects are similar to other projects, although the Committee notes the small number of MPV projects considered (five projects).

Timeliness

The Committee also sought data on any changes in project completion dates made to MPV projects during the year. Of the seven projects, the Committee received information on completion dates of six. The Department of Business and Innovation advised the Committee that the *Federation Square East* project is currently on hold, pending a review.²⁸³

Table A6.9 in Appendix A6 shows that one third of the MPV projects for which the Committee has all relevant information were significantly delayed during 2011-12. This is a similar proportion to that of all investment projects.

The average variation made to expected completion dates for MPV projects was 21.0 months. This is higher than the average revision for all projects during the year (9.6 months). This was primarily the result of a three-year delay in the *Parkville Gardens* project. The Department of Business and Innovation, which has responsibility for the project, explained that:²⁸⁴

In response to the downturn in the wider residential property market, the timing of the project was revised to ensure optimal returns.

FINDING: Data presented to the Committee suggest some improvements for projects managed by Major Projects Victoria.

283 *ibid.*, p.15

284 *ibid.*, p.16

CHAPTER 7 GOVERNMENT RESPONSES TO THE PREVIOUS REPORT

7.1 Introduction

The *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* contained 65 recommendations, directed at the Government and the Auditor-General.

The Government and Auditor-General responded to these recommendations during 2012, indicating:

- which recommendations they supported and which they did not support;
- the reasons for their responses to the recommendations; and
- what actions they planned in order to implement the supported recommendations.

The Government's and Auditor-General's full responses to the recommendations are available on the Committee's website (www.parliament.vic.gov.au/paec).

The Committee sought further details about the progress of implementing these recommendations through the General Questionnaire as part of this inquiry. The full questionnaire responses are also available on the Committee's website.

This chapter looks at:

- How did the Government and Auditor-General respond to the recommendations? (Section 7.2)
- How many recommendations have been implemented? (Section 7.3)
- What improvements could be made to future responses to Committee reports? (Section 7.4)

7.2 Responses to recommendations

The Government generally classifies its responses for each recommendation into one of the following categories:

- support;
- support in principle (which means that '*there is support for the intention of the recommendation but not the specific method of delivery*'²⁸⁵);
- under review; or
- not support.

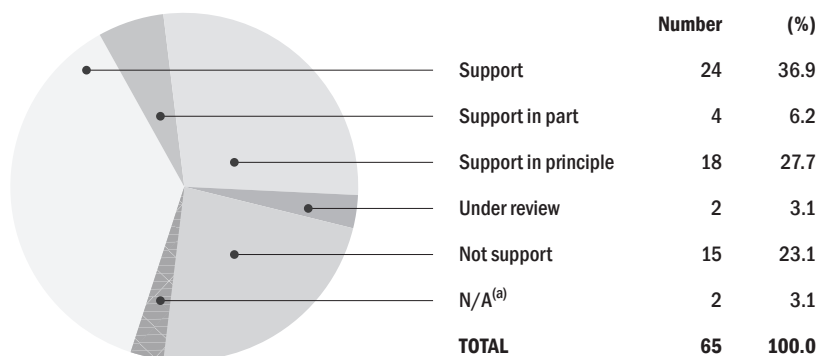
In some cases the Government supported part but not all of a recommendation.

The Auditor-General does not provide a similar classification of his responses. The Committee has undertaken its own classification according to the same categories.

²⁸⁵ 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

Figure 7.1 shows the Government’s and Auditor-General’s responses to the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*. As can be seen, some level of support was expressed for 46 recommendations (71 per cent), with a further 2 recommendations (3 per cent) under review.

Figure 7.1 Responses to the recommendations in the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*



(a) Two recommendations were for processes that already existed that the Committee was unaware of at the time of the report. These processes have continued.

Sources: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 109th Report to the Parliament – Report on the 2009-10 and 2010-11 Financial and Performance Outcomes, tabled 19 October 2012; D. Pearson, Victorian Auditor-General, correspondence received by the Committee, 1 June 2012

FINDING: The Government and Auditor-General expressed some level of support for 71 per cent of the recommendations from the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*.

7.3 Implementation of recommendations

As noted above, the Committee sought details about the progress in implementing recommendations through the General Questionnaire. Some departments provided detailed information, especially the Department of Treasury and Finance. Six departments, however, did not provide any details, responding with the following words (or similar):

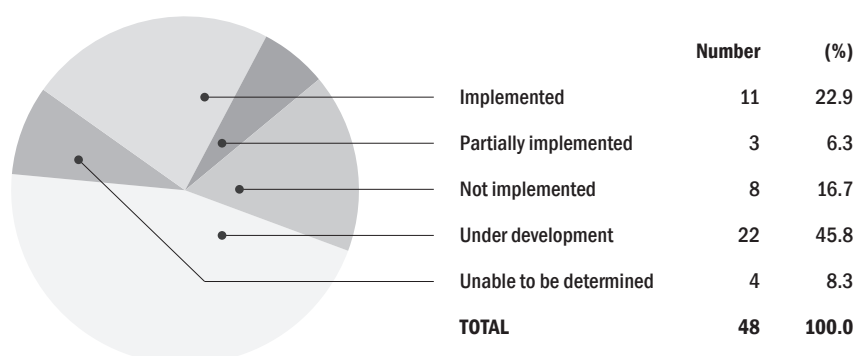
The government tabled a Whole-of-Victorian-Government response in both Houses of Parliament on 19 October 2012. The Committee is referred to that document.

Implementation of those recommendations made by the Committee and supported by the government is proceeding and departments will be in a position to respond once that process has concluded.

Figure 7.2 shows the Committee’s assessment of what proportion of the positively-received recommendations have been implemented to date, based on the information supplied in response to the questionnaire and the Committee’s own investigations.

As can be seen from Figure 7.2, 14 recommendations (29 per cent) have been implemented or partially implemented to date. Departments indicated to the Committee that work is being undertaken towards implementing a further 22 recommendations (46 per cent).

Figure 7.2 Implementation to date of the recommendations in the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* that were supported or under review



Note: This analysis includes all recommendations that were supported, supported in part, supported in principle or under review in the Government's and Auditor-General's responses.

Source: Assessment by the Committee based on responses to the Committee's questionnaire and other research.

There were four cases where the Committee was unable to determine whether or not the recommendation has been implemented, either due to relevant departments not responding to the Committee's question or through responses not providing the necessary information.

FINDING: Of the recommendations which were supported or under review, the Government has implemented or partially implemented 14 (29 per cent) to date. Departments have indicated that they are undertaking work on a further 22 (46 per cent).

7.3.1 Recommendations not implemented

The Committee considers that there are eight (17 per cent) recommendations that were supported or under review where:

- the recommendation has not been implemented to date; and
- the Committee has not been informed of any intention to implement it in the future.

In some cases, the Government's response clearly indicated that it was not planning to implement the recommendation. There were four cases in which departments considered that the recommendation had been implemented but the Committee does not consider that the actions taken have resolved the initial issue (see Table 7.1).

Table 7.1 Recommendations where the actions taken to implement them do not fully address the issue

| Recommendation | Action taken | Committee comment |
|--|---|---|
| 14. The State Services Authority investigate and report publicly on the reasons for the decrease in Victorian public service staff at lower grades and the increase in staff at higher grades in recent years. | In response, the Government indicated that <i>'The State Services Authority (SSA) has conducted such analysis and published commentary on this analysis in the 2010 and 2011 State of the Public Sector in Victoria reports. ... The SSA will continue to monitor changes in the classification profile of the VPS.'</i> The Department of Premier and Cabinet indicated that <i>'progress is proceeding consistent with the Government's response'</i> . | While the State Services Authority monitors the trend, its explanations for the reasons have been limited to one-sentence explanations in the 2009-10 and 2010-11 reports, supplemented by details of Commonwealth findings in the 2010-11 report. It is not clear to the Committee that the factors causing this change at the Commonwealth level will necessarily be the same in Victoria. No explanations were provided in the 2011-12 report. |
| 20. The Government clearly indicate whether or not it intends expenditure on contractors to be reduced in order to meet the savings target for the line item 'consultants' in the 'Government election commitment savings' initiative. | The Department of Treasury and Finance informed the Committee that <i>'The Government considers that this recommendation has been implemented through the tabling of its response to the recommendation.'</i> | The Government response does not indicate whether or not contractors were intended to be included in the savings target. |
| 35. The Department of Transport revise its performance measure 'Regional Rail Link' to more clearly define the measure. | The performance measure was renamed 'Progress of Regional Rail Link' in the 2012-13 budget papers. The target is a percentage. | The effectiveness of this measure could be improved by clearly identifying whether it is the proportion of the funding spent, the proportion of the milestones met, the proportion of the track laid or some other proportion being measured. |
| 36. The Department of Justice ensure that the target for the 'Reduction in crimes against the person' performance measure be set with regard to past or expected future performance and Victoria Police's priorities. | The Department explained: <i>'The "Reduction in crimes against the person" output measure was discontinued in 2012-13 and replaced with a measure that controls for population, that is, "Reduction in crimes against the person (rate per 100 000 population)".'</i> | As with the previous measure, the new measure has a target for a decrease. Victoria Police continues to maintain that an increase is a positive result because it indicates higher reporting, which is one of the Chief Commissioner's priorities. ²⁷⁶ |

Sources: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 109th Report to the Parliament – Report on the 2009-10 and 2010-11 Financial and Performance Outcomes, tabled 19 October 2012; departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire

FINDING: There are eight recommendations (17 per cent) which have not been implemented to date in the Committee's view and where the Committee has not been informed of plans to implement them in the future. This includes four recommendations where the Committee does not consider that the actions taken fully address the issues which led to the recommendation.

RECOMMENDATION 17: The Government address the issues identified with the implementation of the recommendations in Table 7.1 of this report.

7.4 Quality of the Government's responses

In its *Report on the 2012-13 Budget Estimates*, the Committee made a number of recommendations for improvements to responses to Committee inquiries. As a result, the Government indicated that it intends to review the *Guidelines for Submissions and Responses to Inquiries* in 2013.²⁸⁷

Overall, the Committee notes that most responses to the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* were clear and informative.

The Committee notes an improvement to the classification of responses. In previous reports, the Committee noted responses which suggested that no action would be taken or where the recommendation was under review but the response was classified as 'support'. There were very few such misclassifications in the responses to the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*. The Committee welcomes the Government's improvements in this area.

7.4.1 Disagreement about the nature of a problem

For four recommendations which the Government supported in principle, the Government's response suggests that its view of the nature of the problem differs from that of the Committee (see Table 7.2).

FINDING: In four cases, the Government's response suggested that the Government's view of the nature of the problem differed from that of the Committee. The Government did not indicate the basis upon which it formed its view.

RECOMMENDATION 18: In future responses to Committee recommendations, where the Government's view of the cause of a problem differs from that expressed in the Committee's report in support of a recommendation, the Government should indicate why it does not accept the Committee's view.

²⁸⁷ Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report to Parliament – Report on the 2012-13 Budget Estimates – Part Two, tabled 12 March 2013, pp.24-5

Table 7.2 Recommendations where the Government's response suggests that its view of the nature of the problem differs from that of the Committee

| Recommendation | Government's response | Committee comment |
|---|--|--|
| 9. The Minister for Finance give consideration to adjusting the Standing Directions and Financial Reporting Direction 8B to clearly specify that the 'budget portfolio outcomes' statement should compare actual results for a year with the initial budget estimates made before the start of that year. | As noted by the Committee, Financial Reporting Direction (FRD) 8B already requires departments to compare their portfolio financial statements published in the budget papers with the actual results for the portfolio, with "Budget Papers" being defined in the FRD as "the budget papers for the State of Victoria for the corresponding financial year". While the requirements of FRD 8B are considered to be clearly specified, the Department of Treasury and Finance will reiterate the requirements of the FRD through communications with departments and the Model Report. | <p>In the report, the Committee noted that some departments were comparing their actual results to the initial budget estimates, while others were comparing the actual results to the later revised estimates.</p> <p>In the 2011-12 annual reports, varied practices continue. Some departments used the 2011-12 budget figures from the 2011-12 budget papers and some used adjusted figures from the 2012-13 budget papers. In addition, the Department of Business and Innovation provided explanations for variances between the actual results and revised estimates, rather than the original budget estimates.</p> <p>This evidence of varied practices suggests that the FRD is not clearly specified.</p> |
| 24. The Department of Justice review the output cost for the Infringement and Orders Management output to ensure that the total cost is set at an appropriate level for the delivery of this output. | <p>There are existing whole of government processes in place to ensure that total output costs are set at an appropriate level for the delivery of outputs. The Department of Justice complies with these annual processes.</p> <p>...</p> <p>These processes allow the Department to ensure that the output cost is set at an appropriate level for the delivery of the Infringement and Orders Management output.</p> | This output has been underspent by at least 10 per cent in every year since it was created in 2007-08. For the last three years, these underspends have been close to \$50 million each year. It was this information that suggested to the Committee that the existing processes were not producing an ideal result in this case. This problem continued in 2011-12. |
| 50. Asset investment projects reported in the budget papers should be uniquely identified to allow an unambiguous determination of the project in successive years. | To ensure projects can be identified from year-to-year, a footnote is already included where projects have been renamed or are listed differently to the previous year. The Department of Treasury and Finance will continue to footnote these changes in <i>Budget Paper No.4 State Capital Program</i> . | In the report, the Committee cited a project which was listed as one project in the 2010-11 budget papers but split into two projects with very different names in the 2011-12 budget papers. There were no notes about this in the 2011-12 budget papers. This problem did not recur in 2012-13. |
| 51. The Department of Treasury and Finance review its system for producing the budget papers to ensure that they contain the most up-to-date information about asset investment projects. | The process for producing the budget papers is continuously reviewed. Given the time required for formal sign off and production of budget papers there is a practical limit as to how close the date for more current information can be to the budget tabling date. However, the information included is the most up-to-date information available at the point of formal sign off. | In the report, the Committee noted projects which had revised total estimated investment figures in October 2007 and April 2008 where those revisions had not been captured in the 2009-10 budget papers (May 2009). In these instances, the problem was not simply a result of the time-lag caused by production and sign-off of the budget papers. |

Source: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 109th Report to the Parliament – Report on the 2009-10 and 2010-11 Financial and Performance Outcomes, tabled 19 October 2012

APPENDIX A1 INTRODUCTION

Table A1.1 Departments and agencies to which the Committee sent the 2011-12 Financial and Performance Outcomes General Questionnaire

| Department | Other entities included |
|---|--|
| Department of Business and Innovation | |
| Department of Education and Early Childhood Development | |
| Department of Health | |
| Department of Human Services | |
| Department of Justice | Victoria Police |
| Department of Planning and Community Development | Regional Development Victoria |
| Department of Premier and Cabinet | |
| Department of Primary Industries | |
| Department of Sustainability and Environment | |
| Department of Transport | Public Transport Victoria Transport Ticketing Authority VicRoads (Roads Corporation) VicTrack V-Line Passenger Corporation |
| Department of Treasury and Finance | CenITex Rural Finance Corporation of Victoria Transport Accident Commission Treasury Corporation of Victoria Victorian WorkCover Authority (Worksafe Victoria) |
| Parliamentary Departments | |
| Victorian Auditor-General's Office | |

Table A1.2 Return dates of the 2011-12 Financial and Performance Outcomes General Questionnaire (distributed on 30 November 2012)

| Entity | Due date | Extension granted until | Received |
|---|-----------------|-------------------------|------------------|
| Department of Business and Innovation | 25 January 2013 | 29 January 2013 | 30 January 2013 |
| Department of Education and Early Childhood Development | 25 January 2013 | - | 25 January 2013 |
| Department of Health | 25 January 2013 | 5 February 2013 | 12 February 2013 |
| Department of Human Services | 25 January 2013 | 5 February 2013 | 5 February 2013 |
| Department of Justice | 25 January 2013 | 5 February 2013 | 5 February 2013 |
| Department of Planning and Community Development | 25 January 2013 | 4 February 2013 | 4 February 2013 |
| Department of Premier and Cabinet | 25 January 2013 | - | 4 February 2013 |
| Department of Primary Industries | 25 January 2013 | 29 January 2013 | 30 January 2013 |
| Department of Sustainability and Environment | 25 January 2013 | 29 January 2013 | 29 January 2013 |
| Department of Transport | 25 January 2013 | 5 February 2013 | 7 February 2013 |
| Department of Treasury and Finance | 25 January 2013 | - | 6 March 2013 |
| Parliamentary Departments | 25 January 2013 | - | 25 January 2013 |
| Victorian Auditor-General's Office | 25 January 2013 | - | 23 January 2013 |

Source: Public Accounts and Estimates Committee

Table A1.3 Return dates of the 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report (distributed on 6 February 2013)

| Entity | Due date | Extension granted until | Received |
|------------------------------------|------------------|-------------------------|------------------|
| Department of Treasury and Finance | 22 February 2013 | - | 28 February 2013 |
| Victorian Auditor-General's Office | 22 February 2013 | - | 21 February 2013 |

Source: Public Accounts and Estimates Committee

APPENDIX A2 OVERALL FINANCIAL OUTCOMES

Table A2.1 Key components of the government's finances, 2011-12

| Term used in this report | 2011-12 actual (\$ million) | Term used in the 2011-12 Financial Report | Reference ^(c) |
|---|--------------------------------|---|--------------------------|
| Revenue | 47,882.3 | Total revenue from transactions | AFR, p.27 |
| Output expenditure | 47,311.0 | Total expenses from transactions | AFR, p.27 |
| Operating surplus | 571.2 | Net result from transactions – Net operating balance | AFR, p.27 |
| Annual public private partnerships expenditure ^(a) | 209.2 | Departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire (see Table A6.4 in Appendix 6) | |
| Depreciation and similar | 2,186.3 | Non-cash revenues and expenses (net) | AFR, p.12 |
| Asset sales | 167.1 | Sales of non-financial assets | AFR, p.30 |
| Cash borrowings ^(b) | 3,739.5 | Net borrowings | AFR, p.30 |
| Direct (asset) investment | 3,564.9 | Purchases of non-financial assets | AFR, p.30 |
| (Asset) investment through other sectors | 1,831.1 | Net cash flows from investments in financial assets for policy purposes | AFR, p.30 |
| Annual asset investment | 5,396.0 | Expenditure on approved projects | AFR, p.12 |

(a) PPP expenditure excludes the *Prisons, County Court and Emergency Service Telecommunications* projects

(b) 'Cash borrowings' are only a part of total public sector borrowings. Other investment activities such as finance leases also contribute to public sector borrowings.

(c) 'AFR' = Department of Treasury and Finance, *2011-12 Financial Report*, October 2012

Table A2.2 Variances in key components of the Government's finances, 2011-12

| | Original budget (\$ million) | Actual (\$ million) | Variance (\$ million) | Variance (per cent) | Reference ^(a) |
|--|---------------------------------|------------------------|--------------------------|------------------------|-------------------------------|
| OPERATING SURPLUS | | | | | |
| Revenue | 47,439.2 | 47,882.3 | 443.1 | 0.9 | AFR, p.118 |
| Output expenditure | 47,298.8 | 47,311.0 | 12.3 | 0.0 | AFR, p.118 |
| <i>including:</i> | | | | | |
| – PPP expenditure | Not available | 209.2 | Not available | Not available | See Table A6.4 in Appendix A6 |
| Operating surplus | 140.4 | 571.2 | 430.8 | 306.8 | AFR, p.118 |
| ASSET INVESTMENT AND FUNDING | | | | | |
| Annual asset investment | 6,445.8 | 5,396.0 | -1,049.8 | -16.3 | BP2, p.31; AFR, p.12 |
| <i>composed of:</i> | | | | | |
| – Direct investment | 4,119.1 | 3,564.9 | -554.2 | -13.5 | AFR, p.124 |
| – Investment through other sectors | 2,326.7 | 1,831.1 | -495.7 | -21.3 | AFR, p.124 |
| Depreciation and similar | 2,341.9 | 2,186.3 | -155.6 | -6.6 | BP2, p.31; AFR, p.12 |
| Asset sales | 302.4 | 167.1 | -135.3 | -44.7 | AFR, p.124 |
| Operating surplus | 140.4 | 571.2 | 430.8 | 306.8 | AFR, p.118 |
| Cash borrowings | 3,785.5 | 3,739.5 | -46.0 | -1.2 | AFR, p.124 |
| Net debt | 16,814.9 | 15,236.9 | -1,578.0 | -9.4 | AFR, p.122 |
| Other economic flows included in net result | -76.3 | -10,298.6 | -10,222.3 | -13,397.5 | AFR, p.119 |
| Net worth | 125,765.1 | 110,716.0 | -15,049.2 | -12.0 | AFR, p.122 |

(a) 'AFR' = Department of Treasury and Finance, 2011-12 Financial Report, October 2012; 'BP2' = Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011

Table A2.3 Government's description of its progress towards its medium-term goals

| Goal | Progress in 2011-12 | Quantitative data indicating progress |
|---|--|--|
| <p>Cut the cost of regulation for Victorian businesses by 25 per cent over the next three years</p> | <p>The Government is on track to meet its target to cut red tape on business, not-for-profits and households by 25 per cent. In 2011-12, significant red tape reduction opportunities were identified and progressed.</p> <p>Examples of red tape-cutting initiatives in place include:</p> <ul style="list-style-type: none"> • Reinstatement of the Victorian Civil and Administrative Tribunal major cases planning list in January 2012; • Small Lot Housing Code – simplified rules commenced in 2012 for new houses constructed on lots less than 300 square metres; <p>The Government has also appointed the Hon. John Lloyd, PSM as Victoria's first Red Tape Commissioner in January 2013. The Commissioner reports directly to the Treasurer and provides an important bridge between the business community and government. The Commissioner's engagement with business will inform a priority list of actions to eliminate red tape and where necessary drive policy reform.</p> | <p>Over half a billion dollars per annum in savings is on track to be delivered, as announced in <i>Securing Victoria's Economy</i> (December 2012).</p> |
| <p>Improve the efficiency and responsiveness of public services... to reduce costs, increase choice and improve the quality of frontline services to Victorians</p> | <p>Key achievements against this goal include:</p> <ul style="list-style-type: none"> • The Better Services Implementation Taskforce was established in March 2012 to help government departments and agencies to improve their operations and deliver better focused, value for money services for Victorians. This includes supporting departmental strategies to improve service delivery, identify options and innovative programs from other jurisdictions and driving a culture of service and continuous improvement. • The Taskforce will progressively introduce reforms through 2012-13 and beyond. • The Sustainable Government Initiative was rolled out across government in December 2011 to reduce public sector expenditure without impacting on frontline service delivery. | |

| Goal | Progress in 2011-12 | Quantitative data indicating progress | | | | | | | | | |
|---|---|---|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <p>Enhance knowledge and skills through initiatives in schools, early childhood education and reform in vocational education and training</p> | <p>The Department of Education and Early Childhood Development (DEECD) has maintained participation rates for Maternal and Child Health Key Ages and Stages consultations, and continues to provide access to affordable, quality early childhood education and care in the years before schooling.</p> <p>As outlined in Towards Victoria as a Learning Community and New Directions for School Leadership and the Teaching Profession, the Government is committed to lifting Victoria's education outcomes into the global top tier in the next ten years, delivering improved growth and productivity.</p> <p>The Government has undertaken significant reforms to ensure a strong and sustainable vocational education and training (VET) system, with better oversight and stronger targeting of investment to tackle skills shortages and improve economic growth. In May 2012, the Government announced the Refocusing Vocational Training initiative which provided \$1 billion in additional funding to secure this high-quality, focused training system that better meets Victoria's future labour market needs. This will also ensure that VET funding returns to a sustainable level.</p> | <ul style="list-style-type: none"> 100 per cent for Home Consultations, 97 per cent at two week consultations and 92.7 per cent at four month consultations (2011-12); and The participation rate of 4 year olds in first year of funded kindergarten reached 97.7 per cent in 2012. <p>In 2012, Victoria continued to record a high percentage of students that were at or above the National Minimum Standard for Years 5, 7 and 9 Literacy and Numeracy, including:</p> <table border="0"> <tr> <td>Year 5:</td> <td>Year 7:</td> <td>Year 9:</td> </tr> <tr> <td>Literacy: 94.1%</td> <td>Literacy: 95.5%</td> <td>Literacy: 93.0%</td> </tr> <tr> <td>Numeracy: 95.0%</td> <td>Numeracy: 95.0%</td> <td>Numeracy: 95.0%</td> </tr> </table> <p>DEECD has supported the increase in the proportion of graduates with improved employment status after training. Of those students not employed before training, 45.7 per cent reported being employed after training. The proportion of the working age population enrolled in higher education has also remained consistent, with 8 per cent of Victorians aged 15-64 enrolled in higher education (an increase from 7 per cent in 2009).</p> | Year 5: | Year 7: | Year 9: | Literacy: 94.1% | Literacy: 95.5% | Literacy: 93.0% | Numeracy: 95.0% | Numeracy: 95.0% | Numeracy: 95.0% |
| Year 5: | Year 7: | Year 9: | | | | | | | | | |
| Literacy: 94.1% | Literacy: 95.5% | Literacy: 93.0% | | | | | | | | | |
| Numeracy: 95.0% | Numeracy: 95.0% | Numeracy: 95.0% | | | | | | | | | |
| <p>Enhanced productivity through capital investment</p> | <ul style="list-style-type: none"> High-quality economic infrastructure reduces business costs and attracts new private investment. Quality social infrastructure, including hospitals and schools, improves workforce participation and productivity. The Government's 2011-12 capital investment program included investment in new train services and rail freight infrastructure, level crossing upgrades and new road projects and upgrades to cope with increasing traffic volumes. These projects aim to increase capacity, relieve congestion delays and reduce bottlenecks in the transport supply chain. Major investment was also made on hospital upgrades and new beds and school maintenance and construction of new schools in growing suburbs and regional centres. In 2011-12, total net investment in infrastructure by the general government sector was \$5.2 billion (not including the PNFC sector), representing 1.6 per cent of GSP. | <ul style="list-style-type: none"> It is difficult to ascribe changes in productivity growth to individual capital projects, due to the complexity of the economy and the long term nature of infrastructure investment. As an overall measure, Victorian labour productivity growth modestly resumed in 2011-12. Over the last decade Victoria's productivity growth has been easing. In the five-year productivity growth cycle ending 2003-04, Victoria's average annual labour productivity growth increased by 2 per cent; above the national average. In the latest incomplete cycle (ending 2011-12), it grew by an average of only 0.5 per cent, well below the national average of 1.1 per cent. Despite this longer term trend, Victorian labour productivity growth modestly resumed in 2011-12, suggesting an initial improvement in longer-term outcomes. | | | | | | | | | |

Source: Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, pp.15-17

APPENDIX A3 REVENUE

Table A3.1 Components of revenue, 2011-12

| Component | Budget (\$ million) | Actual (\$ million) | Variance (\$ million) | Variance (per cent) |
|------------------------------|------------------------|------------------------|--------------------------|------------------------|
| Taxation revenue | 15,387.9 | 15,026.9 | -361.0 | -2.3 |
| Interest | 575.5 | 412.6 | -162.9 | -28.3 |
| Dividends and similar | 574.9 | 939.1 | 364.2 | 63.3 |
| Sales of goods and services | 6,465.8 | 6,267.2 | -198.6 | -3.1 |
| Grants from the Commonwealth | 22,516.6 | 22,599.8 | 83.2 | 0.4 |
| Other revenue | 1,918.4 | 2,636.7 | 718.3 | 37.4 |
| Total revenue | 47,439.2 | 47,882.3 | 443.1 | 0.9 |

Sources: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.118

Table A3.2 Grants revenue, 2011-12

| | Budget (\$ million) | Actual (\$ million) | Variance (\$ million) | Variance (per cent) |
|--|------------------------|------------------------|--------------------------|------------------------|
| General purpose grants | 10,944.8 | 10,380.2 | -564.6 | -5.2 |
| Other Commonwealth grants | 11,571.9 | 12,219.6 | 647.7 | 5.6 |
| <i>Including:</i> | | | | |
| - Specific purpose grants for on-passing | 2,567.1 | 2,781.4 | 214.3 | 8.3 |
| - Grants for specific purposes | 8,892.1 | 9,309.5 | 417.4 | 4.7 |
| - Other contributions and grants | 112.7 | 128.7 | 16.0 | 14.2 |
| Total grants | 22,516.6 | 22,599.8 | 83.2 | 0.4 |

Sources: Committee calculations based on Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.26; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.72

Table A3.3 Concessions and subsidies, 2011-12

| Department | Budget (\$ million) | Actual (\$ million) |
|---|------------------------|------------------------|
| Education and Early Childhood Development | 123.6 | 131.6 |
| Human Services | 370.1 | 361.6 |
| Transport ^(a) | 156.5 | 392.1 |
| Justice | 0.0 | 0.02 |
| Health | 630.0 | 575.0 |
| Total | 1,280.2 | 1,460.3 |

(a) Includes concessions and subsidies administered by VicRoads

Sources: Departmental responses to Committee's 2011-12 Financial and Performance Outcomes General Questionnaire

Table A3.4 Tax expenditures, 2011-12

| Tax expenditure (2011-12) | Purpose | Budget (\$ million) | Actual^(a) (\$ million) |
|--------------------------------------|--|--------------------------------|--|
| Land tax (21 categories) | Mainly exemption for principal place of residence | 2,252.6 | 2,351.4 |
| Payroll tax (13 categories) | Mainly exemption for small business and not-for-profit organisations. All [employers] exempt from first \$550,000 of payroll | 2,901.3 | 2,820.3 |
| Gambling tax (1 category) | Clubs pay lower tax rate than hotels on EGMs (electronic gaming machines) and are required to spend an equivalent percentage on community activities | 77.0 | 74.8 |
| Motor vehicle tax (5 categories) | Mainly lower registration fee for eligible beneficiaries | 90.0 | 89.9 |
| Other stamp duties (6 categories) | Mainly to give land transfer duty relief to eligible home buyers and corporations who restructure their business | 319.5 | 200.9 |
| Congestion levy (3 categories) | Mainly exemption for short-stay car parks | 34.6 | 33.0 |
| Total | | 5,675.0 | 5,570.3 |

(a) Figures in this column are revised estimates. Taxes foregone are estimated using models and assumptions. Estimates are made at budget time and after the end of the budget year (i.e. eighteen months later).

Source: Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire, received 6 March 2013

APPENDIX A4 BORROWINGS, DEBT AND LIABILITIES

Table A4.1 Borrowings and net debt, general government sector, 2011 to 2012

| | 30 June 2011 | 30 June 2012 | | Variance since 30 June 2011 (\$ million) | Variance from expected levels (\$ million) |
|---|------------------------|------------------------|------------------------|---|---|
| | Actual (\$ million) | Budget (\$ million) | Actual (\$ million) | | |
| Borrowings | 17,734.4 | 26,435.0 | 22,393.9 | 4,659.5 | -4,041.1 |
| <i>Add:</i> | | | | | |
| - Deposits held and advances received | 427.4 | 478.2 | 366.2 | -61.2 | -112.0 |
| <i>Less:</i> | | | | | |
| - Cash and deposits | 3,667.6 | 2,838.4 | 4,600.5 | 932.9 | 1,762.1 |
| - Advances paid | 289.5 | 4,510.3 | 301.0 | 11.5 | -4,209.3 |
| - Investments, loans and placements | 2,367.8 | 2,749.5 | 2,621.7 | 253.9 | -127.8 |
| Net debt | 11,836.8 | 16,814.9 | 15,236.9 | 3,400.1 | -1,578.0 |
| Gross State Product | 315,571 | 337,688 | 328,595 | - | - |
| Net debt as a proportion of GSP (per cent) | 3.8 | 5.0 | 4.6 | - | - |

Sources: Committee calculations based on Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.29; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp.10, 18; Department of Treasury and Finance, 'Macroeconomic indicators 2012-13' data set, <[www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/\\$File/Macroeconomicindicators2012-13BUDec2012.xlsx](http://www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/$File/Macroeconomicindicators2012-13BUDec2012.xlsx)>, accessed 1 March 2013

Table A4.2 Net financial liabilities, general government sector, 2011 to 2012

| | 30 June 2011 | 30 June 2012 | | Variance since 30 June 2011 (\$ million) | Variance from expected levels (\$ million) |
|---|------------------------|------------------------|------------------------|---|---|
| | Actual (\$ million) | Budget (\$ million) | Actual (\$ million) | | |
| Net debt | 11,836.8 | 16,814.9 | 15,236.9 | 3,400.1 | -1,578.0 |
| <i>Add extra liabilities:</i> | | | | | |
| - Payables | 4,929.2 | 4,044.7 | 4,734.4 | -194.8 | 689.7 |
| - Employee benefits | 4,519.9 | 4,687.4 | 5,043.2 | 523.3 | 355.8 |
| - Superannuation | 22,780.3 | 22,683.8 | 32,597.5 | 9,817.2 | 9,913.7 |
| - Other provisions | 704.7 | 683.5 | 635.5 | -69.2 | -48.0 |
| <i>Less extra assets:</i> | | | | | |
| - Receivables | 3,407.1 | 2,865.1 | 3,183.8 | -223.3 | 318.7 |
| - Investments accounted for using equity method | 35.1 | 35.1 | 44.3 | 9.2 | 9.2 |
| Net financial liabilities | 41,328.8 | 46,014.2 | 55,019.4 | 13,690.6 | 9,005.2 |
| Gross State Product | 315,571 | 337,688 | 328,595 | - | - |
| As a share of GSP (per cent) | 13.1 | 13.6 | 16.7 | - | - |

Sources: Committee calculations based on Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.29; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.10; Department of Treasury and Finance, 'Macroeconomic indicators 2012-13' data set, <[www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/\\$File/Macroeconomicindicators2012-13BUDec2012.xlsx](http://www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/Macroeconomicindicators2012-13BUDec2012/$File/Macroeconomicindicators2012-13BUDec2012.xlsx)>, accessed 1 March 2013

Table A4.3 Net debt plus superannuation liability as a proportion of operating revenue, non-financial public sector, 2011 to 2012

| | 30 June 2011 | 30 June 2012 | | Variance since 30 June 2011 | Variance from expected levels |
|---|-----------------|-----------------|-----------------|-----------------------------|-------------------------------|
| | Actual | Budget | Actual | | |
| | (\$ million) | (\$ million) | (\$ million) | (\$ million) | (\$ million) |
| Borrowings | 27,830.8 | 38,068.6 | 33,259.7 | 5,428.9 | -4,808.9 |
| <i>Add:</i> | | | | | |
| - Deposits held and advances received | 520.1 | 572.5 | 507.2 | -12.9 | -65.3 |
| <i>Less:</i> | | | | | |
| - Cash and deposits | 4,436.2 | 3,630.1 | 5,374.2 | 938.0 | 1,744.1 |
| - Advances paid | 99.7 | 96.8 | 88.6 | -11.1 | -8.2 |
| - Investments, loans and placements | 4,082.4 | 3,996.3 | 3,682.9 | -399.5 | -313.4 |
| Net debt | 19,732.6 | 30,917.9 | 24,621.2 | 4,888.6 | -6,296.7 |
| <i>Add:</i> | | | | | |
| - Superannuation liability | 22,843.2 | 22,733.3 | 32,750.8 | 9,907.6 | 10,017.5 |
| - Advances paid | 99.7 | 96.8 | 88.6 | -11.1 | -8.2 |
| Net debt (excluding advances paid) plus superannuation liability | 42,675.5 | 53,748.0 | 57,460.6 | 14,785.1 | 3,712.6 |
| Total revenue from transactions | 49,556.1 | 50,271.4 | 50,749.1 | - | - |
| Net debt plus superannuation liability excluding advances paid as a proportion of total revenue (per cent) | 86.1 | 106.9 | 113.2 | - | - |

Sources: Committee calculations based on Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.212, 214; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp.44, 51

Table A4.4 Key factors influencing borrowings, debt and liabilities, 2011-12

| | 2011-12 Budget (\$ million) | 2011-12 actual (\$ million) | Variance (\$ million) |
|--|--------------------------------|--------------------------------|---------------------------------|
| Cash available for asset investment ^(a) | 2,784.7 | 2,924.6 | 139.9 |
| Demand for capital funds ^(b) | 6,445.8 | 5,396.0 | -1,049.8 |
| Unused capital funds ^(c) | 124.4 | 1,268.1 | 1,143.7 |
| PPP liabilities | n/a | n/a | approx. -4,500.0 ^(d) |
| Superannuation liability | 22,683.8 | 32,597.5 | 9,913.7 |

- (a) The total of: the operating surplus; the depreciation and similar add-back; and sales of non-financial assets.
- (b) Purchases of non-financial assets plus net cash flows from investments in financial assets for policy purposes.
- (c) Cash available for asset investment plus net borrowings for the year less demand for capital funds.
- (d) Variance is an approximation based on the sum of 'present values of minimum lease payments' included in the 2010-11 *Financial Report for the State of Victoria* for the three PPP projects that were expected to be commissioned during 2011-12 but were not commissioned during the year: the *Biosciences Research Centre* project (\$168.5 million); the *Victorian Desalination Plant* project (\$4,112.4 million); and the *Ararat Prison* project (\$332.9 million) (Department of Treasury and Finance, 2010-11 *Financial Report for the State of Victoria*, October 2011, p.152).

Sources: Committee calculations based on Budget Paper No.2, 2011-12 *Strategy and Outlook*, May 2011 p.31; Budget Paper No.5, 2011-12 *Statement of Finances*, May 2011, pp.9-11; Department of Treasury and Finance, 2011-12 *Financial Report*, October 2012, pp.12, 27, 29, 30; Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.152

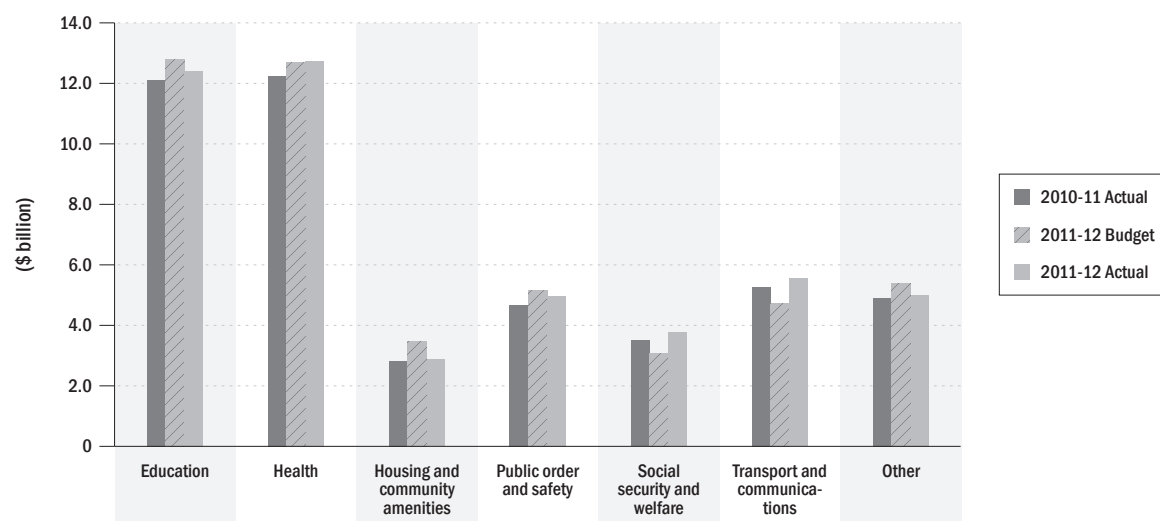
APPENDIX A5 OUTPUT EXPENDITURE AND DELIVERY

Table A5.1 Expenditure by government purpose classification, 2010-11 to 2011-12

| Purpose | 2010-11 | 2011-12 | | Variance (2011-12 Budget - actual) | |
|---------------------------------|-----------------|-----------------|-----------------|------------------------------------|------------|
| | Actual | Budget | Actual | (\$ million) | (per cent) |
| | (\$ million) | (\$ million) | (\$ million) | | |
| Education | 12,114.2 | 12,801.2 | 12,412.1 | -389.1 | -3.0 |
| Health | 12,234.1 | 12,704.6 | 12,741.3 | 36.7 | 0.3 |
| Housing and community amenities | 2,814.3 | 3,473.8 | 2,869.0 | -604.8 | -17.4 |
| Public order and safety | 4,665.4 | 5,137.8 | 4,962.0 | -175.8 | -3.4 |
| Social security and welfare | 3,502.3 | 3,062.9 | 3,768.3 | 705.4 | 23.0 |
| Transport and communications | 5,277.9 | 4,738.5 | 5,545.1 | 806.6 | 17.0 |
| Other | 4,901.2 | 5,380.0 | 5,013.2 | -366.8 | -6.8 |
| Total | 45,509.6 | 47,298.8 | 47,311.0 | 12.2 | 0.0 |

Sources: Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.30; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.79

Figure A5.1 Expenditure by government purpose classification, 2010-11 to 2011-12



Sources: Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.30; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.79

Table A5.2 Outputs with cost variations exceeding ±\$20 million, 2011-12

| Department | Output | 2011-12 Budget (\$ million) | 2011-12 actual (\$ million) | Variance (\$ million) | Variance (per cent) | Explanations provided by departments in their annual reports (unless otherwise noted), generally where variance exceeds ±10 per cent |
|---|---|-----------------------------|-----------------------------|-----------------------|---------------------|---|
| Education and Early Childhood Development | Skills | 2,011.3 | 2,479.4 | 468.1 | 23.3 | The higher than anticipated 2011-12 actual outcome reflects better than expected uptake in VET participation following the first full year of implementation of the student entitlement system across all age groups and qualification levels. |
| Education and Early Childhood Development | Later years and youth transitions | 1,764.5 | 1,849.4 | 84.9 | 4.8 | No explanation provided by the Department. |
| Business and Innovation | Tourism | 73.9 | 158.2 | 84.3 | 114.1 | The additional expenditure in the Tourism Output relates to funding for Major Events including the Australian Grand Prix, Melbourne Food and Wine Festival, the Australian Open, Theatre Productions and Business Events. |
| Transport | Public transport infrastructure development | 106.5 | 158.9 | 52.4 | 49.2 | The 2011-12 result reflects the scheduling of the myki project. |
| Education and Early Childhood Development | Middle years (schools) | 2,869.3 | 2,916.9 | 47.6 | 1.7 | No explanation provided by the Department. |
| Education and Early Childhood Development | Early years (schools) | 2,818.8 | 2,864.3 | 45.5 | 1.6 | No explanation provided by the Department. |
| Justice | Court matters and dispute resolution | 417.9 | 449.7 | 31.8 | 7.6 | The variance is underpinned by a higher than anticipated carry over into 2011-12 which was not reflected in the 2011-12 published budget. |
| Health | Residential Aged Care | 323.2 | 354.5 | 31.3 | 9.7 | 2011-12 Actual Outcome largely reflects (i) additional Nursing Home and Hostel Commonwealth and Residents contribution revenues; (ii) the impact of updated cost allocation of depreciation and capital assets charges; (iii) one-off funding of costs incurred resulting from the declaration of two additional public holidays; offset by (iv) transfers within the output group. |
| Justice | Policing services | 2,061.9 | 2,092.9 | 31.0 | 1.5 | No explanation provided by the Department. |
| Health | Health Protection | 207.0 | 231.6 | 24.6 | 11.9 | 2011-12 Actual Outcome largely reflects (i) additional Commonwealth funding received under the Essential Vaccines National Partnership and (ii) the impact of updated cost allocation of depreciation, capital assets charge and other expenditure within the output group. |

| Department | Output | 2011-12 Budget (\$ million) | 2011-12 actual (\$ million) | Variance (\$ million) | Variance (per cent) | Explanations provided by departments in their annual reports (unless otherwise noted), generally where variance exceeds ±10 per cent |
|--------------------------------|---|-----------------------------|-----------------------------|-----------------------|---------------------|---|
| Premier and Cabinet | Arts portfolio agencies | 302.4 | 326.7 | 24.3 | 8.0 | No explanation provided by the Department. |
| Human Services | Concessions to Pensioners and Beneficiaries | 514.8 | 488.8 | -26.0 | -5.1 | The 2011-12 actual primarily reflects the lower than anticipated cost per claim for Annual Electricity Concessions for the first full year of operation. |
| Justice | Community based offender supervision | 121.8 | 95.5 | -26.3 | -21.6 | The variance is mainly caused by delays in the implementation of some programs and services under the Sentencing Reform Project, lower than expected legal services costs, and lower than anticipated costs for supervision orders under the Serious Sex Offender Strategy. |
| Transport | Road network improvements | 789.0 | 760.5 | -28.5 | -3.6 | No explanation provided by the Department. |
| Health | Aged Support Services | 130.2 | 95.5 | -34.7 | -26.7 | 2011-12 Actual Outcome largely reflects (i) the impact of updated cost allocation of depreciation and capital assets charges; and (ii) other cost reallocations of expenditure within the output group. |
| Primary Industries | Strategic and Applied Scientific Research | 254.0 | 218.5 | -35.5 | -14.0 | Actual 2011-12 expenditure was less than Budgeted 2011-12 expenditure due to: Deferment of completion date for the BioSciences Research Centre; The appropriation of the CarbonNet project being re-phased as a result of delays in securing Commonwealth approval to progress the CarbonNet project as a Carbon Capture Storage (CCS) Flagships project through to the feasibility stage. ^(a) |
| Justice | Emergency management capability | 273.9 | 236.0 | -37.9 | -13.8 | The variance is mainly due to lower than anticipated expenditure in relation to the National Emergency Warning System project, Neighbourhood Safer Places program, and the National Disaster Resilience Program. |
| Sustainability and Environment | Statutory Activities and Environment Protection | 181.1 | 135.3 | -45.8 | -25.3 | The variance is mainly due to lower than expected grant payments out of the Sustainability Fund. |
| Business and Innovation | Science and Technology | 184.8 | 136.2 | -48.6 | -26.3 | The underspend in the Science and Technology Output primarily relates to re-phasing of funding to future years, or proposed carryover into 2012-13, for the Victorian Innovation Statement, Biotechnology, Biomedical Research and High Speed Broadband Innovation programs. |

| Department | Output | 2011-12 Budget (\$ million) | 2011-12 actual (\$ million) | Variance (\$ million) | Variance (per cent) | Explanations provided by departments in their annual reports (unless otherwise noted), generally where variance exceeds ±10 per cent |
|---|---|-----------------------------|-----------------------------|-----------------------|---------------------|--|
| Justice | Infringement and orders management | 230.1 | 177.5 | -52.6 | -22.9 | The variance is mainly due to changes in contractual terms relating to the outsourcing of traffic camera services and infringement processing, resulting in lower than anticipated expenditure. |
| Education and Early Childhood Development | Early childhood education and care | 270.8 | 217.6 | -53.2 | -19.6 | The lower than anticipated 2011-12 actual outcome reflects an anticipated increase in spending in 2012-13, primarily for Commonwealth National Partnerships. |
| Justice | Gambling regulation and racing industry development | 165.6 | 98.2 | -67.4 | -40.7 | As explained at the 2011-12 PAEC hearings, the variance is due to the original budget being overstated by \$31 million due to an administrative error in the preparation of the 2011-12 budget (this was an error in the budget papers, not the actual appropriation), and an underspend due to the timing of grant payments made through the Victorian Racing Industry Fund (VRIF). This timing is due to funding being approved by the government for those organisations requesting VRIF funds, but the project proponents (such as race clubs) not claiming the funds from DOJ as originally set out in their respective project schedules. In these cases VRIF funding is carried over to meet project proponents' revised funding schedules. |
| Business and Innovation | Major Projects | 123.7 | 46.7 | -77.0 | -62.2 | There is no net impact on the level of funds disbursed to grant recipients.(a) The underspend in the Major Projects Output relates to a lower 'cost of land sold' for the Kew Residential Land Development project. This underspend has been offset by a reduction in revenue for the project during 2011-12. |
| Health | Admitted Services | 6,943.6 | 6,854.2 | -89.4 | -1.3 | 2011-12 Actual Outcome largely reflects (i) decreased depreciation in alignment with actual health services' depreciation for 2011-12; offset by (ii) one-off funding of costs incurred resulting from the declaration of two additional public holidays; and (iii) additional funding to supplement health services' long-service leave budget. |
| Transport | Integrated metropolitan public transport services | 3,061.7 | 2,943.3 | -118.4 | -3.9 | No explanation provided by the Department. |

(a) Explanations provided by departments in response to the Committee's General Questionnaire on the 2011-12 Financial and Performance Outcomes.

Sources: Departmental annual reports unless otherwise specified.

Table A5.3 Percentage of performance measures close to target, by department, 2009-10 to 2011-12

| Department | 2009-10 | 2010-11 | 2011-12 |
|---|-------------|-------------|-------------|
| Business and Innovation | 52.4 | 54.3 | 54.8 |
| Education and Early Childhood Development | 72.8 | 75.0 | 66.0 |
| Health | 79.4 | 78.2 | 76.2 |
| Human Services | 71.6 | 75.7 | 78.4 |
| Justice | 74.3 | 73.5 | 77.7 |
| Planning and Community Development | 67.2 | 69.0 | 79.5 |
| Premier and Cabinet | 71.6 | 66.1 | 67.6 |
| Primary Industries | 65.2 | 59.1 | 72.3 |
| Sustainability and Environment | 69.0 | 73.6 | 69.0 |
| Transport | 69.4 | 66.8 | 73.3 |
| Treasury and Finance | 73.2 | 63.9 | 77.7 |
| Parliament | 80.4 | 81.0 | 79.5 |
| All departments | 70.5 | 70.1 | 73.0 |

Note: Where the actual results for a measure have not been reported, it has been included in the number classified as close to target. This methodology varies from previous years. As a result, figures for 2009-10 and 2010-11 vary slightly from figures previously published by the Committee.

Sources: Budget Paper No.3, Service Delivery, 2009-10 to 2012-13; departmental annual reports, 2009-10 to 2011-12

Table A5.4 Staff reductions (full-time equivalent), by department, 2011-12 (number)^(a)

| | DBI | DEECD | DOH | DHS | DOJ | DPCD | DPC | DPI | DSE | DOT | DTF | Total | Total (per cent) |
|--|--------------------|--------------------|--------------------|----------------|----------------|--------------|--------------------|---------------------|--------------|--------------|--------------------|----------------|---------------------|
| Number of staff reduced through resignation and retirement | 103 ^(b) | n/a ^(c) | 128.7 | 582.7 | 1,016.2 | 97.4 | 59.0 | 115.8 | 170.5 | 263.3 | 116.0 | 2,652.6 | 60.4 |
| Number of staff reduced through non-renewal of contracts | 12 ^(b) | n/a | 134.1 | 366.0 | 364.8 | 43.6 | 57.0 | 55.9 | 74.2 | 38.1 | 54.9 | 1,200.6 | 27.4 |
| Number of staff reduced through voluntary departure packages | 0 | n/a | 0.0 | 0.0 | 0.0 | n/a | 0.0 ^(e) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Number of staff reduced through targeted separation packages | 8 ^(b) | n/a | n/a ^(d) | 17.0 | 31.8 | 7.6 | 0.0 | 44.0 ^(f) | 27.4 | 20.6 | 5.6 | 162.0 | 3.7 |
| Number of staff reduced through other means | 2 ^(b) | n/a | 0.0 | 62.3 | 166.5 | 3.0 | 0.0 | 5.0 | 52.3 | 77.5 | 4.5 ^(g) | 373.1 | 8.5 |
| Total | 125 | n/a | 262.8 | 1,028.0 | 1,579.3 | 151.6 | 116.0 | 220.7 | 324.4 | 399.5 | 181.0 | 4,388.3 | 100.0 |

(a) This table has been prepared with the data provided by departments. However, some departments were not able to provide complete information. The figures should be understood as indicative rather than precise. Details of departments' methodologies and the limitations of their data can be found in their responses to the Committee's questionnaire, available at the Committee's website (www.parliament.vic.gov.au/paec). It should also be noted that these figures are gross reductions and do not factor in new employees.

(b) Figures are headcounts, rather than full-time equivalent.

(c) The Department of Education and Early Childhood Development indicated that this was not applicable as there was no net reduction.

(d) The Department of Health noted that 'The figure is low and as such is not disclosed in order to preserve confidentiality (consistent with the approach suggested by the Committee in Question 32).'

(e) The Department of Premier and Cabinet noted that, 'As at 30 June 2012, VDPs were not effective.'

(f) The Department of Primary Industries noted that, 'None of these TSPs [targeted separation packages] are related to SGI [the Maintain a Sustainable Public Service Initiative]. Forty of these TSPs were applied as part of normal business practice, prior to the December 2011 SGI announcement. The four positions declared surplus after the December 2011 SGI announcement, were part of normal business practice, due to a changes in technologies and the funding base; cessation of external funding; and a position where the work has been winding down over a 12 month period.'

(g) The Department of Treasury and Finance notes that this includes four staff reduced through public service transfers.

Sources: departmental responses to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire

APPENDIX A6 ASSET INVESTMENT

Table A6.1 Expenditure on asset provision, 2010-11 and 2011-12

| | 2010-11 | 2011-12 | | Variance from previous year (\$ million) | Variance from budget (\$ million) |
|-------------------------------------|----------------|----------------|----------------|---|--------------------------------------|
| | Actual | Budget | Actual | | |
| | (\$ million) | (\$ million) | (\$ million) | | |
| Direct Investment | 4,886.3 | 4,119.1 | 3,564.9 | -1,321.4 | -554.2 |
| Investment through other sectors | 1,937.5 | 2,326.7 | 1,831.1 | -106.4 | -495.6 |
| Investment in asset projects | 6,823.8 | 6,445.8 | 5,396.0 | -1,427.8 | -1,049.8 |
| PPP expenditure ^(a) | n/a | n/a | 209.2 | n/a | n/a |

(a) Based on departmental responses to the 2011-12 Financial and Performance Outcomes General Questionnaire (see Table A6.4 below). Does not include the *Prisons, County Court or Emergency Services Telecommunications* projects.

Sources: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, pp.30, 124; Departmental responses to the 2011-12 Financial and Performance Outcomes General Questionnaire

Table A6.2 Asset provision by government purpose classification (not including PPPs), 2010-11 to 2011-12

| Purpose | 2010-11 | 2011-12 | | Variance (2011-12 Budget - actual) | |
|---|------------------------|----------------|----------------|------------------------------------|--------------|
| | Actual | Budget | Actual | (\$ million) | (per cent) |
| | (\$ million) | (\$ million) | (\$ million) | | |
| GENERAL GOVERNMENT SECTOR^(a) | | | | | |
| Public order and safety | 394.0 | 353.9 | 348.6 | -5.3 | -1.5 |
| Education | 2,370.1 ^(e) | 940.4 | 1,312.0 | 371.6 | 39.5 |
| Health | 693.4 | 869.9 | 632.1 | -237.8 | -27.3 |
| Social security and welfare | 94.3 | 190.2 | 41.3 | -148.9 | -78.3 |
| Housing and community amenities | 93.0 | 239.7 | 160.4 | -79.3 | -33.1 |
| Transport and communications | 959.1 | 1,202.3 | 924.9 | -277.4 | -23.1 |
| Other | 282.6 | 577.5 | 145.7 | -431.8 | -74.8 |
| Not allocated by purpose | - | -254.9 | - | - | - |
| Total asset investment | 4,886.5 | 4,119.0 | 3,565.0 | -554.0 | -13.4 |
| INVESTMENT THROUGH OTHER SECTORS^(b) | | | | | |
| Transport (excluding <i>myki</i> and <i>Regional Rail Link</i>) ^(c) | - | 1,013.7 | 834.4 | -179.3 | -17.7 |
| <i>myki</i> and <i>Regional Rail Link</i> ^(c) | - | n/a | 675.2 | n/a | n/a |
| Other purposes | - | 104.5 | 98.9 | -5.6 | -5.4 |
| Total investment through other sectors^(d) | 1,937.5 | 2,326.7 | 1,831.1 | -495.6 | -21.3 |

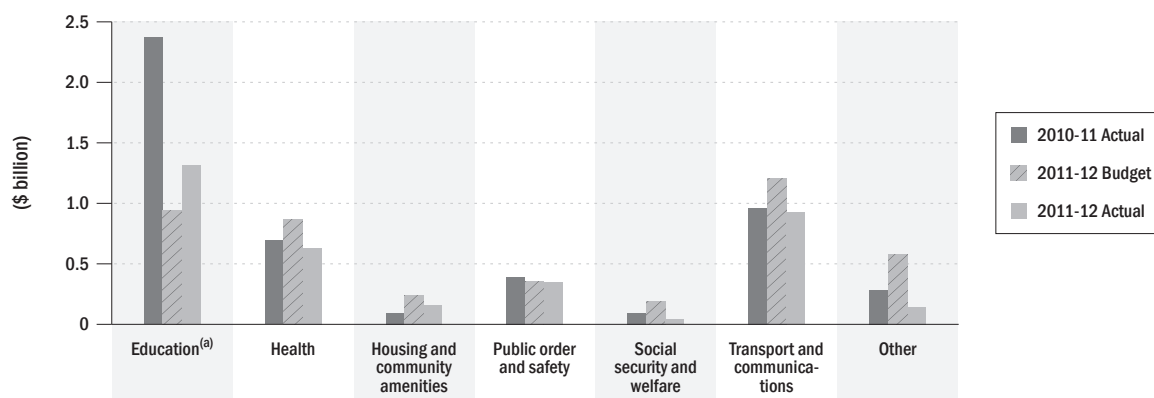
(a) Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.103; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.34

(b) Departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire

(c) Budget estimates were not disclosed for the *myki* and *Regional Rail Link* projects.

(d) Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.11; Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.30

(e) This amount includes expenditure on the Commonwealth's *Building the Education Revolution* program, which was mostly completed in 2010-11.

Figure A6.1 Asset investment by government purpose classification, 2010-11 to 2011-12

(a) This amount includes expenditure on the Commonwealth's *Building the Education Revolution* program, which was mostly completed in 2010-11.

Sources: Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.103; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.34

Table A6.3 Budget and actual asset investment by department, 2011-12

| Department | Estimated expenditure 2011-12 (\$ million) | Actual expenditure 2011-12 (\$ million) | Variation (2011-12 budget - actual) (\$ million) |
|---|---|--|---|
| GENERAL GOVERNMENT SECTOR | | | |
| Business and Innovation ^(a) | 51.7 | 36.1 | -15.6 |
| Education and Early Childhood Development | 720.5 | 707.6 | -12.9 |
| Human Services | 23.2 | 11.0 | -12.2 |
| Health | 778.2 | 470.2 | -308.0 |
| Justice ^(b) | 445.2 | 229.7 | -215.5 |
| Transport | 1,176.9 | 903.5 | -273.4 |
| Premier and Cabinet | 86.3 | 77.2 | -9.1 |
| Planning and Community Development | 69.9 | 22.8 | -47.1 |
| Primary Industries ^(c) | 26.4 | 12.1 | -14.3 |
| Sustainability and Environment | 296.6 | 136.9 | -159.7 |
| Parliament | 5.5 | 6.4 | 0.9 |
| Treasury and Finance | 13.2 | 6.5 | -6.7 |
| NON-GENERAL GOVERNMENT SECTOR | | | |
| TTA/VicTrack ^(d) | 1,013.7 | 834.4 | -179.3 |

(a) Does not include one project where no budget has been disclosed (*Melbourne Wholesale Markets Redevelopment*).

(b) Includes Country Fire Authority and Metropolitan Fire and Emergency Services Board.

(c) Does not include one project where no budget has been disclosed (*Replacement of Fisheries Catch and Effort Data and Information System*).

(d) Does not include two projects where no budget has been disclosed (*myki* and *Regional Rail Link*).

Sources: Departmental responses to 2011-12 Financial and Performance Outcomes General Questionnaire

Table A6.4 Expenditure on commissioned public private partnership projects, 2011-12

| Department | Project | Finance charges on finance leases in 2011-12 (\$ million) | What that money covered | Any other expenses in 2011-12 (\$ million) | What that money covered |
|---|---|---|---|--|--|
| Business and Innovation | Melbourne Convention Centre Development Project | 40.5 | Capital and interest costs of debt raised by Plenary Conventions Pty Ltd to finance the project | 16.6 | Lifecycle and maintenance of the asset as well as the delivery of all contracted services. |
| | | 12.5 | Finance lease costs (interest - excludes principal) | 1.8 | Contract administration, insurance and Relocatable Buildings |
| Education and Early Childhood Development | Partnerships Victoria in Schools Project | 1.2 | Finance lease costs (contingent rent - excludes principal) | 6.3 | Service payments |
| | | 4.4 | Cost of borrowing | 0.5 | Modifications - facility management costs |
| Health | Casey Hospital | - | | | Not applicable |
| | Mildura Hospital ^(a) | - | | | |
| | Royal Women's Hospital | 21.1 | Cost of borrowing | | Not applicable |
| | Royal Children's Hospital | 22.9 | Cost of borrowing | 2.7 | Completion of Stage 1 and commencement Stage 2 works |
| Transport | East Link | 0.0 | Not applicable | 0.5 | Expenditure associated with property settlements |
| | | 0.0 | Not applicable | 9.3 | The \$9.3 million covered operational and environmental expenditure related to the Peninsula Link project. |
| Primary Industries | Southern Cross Station | 32.4 | Finance Lease Interest | 11.0 | Operating cost component |
| | | | | 1.6 | Contingent rent |
| | | | | 1.6 | Insurance cost |
| | | | | 3.1 | Escrow maintenance |
| | Royal Melbourne Showgrounds Redevelopment project | 11.9 | Service payments by the Department | 0.0 | |

| Department | Project | Finance charges on finance leases in 2011-12 (\$ million) | What that money covered | Any other expenses in 2011-12 (\$ million) | What that money covered |
|--------------|---------------------------------------|---|--------------------------|--|--------------------------|
| Justice | Prisons | - | Commercial in confidence | - | Commercial in confidence |
| | County Court | | | | |
| | Emergency Services Telecommunications | | | | |
| Total | | 146.8 | | 62.4 | |

(a) the Mildura Hospital PPP has no costs included under finance charges on finance leases.
 Sources: Departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire

Table A6.5 Projects with significant (>10%) expenditure variances between budget and actual expenditure, 2009-10 to 2010-11^(a)

| Year | All projects (number) | Estimated expenditure in year (\$ million) | Projects which fell significantly short of budget expenditure | | Projects which significantly exceeded budget expenditure | | Projects within ± 10 per cent of budget (per cent) |
|------------------------|------------------------------|---|---|---|--|--|---|
| | | | (per cent) | Impact of under-expenditure (\$ million) | (per cent) | Impact of over-expenditure (\$ million) | |
| ALL PROJECTS | | | | | | | |
| 2009-10 | 564 | 4,705.2 | 33.2 | 1,120.8 | 16.0 | 235.4 | 50.9 |
| 2010-11 | 465 | 4,690.6 | 37.4 | 1,108.2 | 20.6 | 341.2 | 41.9 |
| 2011-12 | 452 | 4,707.3 | 65.5 | 1,654.2 | 17.3 | 391.9 | 17.3 |
| HVHR PROJECTS | | | | | | | |
| 2009-10 ^(b) | 7 | 454.3 | 57.1 | 216.7 | 28.6 | 10.0 | 14.3 |
| 2010-11 ^(b) | 7 | 810.4 | 85.7 | 450.6 | 0.0 | 0.0 | 14.3 |
| 2011-12 | 14 ^(c) | 539.3 | 57.1 | 111.7 | 35.7 | 52.4 | 7.1 |
| MPV PROJECTS | | | | | | | |
| 2009-10 | 5 | 193.0 | 100.0 | 147.8 | 0.0 | 0.0 | 0.0 |
| 2010-11 | 8 | 294.0 | 75.0 | 95.0 | 12.5 | 4.1 | 12.5 |
| 2011-12 | 5 ^(c) | 97.1 | 60.0 | 9.3 | 20.0 | 2.3 | 20.0 |

(a) Figures do not precisely match those previously published by the Committee due to a change in methodology.

(b) Data for 2009-10 and 2010-11 are the past performance of projects identified as HVHR projects in 2011.

(c) Includes only those projects for which a variance is calculable. That is, does not include projects for which budget was either zero or not disclosed.

Sources: Departmental responses to Committee's 2011-12 Financial and Performance Outcomes General Questionnaire;
Departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire
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Table A6.6 Projects funded by departments but delivered through other sectors with a significant (>10%) variance between budget and actual expenditure, 2011-12

| All projects reported by departments | | Projects which fell significantly short of budget expenditure | | Projects which significantly exceeded budget expenditure | | Projects with no disclosed budget ^(a) | |
|--------------------------------------|--|---|---|--|--|--|------------------------------------|
| Number | Disclosed budget 2011-12 (\$ million) | Number | Impact of under-expenditure (\$ million) | Number | Impact of over-expenditure (\$ million) | Number | Actual Expenditure (\$ million) |
| 60 | 1,118.1 | 33 | 258.0 | 6 | 74.0 | 2 | 675.2 |

(a) *myki* and *Regional Rail Link*

Sources: Departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire

Table A6.7 HVHR projects, expenditure and timeliness, 2011-12

| Project | Department/agency | Estimated expenditure 2011-12 (\$ million) | Actual expenditure 2011-12 (\$ million) | Variance (per cent) | Completion date at start of year | Completion date at end of year | Delay (months) |
|--|--------------------------------|--|---|---------------------|----------------------------------|--------------------------------|----------------|
| GENERAL GOVERNMENT SECTOR | | | | | | | |
| Additional 500 prison beds | Justice | 37.0 | 15.7 | -57.6 | 30/06/2013 | 30/06/2013 | 0 |
| Bendigo Hospital ^(a) | Health | 40.2 | 26.6 | -33.8 | 1/12/2016 | 1/12/2016 | 0 |
| Box Hill Hospital redevelopment | Health | 61.0 | 27.4 | -55.1 | 1/12/2015 | 1/12/2015 | 0 |
| Dingley bypass | Transport | 5.0 | 13.4 | 168.0 | 1/07/2016 | 1/07/2016 | 0 |
| Emergency Services Communications | Justice | 1.8 | 1.8 | -2.7 | | 31/12/2013 | |
| HealthSMART | Health | 6.7 | 9.7 | 44.8 | 1/06/2012 | 1/06/2012 | 0 |
| Melbourne Wholesale Market redevelopment | Business and Innovation | tbd | 134.3 | - | 1/05/2013 | 1/07/2013 | 2 |
| Metropolitan Level Crossings – Development and Early Works | Transport | 13.1 | 8.4 | -35.9 | 1/06/2013 | 1/06/2013 | 0 |
| Monash Children's Hospital | Health | 5.0 | 6.4 | 28.0 | | | |
| Northern Victoria Irrigation Renewal Project | Sustainability and Environment | 96.8 | 79.8 | -17.6 | 1/06/2013 | 1/06/2018 | 60 |
| NON-GENERAL GOVERNMENT SECTOR | | | | | | | |
| 40 new trains for Melbourne commuters – stage 1 | VicTrack | 37.2 | 30.8 | -17.2 | | | |
| Digital train radio system | VicTrack | 37.3 | 44.1 | 18.2 | | | |
| myki | TTA | tbd | 38.0 | - | | | |
| New trains for Melbourne commuters – stage 2 | VicTrack | 154.0 | 186.8 | 21.3 | | | |
| Regional Rail Link | VicTrack | tbd | 637.2 | - | | | |
| Regional rolling stock | VicTrack | 43.5 | 28.9 | -33.6 | | | |
| Southland Station | VicTrack | 0.7 | 0.2 | -71.4 | | | |

(a) the Bendigo Hospital projects consists of two separate projects reported in the budget papers: Bendigo Hospital Stage 1 – Enabling Works (due June 2013); and Bendigo Hospital Redevelopment (due December 2016). These projects have been amalgamated for the Committee's analysis.

Sources: Departmental responses to Committee's 2011-12 Financial and Performance Outcomes General Questionnaire

Table A6.8 General government sector asset investment projects managed by Major Projects Victoria, 2011-12, expenditure and timeliness

| Project | Department/agency | Estimated expenditure 2011-12 (\$ million) | Actual expenditure 2011-12 (\$ million) | Variance (per cent) | Completion date at start of year | Completion date at end of year | Delay (months) |
|---|--|--|---|---------------------|----------------------------------|--------------------------------|----------------|
| Australian Synchrotron | Business and Innovation | 21.6 | 23.9 | 10.7 | 1/06/2012 | 1/09/2012 | 3 |
| Federation Square East | Business and Innovation | 1.2 | 0.01 | -99.2 | | | |
| Melbourne Market Relocation | Business and Innovation | n/a | 134.3 | | 1/05/2013 | 1/07/2013 | 2 |
| Parkville Gardens | Business and Innovation | 2.7 | 0.4 | -85.2 | 1/06/2012 | 1/06/2015 | 36 |
| Princes Pier Restoration | Business and Innovation | 0.0 | 9.5 | | 1/12/2011 | 1/12/2011 | 0 |
| Southbank Cultural Precinct Redevelopment | Premier and Cabinet | 61.0 | 60.6 | -0.7 | 1/06/2012 | 1/06/2012 | 0 |
| MFB Training Facility Craigieburn | Metropolitan Fire and Emergency Services Board | 10.6 | 4.8 | -54.7 | 30/06/2014 | 31/12/2014 | 6 |

Sources: Departmental responses to Committee's 2011-12 Financial and Performance Outcomes General Questionnaire

Table A6.9 Projects with significant variations^(a) in expected completion date, 2011-12

| | Projects with disclosed dates | Proportion of projects with significant delay | Average delay (months) |
|---------------------------------|-------------------------------|---|------------------------|
| All projects | 340 | | |
| Brought forward projects | | 4.1 | -8.2 |
| Delayed projects | | 33.5 | 10.4 |
| All varied projects | | 37.6 | 8.3 |
| HVHR projects | 8 | | |
| Delayed projects ^(b) | | 12.5 | 60.0 |
| MPV projects | 6 | | |
| Delayed projects | | 33.3 | 21.0 |

(a) Significant variations are those of greater than three months.

(b) There was only one HVHR project that was significantly delayed.

Source: departmental responses to Committee's 2011-12 Financial and Performance Outcomes General Questionnaire

Table A6.10 Departmental projects with revised completion dates^(a)

| | Total number of projects | Projects with significantly revised completion dates | | | |
|---------------------------|--------------------------|--|---------------------------------------|-------------------------------|---------------------------------------|
| | | Number | Proportion brought forward (per cent) | Proportion delayed (per cent) | Average delay ^(b) (months) |
| 2008-09 | 510 | 94 | 25.5 | 74.5 | 6.8 |
| 2009-10 and 2010-11 | 465 | 95 | 3.2 | 96.8 | 11.6 |
| 2011-12 ^{(b)(c)} | 463 | 128 | 10.9 | 89.1 | 8.3 |

(a) Variations of less than three months are not considered significant.

(b) Some approximations have been required in interpreting completion dates disclosed by departments.

(c) The 2011-12 group covers all projects in the general government sector, which includes projects carried out by the Country Fire Authority and the Metropolitan Fire and Emergency Services Board. Previous years have included departments only.

Sources: Public Accounts and Estimates Committee, *Report on the 2008-09 Financial and Performance Outcomes*, May 2010, p.72; departmental responses to the Committee's 2009-10 Financial and Performance Outcomes Questionnaire – Part Two; Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, p.220; departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire