



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

109TH REPORT TO THE PARLIAMENT

Report on the 2009-10 and 2010-11 Financial and Performance Outcomes

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Parliament of Victoria
Public Accounts and Estimates Committee

Report on the 2009-10 and 2010-11 Financial and Performance Outcomes

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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE MEMBERSHIP — 57TH PARLIAMENT

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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.

CHAIRMAN'S FOREWORD

The Public Accounts and Estimates Committee's Inquiry into the 2009-10 and 2010-11 Financial and Performance Outcomes examined the many achievements of the public sector in those two years, along with how those achievements were reported. The Committee has been particularly interested in this topic to ensure that appropriate accountability mechanisms are in place for the large expenditure of the public sector, which exceeded \$50 billion in 2009-10 and 2010-11.

In conducting the inquiry, the Committee has been particularly interested in how the actual achievements compared to what had been planned at the start of each year. The reporting loop that begins with a preceding year's budget papers and ends with annual reports is a critical component of accountability and transparency for the Government.

This is the second and final report produced by the Committee as part of the inquiry. The first report, the *Review of the 2009-10 and 2010-11 Annual Reports* was tabled in February 2012 and examined departments' and selected agencies' annual reports. This report complements that first report, by focusing on what was delivered and what was achieved by the two different State Governments in that period.

This report examines the Governments' performance in a number of areas, including overall financial performance, how the income and expenditure of departments compared to the budget estimates, what outputs were delivered, how departments' performance compared to the targets in their performance measures, how asset investment projects have progressed compared to timeliness and cost targets and what outcomes were achieved. The report also includes a chapter looking at the performance of the Victorian Auditor-General's Office in 2010-11. This report comments on the Victorian Auditor-Generals Office establishing measures to quantify the impact of performance audits on efficiency gains from public sector entities. The committee is keen in future to explore the issue of "Value for Money" audits demonstrating measureable benefits to the community.

This investigation has provided the Committee with an overview of Government performance in 2009-10 and 2010-11. From this overview, the Committee has been able to make a variety of recommendations. Most recommendations are related to improving the disclosure made by government entities in their reporting. The Committee has identified improvements that could be made to the budget papers, the annual Financial Report for the State and to departments' annual reports. These improvements are designed to assist the Parliament and the community gain a better understanding of what is planned for a year and how that is actually achieved.

Assessing the achievements and performance of government departments and agencies in a meaningful way which can be readily understood by members of Parliament and the community, is the implicit key performance task of the committee. Terms such as inputs and outputs are generally understood, and relate to resources (or financial investments) producing estimated or measurable units of products or services. Whereas outcomes relate to measures of actual impact on the community which can be regarded as the achievement judged against the objectives and commitment of resources (or financial investments).

In this context and based on data reported in the Budget Papers and Questionnaire responses provided by departments it is surprising that the previous government only met 36% of the measures set under the "*GROWING VICTORIA TOGETHER VISION*" (refer chapter 7). Some 25%

were not met and 20% only partially met. Given the widely proclaimed central objective of its vision “to make Victoria a better place in which to live, work and raise a family” this demonstrates the challenge for governments to show a meaningful impact (outcome) of their vision, strategy, input and investment. This example must be regarded as disappointing in any retrospective analysis of the previous Government and a signal to the current Government to ensure the integrity of future visions and objectives achieving measurable outcomes for the benefit of the community.

The final chapter reviews the previous government’s responses to the *Report on the 2008-09 Financial and Performance Outcomes*, produced by the former Committee during the 56th Parliament.

I consider this inquiry to have been productive and commend this report, along with the *Review of the 2009-10 and 2010-11 Annual Reports*, to all members of Parliament.

An important element in this inquiry has been the departments’ and agencies’ responses to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire. This is a detailed questionnaire requiring responses on a large range of topics. I thank the Presiding Officers, Premier, Deputy Premier, Treasurer, Assistant Treasurer, Attorney-General, ministers, departmental secretaries and their staff in preparing responses to this questionnaire.

Prior to the preparation of this report, the committee adopted a scoping paper to establish the framework for the research task of the secretariat. The secretariat staff have again provided impartial and high level analysis to enable the committee to prepare and adopt this report, I thank the secretariat staff for the quality of their research and advice. Members of the Committee had an extended period for consideration, comment and suggested amendments during the drafting process. It is important that the integrity of the objective analysis by the secretariat is not influenced by differing policy views of committee members. Further it is fundamental that the committee itself is prepared to set aside partisan differences to provide transparent analysis and advice to the Parliament.

I also express my gratitude to the staff of the Secretariat. Their assistance in producing two substantial reports, with limited resources in a short time frame has been appreciated by both myself and the Committee.



Philip R. Davis MP
Chairman

ACRONYMS AND GLOSSARY OF TERMS

Accrual basis	A way of calculating financial figures for a year in which income, expenditure, assets, liabilities and equity are included in the year to which they relate, regardless of when the cash was received or paid for them. Distinct from a 'cash basis'.
AFR	Annual Financial Report for the State of Victoria
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 investment	Expenditure on assets (generally infrastructure such as roads or hospitals) as opposed to expenditure on the delivery of products and services ('outputs').
Basis of consolidation	Which entities have been included in calculating figures.
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.
Cash basis	A way of calculating financial figures for a year in which income, expenditure, assets, liabilities and equity are included in the year in which the cash was received or paid for them, regardless of which year they relate to. Distinct from an 'accrual basis'.
Department	Large government entities. There are currently 11 departments in Victoria, plus the Parliamentary Departments. Funding for most 'agencies' is generally provided through departments and departments are required to report on the financial and performance results of the agencies for which they are responsible. Departments, like 'agencies', are directly accountable through one or more ministers to Parliament.
DHS	Department of Human Services
DIIRD	Department of Innovation, Industry and Regional Development
DOT	Department of Transport
DTF	Department of Treasury and Finance

Entity	Either a 'department' or an 'agency'.
EPA	Environmental Protection Agency
FRD	Financial Reporting Direction
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
LMA	Linking Melbourne Authority
NDIS	National Disability Insurance Scheme
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	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 'operating result' or 'operating surplus'. The net result from transactions is different to the 'net result' (see above). 'Asset investment' is not included in either the net result from transactions or the 'net result'.
Non-financial public sector	The 'general government sector' and 'public non-financial corporations sector' consolidated together.
Operating result (or operating surplus)	See 'Net results from transactions'.
Outcome	The impact of an 'output' on the community, such as healthier people or a reduction in crime.
Output	A product or service delivered by an entity, such as health care or policing services.

Public financial corporation sector	Government 'agencies' which provide financial services, such as the Treasury Corporation of Victoria or the Transport Accident Commission.
Public non-financial corporation sector	Government 'agencies' which provide goods or service with charges that recover most of the cost of producing them, such as water authorities and trusts administering certain facilities. Does not include 'agencies' providing financial services (see 'public financial corporations sector').
SSP	Shared services provider
State of Victoria	The public sector as a whole, that is the 'general government sector', 'public non-financial corporations sector' and 'public financial corporations sector' consolidated together.
TEI / Total estimated investment	An estimate of the total amount of expenditure required to deliver an 'asset investment' project.
UKNAO	United Kingdom National Audit Office
VAGO	Victorian Auditor-General's Office
VICERS	Vigilance Control and Event Recording System
VPS	Victorian public service

More detailed definitions of some terms can be found in Department of Treasury and Finance, *Financial Report for the State 2010-11*, October 2011, pp.34-5, 200-7, 245

FINDINGS AND RECOMMENDATIONS OF THE COMMITTEE

CHAPTER 1: INTRODUCTION

Section 1.5 *The review process*

FINDING Although all entities which were sent questionnaires by the Committee returned them, there were many instances in which questionnaires were returned late, answers to questions were unsatisfactory or uninformative and in which departments had modified the question asked by the Committee and not responded to the original question.	page 9
RECOMMENDATION 1 In future years, departments provide timely responses to the Committee's questionnaires, with answers that are informative and without modifications to the question.	page 9

CHAPTER 2: 2009-10 FINANCIAL OUTCOMES AND 2010-11 FINANCIAL OUTCOMES IN THE 56TH PARLIAMENT

Section 2.1 *Introduction*

FINDING External factors such as the economic climate and Commonwealth Government support had a significant impact on the performance of the Victorian economy and the achievement of public sector financial outcomes in 2009-10 and the first half of 2010-11.	page 13
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Section 2.2 Overview of financial outcomes achieved in 2009-10 for the general government sector

<p>FINDING</p> <p>Key financial outcomes achieved in 2009-10 included:</p> <ul style="list-style-type: none"> – the general government sector delivered a net result from transactions of \$643.6 million compared with an objective of at least \$100 million; – with net infrastructure expenditure by the general government sector of \$5.7 billion in 2009-10 (\$8.6 billion for the whole public sector), substantial asset investment occurred on projects that related to education, transport, health, water and housing portfolios; – additional services were provided in a range of areas; – while net debt for the general government sector increased from \$5.3 billion at 1 July 2009 (1.8 per cent of gross state product) to \$8.0 billion at 30 June 2010 (2.5 per cent of gross state product) to fund the Government’s capital investment program, Victoria’s AAA credit rating was maintained; and – taxation levels were maintained. 	<p>page 16</p>
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Section 2.3 Economic conditions that influenced financial outcomes

<p>RECOMMENDATION 2</p> <p>The Department of Treasury and Finance explain in the annual Financial Report for the State the impact that the movement in each economic indicator has had on revenue and other financial outcomes derived by the State.</p>	<p>page 17</p>
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Section 2.5 Analysis of operating and net result for 2009-10 in the general government sector

<p>FINDING</p> <p>The annual Financial Report for the State explains variations between the general government sector’s performance for the current year and initial and revised estimates for the year, but not variations from the actual results from the prior year.</p>	<p>page 19</p>
<p>RECOMMENDATION 3</p> <p>The Department of Treasury and Finance include a commentary on material variances between actual financial outcomes for the general government sector for the current year with the prior year’s actual results in the annual Financial Report for the State.</p>	<p>page 20</p>

<p>FINDING</p> <p>The general government sector's operating surplus (net result from transactions) for 2009-10 of \$643.6 million significantly exceeded the initial budget estimate by \$414.1 million, the surplus for the prior year by \$392.4 million and the revised estimate by \$248.7 million.</p>	<p>page 20</p>
<p>FINDING</p> <p>The general government sector's operating surplus (net result from transactions) for 2009-10 was higher than the original budget estimate due mainly to higher-than-expected revenue derived from land transfer duty and grants from the Commonwealth linked to the GST.</p>	<p>page 22</p>
<p>FINDING</p> <p>One-off grants from the Commonwealth for asset investment are included in revenue but the use of these funds is not included in expenditure. These have enabled the general government sector to generate an operating surplus for 2009-10, thereby exceeding the annual target of at least \$100 million. If these were not included in revenue, however, the result would have been a deficit of \$950.7 million.</p>	<p>page 22</p>
<p>FINDING</p> <p>The Committee acknowledges that the nature of 'other economic flows' can result in wide fluctuations from one year to the next in economic flows that are outside those operating transactions that are controlled by the Government. After taking into account other economic flows of \$-6.1 billion for 2009-10, the net result for the general government sector was a deficit of \$5.4 billion. Factors that impacted on the item 'other economic flows' included:</p> <ul style="list-style-type: none"> – a reduction of over \$4 billion in the valuation of land under roads due to a change in the valuation methodology; and – \$1.5 billion of actuarial losses on superannuation due to the reduction in the discount rate used to value the superannuation liability. 	<p>page 25</p>

Section 2.6 State of Victoria outcome for 2009-10

<p>FINDING</p> <p>The consolidated 2009-10 operating result for the public sector as a whole (the 'State of Victoria') was a surplus of \$594.7 million compared to a deficit of \$123.8 million in 2008-09.</p>	<p>page 28</p>
<p>FINDING</p> <p>Most components of public sector revenue and expenditure were largely driven by the operations of the general government sector.</p>	<p>page 28</p>

<p>FINDING</p> <p>The aggregate revenue for the public sector as a whole increased from \$45.4 billion for 2008-09 to \$51.2 billion for 2009-10, an increase of \$5.8 billion or 13 per cent. In terms of the public non-financial corporation sector and public financial corporation sector, the main areas of growth related to revenue generated from the sales of goods and services, grants and other current revenue.</p>	page 30
<p>FINDING</p> <p>The aggregate expenditure for the public sector as a whole rose from \$45.6 billion for 2008-09 to \$50.6 billion for 2009-10, an increase of \$5.0 billion or 11 per cent. The main factors contributing to this variance in the public non-financial corporation sector and public financial corporation sector included costs associated with depreciation and interest.</p>	page 30
<p>FINDING</p> <p>The 2009-10 net result for the public sector as a whole was a deficit of \$5.7 billion (compared to a \$13.1 billion deficit in 2008-09).</p>	page 31

Section 2.7 Asset expenditure and debt movements in 2009-10 in the general government sector

<p>FINDING</p> <p>The expenditure on approved asset investment projects for the general government sector in 2009-10 amounted to \$5.9 billion, which was \$1.3 billion (18 per cent) less than the initial budget of \$7.2 billion, but \$1.6 billion (36 per cent) more than the prior year actual of \$4.3 billion. There was a lack of disclosure in the <i>Financial Report for the State for 2009-10</i> regarding the underspend.</p>	page 32
<p>RECOMMENDATION 4:</p> <p>Regarding asset investment projects, where significantly less than the budget estimate is spent in a year, the Department of Treasury and Finance disclose in the annual Financial Report for the State:</p> <p>(a) the reasons for the underspend;</p> <p>(b) the asset projects affected; and</p> <p>(c) the impact on the achievement of planned outcomes.</p>	page 32
<p>FINDING</p> <p>Net debt in the general government sector grew by \$2.7 billion in 2009-10 compared with the prior year, to fund the Government's asset investment program. Net debt stood at \$8.0 billion at 30 June 2010. This was significantly lower than initially estimated as a result of an increase of \$892.1 million in the year's expected cashflow from operations (which was used to fund asset investment) and spending \$1.3 billion less than initially planned.</p>	page 35

<p>FINDING</p> <p>Net debt was 2.5 per cent of gross state product in the Victorian general government sector at 30 June 2010, which was less than the initial estimate of 3.7 per cent but more than the prior year proportion of 1.8 per cent.</p>	<p>page 36</p>
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Section 2.8 *Overview of financial outcomes achieved for the first six months to 31 December 2010 for the general government sector compared to the Government’s financial objectives*

<p>FINDING</p> <p>Key financial outcomes achieved for the six months to 31 December 2010 included:</p> <ul style="list-style-type: none"> – the general government sector delivered an operating result (net result from transactions) of \$481.8 million compared with an objective of at least \$100 million over the whole year; – expenditure on approved asset projects incurred by the general government sector amounted to \$3.4 billion (\$4.7 billion for the public sector as a whole); – additional services continued to be provided in a range of areas; – net debt for the general government sector increased from \$8.0 billion at 1 July 2010 (2.5 per cent of gross state product) to \$9.9 billion at 31 December 2010 (3.1 per cent of gross state product) to fund the Government’s asset investment program; and – taxation levels were maintained. 	<p>page 38</p>
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Section 2.9 *Economic conditions that influence financial outcomes*

<p>FINDING</p> <p>The Pre-Election Budget Update identifies various economic factors that required revisions to be made to the initial budget estimates, but provides relatively little detail on the forces that impacted on these economic variables. The Mid-Year Financial Report does not provide commentary linking these variables to actual outcomes.</p>	<p>page 39</p>
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Section 2.11 Analysis of operating and net result for the six months ended 31 December 2010 in the general government sector

<p>FINDING</p> <p>The general government sector's operating surplus (net result from transactions) for the six months to 31 December 2010 (\$481.8 million) significantly exceeded the surplus for the prior year equivalent period of \$11.7 million by \$470.1 million and represented 76 per cent of the revised budget estimate for the full year.</p>	<p>page 44</p>
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Section 2.12 State of Victoria outcome for 2009-10

<p>FINDING</p> <p>The operating result for the public sector as a whole (the 'State of Victoria') for the first six months of 2010-11 was a surplus of \$346.8 million compared to a surplus of \$500.1 million for the corresponding period of the previous year. The lower operating surplus was due to revenue rising by 7.5 per cent while expenditure rose by 8.3 per cent.</p>	<p>page 46</p>
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Section 2.13 Asset expenditure and debt movements for the six months ended 31 December 2010 in the general government sector

<p>FINDING</p> <p>The \$3.4 billion of expenditure on asset investment for the general government sector for the six months to 31 December 2010 was in line with the revised budget for the full year and exceeded the level of spending for the equivalent prior year period by \$741.2 million.</p>	<p>page 49</p>
<p>FINDING</p> <p>Between 1 July 2010 and 31 December 2010, net debt for the general government sector and the non-financial public sector rose by \$1.9 billion and \$2.5 billion respectively.</p>	<p>page 49</p>

CHAPTER 3: FINANCIAL OUTCOMES FOR 2010-11, INCLUDING FINANCIAL OUTCOMES IN THE 57TH PARLIAMENT (JANUARY 2011-JUNE 2011)

Section 3.3 *Economic conditions that influenced financial outcomes*

<p>FINDING</p> <p>In 2010-11, a lower GST pool than expected meant that Victoria received less GST grants from the Commonwealth Government than originally envisaged. Compared to the original budget of \$11,142.7 million, Victoria received \$10,630.9 million in GST grants for 2010-11, \$511.8 million lower than originally expected, though \$587.6 million higher than in the prior year. This was partly mitigated by increases to some streams of State-sourced funding.</p>	<p>page 55</p>
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Section 3.5 *Analysis of operating and net result for 2010-11 in the general government sector*

<p>FINDING</p> <p>The general government sector's operating surplus (net result from transactions) for 2010-11 of \$517.3 million was below the initial budget estimate by \$354.6 million and the surplus for the prior year by \$126.3 million, but higher than the revised budget by \$267.9 million.</p>	<p>page 57</p>
<p>FINDING</p> <p>The lower-than-originally-expected operating surplus for 2010-11 for the general government sector was reflective, in the main, of lower-than-expected revenue from Commonwealth grants, and higher expenditure than expected with regard to grants and transfer payments that included flood recovery relief and grants to non-government schools. The impact of these factors was partly mitigated by taxation and other revenue being higher than expected and depreciation being less than expected.</p>	<p>page 60</p>
<p>FINDING</p> <p>As has been the case in prior years, one-off grants from the Commonwealth for asset investment have enabled the general government sector to generate an operating surplus for 2010-11 which exceeds the annual target of at least \$100 million. The Government has estimated that these grants would total approximately \$1.4 billion for 2010-11. Without including this funding, the operating result would have been a deficit.</p>	<p>page 60</p>
<p>FINDING</p> <p>After taking into account other economic flows that amounted to a net gain of \$218.6 million for 2010-11, the net result for the general government sector totalled \$735.9 million. The main factor that impacted on the item 'other economic flows' related to an actuarial gain of \$306.0 million on superannuation defined benefits plans.</p>	<p>page 61</p>

Section 3.6 State of Victoria outcome for 2010-11

<p>FINDING</p> <p>The consolidated 2010-11 operating result for the whole public sector (the 'State of Victoria') was a deficit of \$512.5 million compared to a surplus of \$155.2 million in 2009-10.</p>	page 63
<p>FINDING</p> <p>For the public sector as a whole, expenditure grew faster than revenue in 2010-11 (expenses from transactions grew by 5 per cent, while revenue grew by 4 per cent compared to the prior year).</p>	page 67
<p>FINDING</p> <p>The 2010-11 net result for the State was a surplus of \$1.6 billion (compared to a \$5.7 billion deficit in 2009-10) due to positive movements in the value of assets and actuarial gains.</p>	page 68

Section 3.7 Asset investment and debt movements in 2010-11 in the general government sector

<p>FINDING</p> <p>General government expenditure on approved asset investment projects was \$6.8 billion during 2010-11, \$209.4 million more than the initial budget estimate and \$926.0 million higher than the prior year.</p>	page 68
<p>FINDING</p> <p>There is a lack of information linking expenditure on infrastructure investment with the high-level outcomes aimed for (such as improved services, securing jobs and enhancing the economic capacity and productivity of the State).</p>	page 71
<p>RECOMMENDATION 5</p> <p>In addition to linking asset initiatives with service delivery outcomes, the Department of Treasury and Finance also demonstrate the effect that investment in fixed assets has had on:</p> <ul style="list-style-type: none"> (a) enhancing the ongoing economic capacity of the State; (b) improving longer-term productivity growth; and (c) creating new jobs and securing existing jobs. 	page 71
<p>FINDING</p> <p>Across the public sector as a whole, expenditure on 'plant, equipment and vehicle, and other infrastructure systems' of \$6.9 billion comprised 48 per cent of total asset acquisitions and the acquisition of land and buildings comprised \$6.5 billion (45 per cent).</p>	page 71

<p>FINDING</p> <p>Net debt in the general government sector, which stood at \$11.8 billion at 30 June 2011, grew by \$3.9 billion (or 49 per cent) in 2010-11 compared with the prior year and exceeded the initial budget by \$884.2 million (or 30 per cent). The increase in net debt has been necessary to cover the difference between the net cash flows from operating activities and the expenditure on asset investment.</p>	page 74
<p>FINDING</p> <p>Net debt in the general government sector represented 3.7 per cent of gross state product at 30 June 2011, which was higher than the prior year proportion of 2.5 per cent.</p>	page 74
<p>FINDING</p> <p>Net debt incurred in the general government sector increased by similar amounts in the first and second halves of 2010-11 (\$1.9 billion or 0.6 per cent of gross state product).</p>	page 74
<p>FINDING</p> <p>The annual Financial Report for the State does not compare the actual figures for non-financial public sector debt to targets other than maintaining Victoria's AAA credit rating.</p>	page 76
<p>RECOMMENDATION 6</p> <p>The Department of Treasury and Finance compare the actual figures for non-financial public sector debt to targets established in the debt management strategy, explaining any significant variations.</p>	page 77
<p>FINDING</p> <p>Net debt to GSP for Victoria's general government sector has risen steadily since 2007-08, which is in line with expansion of the State's infrastructure program. This trend follows a similar pattern to other Australian jurisdictions following the global financial crisis in 2007-08.</p>	page 80
<p>FINDING</p> <p>The level of Victoria's general government sector net debt is significantly below that of the G-7 countries.</p>	page 80

Section 3.8 Comparison of financial performance for the six months ended 30 June 2011 with the six months ended 31 December 2010 and the financial objectives/planned actions for 2010-11

<p>FINDING</p> <p>The Committee notes that the Government has articulated a number of fiscal objectives and the Independent Review of State Finances has identified several areas requiring action. However, the Government does not currently report on its progress towards these objectives and areas of action in a systematic way.</p>	<p>page 82</p>
<p>RECOMMENDATION 7</p> <p>At year end, the Department of Treasury and Finance report specific outcomes achieved against the Government’s financial management plan, including coverage of how it has performed against its fiscal strategies.</p>	<p>page 82</p>
<p>FINDING</p> <p>The Government has taken steps towards all of its fiscal objectives in 2010-11.</p>	<p>page 83</p>

Section 3.9 Analysis of net result from transactions for the six months ended 30 June 2011 in the general government sector compared to the prior six months

<p>FINDING</p> <p>The operating result for the general government sector for the six months ended 30 June 2011 was \$35.5 million, significantly less than the operating result of \$481.9 million for the prior six-month period. Growth in expenditure exceeded that of revenue in the second six-month period – expenditure grew by \$1.3 billion compared to revenue growth of \$857.4 million.</p>	<p>page 91</p>
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CHAPTER 4: DEPARTMENTAL INCOME AND EXPENSES IN 2009-10 AND 2010-11

Section 4.2 Comparability of figures

<p>FINDING</p> <p>Details of the actual income and expenditure (and other financial details) of government departments are provided on two bases of consolidation – a comprehensive operating statement and a ‘budget portfolio outcomes’ statement. The Committee has identified three areas where improvements to the guidance for the ‘budget portfolio outcomes’ statement would enhance stakeholders’ ability to understand departments’ financial performance.</p>	<p>page 97</p>
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<p>RECOMMENDATION 8</p> <p>The Minister for Finance give consideration to adjusting the Standing Directions and Financial Reporting Direction 8B to require departments to have the Auditor-General audit the ‘budget performance outcomes’ statements in annual reports.</p>	page 97
<p>RECOMMENDATION 9</p> <p>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.</p>	page 97
<p>RECOMMENDATION 10</p> <p>The Minister for Finance give consideration to adjusting the Standing Directions and Financial Reporting Direction 8B to require explanations to be given for all significant or material variations between initial budget estimates and actual results, as is required for performance measures.</p>	page 97

Section 4.3 Departments’ net results from transactions

<p>FINDING</p> <p>The net results from transactions for most departments varied substantially from the budget estimates, with five departments in 2009-10 and seven departments in 2010-11 achieving lower results than had been estimated.</p>	page 99
<p>FINDING</p> <p>In both 2009-10 and 2010-11, the Department of Business and Innovation had higher income and expenditure than had been anticipated in the budget. In both years, though, the income exceeded the budget estimates by a larger amount than the expenditure, resulting in higher-than-budgeted net results from transactions. A factor in both years was land sales associated with the Kew Residential Development project.</p>	page 102
<p>FINDING</p> <p>The Department of Education and Early Childhood Development’s net results from transactions was slightly above the budget estimate in 2009-10 and \$22.8 million (15 per cent) below the budget estimate in 2010-11. In both years, the actual results for the total income and expenditure varied from the budget estimates by less than 3 per cent.</p>	page 104
<p>FINDING</p> <p>The Department of Health returned a net result from transactions of \$-182.7 million in 2009-10, the year in which it was formed. In 2010-11, however, it achieved a net result from transactions of \$173.4 million, \$350.3 million (198 per cent) higher than the budget estimate.</p>	page 105

<p>FINDING</p> <p>The Department of Human Services' net result from transactions of \$317.3 million in 2009-10 was significantly affected by the machinery-of-government change that created the Department of Health. The 2010-11 net result from transactions was a deficit of \$5.0 million.</p>	<p>page 107</p>
<p>FINDING</p> <p>The Department of Justice's net result from transactions in 2009-10 was a deficit of \$19.2 million, within \$0.5 million of the budget estimate. The 2010-11 result was \$13.8 million, \$29.1 million more than estimated due to proportionately small variations in income and expenditure compared to the budget estimates.</p>	<p>page 108</p>
<p>FINDING</p> <p>The Department of Planning and Community Development's net results from transactions were below budget estimates in both 2009-10 and 2010-11. The net result from transactions was a small deficit (\$-16.3 million) in 2009-10 and a small surplus (\$16.3 million) in 2010-11.</p>	<p>page 109</p>
<p>FINDING</p> <p>The Department of Premier and Cabinet achieved a net result from transactions of \$34.0 million in 2009-10 and \$29.2 million in 2010-11. In both years, income and expenditure were in excess of the budget estimates, but in all cases by less than 10 per cent.</p>	<p>page 111</p>
<p>FINDING</p> <p>The Department of Primary Industries returned a net result from transactions of \$-8.8 million in 2009-10 and \$-1.6 million in 2010-11. Both income and expenditure exceeded the budget estimates in both years, though in no case was the variance greater than 10 per cent.</p>	<p>page 112</p>
<p>FINDING</p> <p>In both 2009-10 and 2010-11, the Department of Sustainability and Environment significantly exceeded the budget estimates for its net result from transactions, returning surpluses where the budgets had estimated deficits. In both years, this was a result of the income varying from the budget estimates by a significantly larger amount than the expenditure.</p>	<p>page 114</p>
<p>FINDING</p> <p>Sustainability Victoria intends to report on the amount of waste diverted from landfill as a result of the Landfill Levy. However, despite initial predictions that the levy would create 700 new jobs, no specific monitoring of job creation as a result of the levy is taking place.</p>	<p>page 115</p>
<p>RECOMMENDATION 11</p> <p>The Environment Protection Authority monitor and report on job creation as a result of the Landfill Levy.</p>	<p>page 115</p>

<p>FINDING</p> <p>The Department of Transport achieved large positive net results from transactions in both 2009-10 and 2010-11. The result was above the budget estimate in 2009-10 and below in 2010-11. Both income and expenditure exceeded budget estimates in each year, though by varying proportions, with particularly sizable variations in 2009-10.</p>	page 117
<p>FINDING</p> <p>An estimated \$55.1 million of revenue was lost due to fare evasion in 2009-10, while an estimated \$85.0 million was lost in 2010-11.</p>	page 119
<p>RECOMMENDATION 12</p> <p>The Department of Transport include details in future annual reports of measures taken to reduce fare evasion and estimates of the impact of those measures.</p>	page 119
<p>FINDING</p> <p>In both 2009-10 and 2010-11, the Department of Treasury and Finance achieved negative net results from transactions, despite budget estimates of positive results. In both years income and expenditure were above the budget estimates, but expenditure by a larger amount.</p>	page 120

Section 4.4 Revenue foregone

<p>FINDING</p> <p>In total, \$5.1 billion worth of tax expenditures (as defined by the Department of Treasury and Finance) were provided in 2009-10 and \$5.6 billion worth in 2010-11, up from \$4.9 billion in 2008-09.</p>	page 134
<p>FINDING</p> <p>The budget papers include five-year tax expenditure and three-year concessions estimates. However, actual results are not included in the annual Financial Report for the State.</p>	page 137
<p>RECOMMENDATION 13</p> <p>The Department of Treasury and Finance include details of the trends and actual results of tax expenditures and concessions in the annual Financial Report for the State.</p>	page 137

Section 4.5 Employee expenses

<p>FINDING</p> <p>Employee expenses in the general government sector were \$15.4 billion (35 per cent of total expenditure) in 2009-10 and \$16.4 billion (36 per cent of total expenditure) in 2010-11.</p>	<p>page 138</p>
<p>FINDING</p> <p>Between 2008-09 and 2010-11, departmental expenditure on employee expenses increased by 11 per cent, while employee expenses across the whole general government sector increased by 17 per cent.</p>	<p>page 140</p>
<p>FINDING</p> <p>The growth in employee expenses for the general government sector has been driven more by increases in non-departmental agencies (which are generally associated with service delivery) than departments.</p>	<p>page 140</p>
<p>FINDING</p> <p>The increase in employee expenses for departments has been the result of wage rises, of there being an additional pay day in 2010-11 and of an increase in the number of Victorian public service employees at higher grades, accompanied by a decrease in the number of employees at lower grades.</p>	<p>page 143</p>
<p>RECOMMENDATION 14</p> <p>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.</p>	<p>page 143</p>
<p>FINDING</p> <p>There has been an increase in executive remuneration from \$101.7 million to \$118.5 million (17 per cent) between 2008-09 and 2010-11. This is a result of increased numbers of executives and increased salaries received by executives. Current guidance does not explicitly require departments to explain trends in executive remuneration.</p>	<p>page 146</p>
<p>RECOMMENDATION 15</p> <p>The State Services Authority investigate and report publicly on the reasons for the increase in executives' remuneration packages and identify whether the increased packages are matched by increased work value.</p>	<p>page 146</p>
<p>RECOMMENDATION 16</p> <p>The Department of Treasury and Finance amend Financial Reporting Direction 21A to require departments to provide at least three years of data about their total expenditure on executive remuneration and to explain any significant variations from one year to the next.</p>	<p>page 146</p>

<p>FINDING</p> <p>Departments indicated that they spent \$715.6 million on contractors in 2009-10 and \$627.3 million in 2010-11. However, some departments indicated that they were only able to approximate the cost of contractors, as their systems do not allow them to identify contractor costs precisely.</p>	<p>page 148</p>
<p>RECOMMENDATION 17</p> <p>The Government ensure that all departments have systems in place that allow them to accurately and completely monitor their expenditure on contractors.</p>	<p>page 148</p>

Section 4.6 Savings and efficiencies

<p>FINDING</p> <p>Budget papers between 2007-08 and 2011-12 set savings and efficiency targets for the departments totalling \$370.6 million in 2009-10 and \$624.0 million in 2010-11. However, alterations have occurred to departments' targets since the release of the budget papers which have not been made public. All departments have indicated to the Committee that they have met their updated targets, although details are not publicly reported. The Committee has previously recommended that increased reporting take place in this area, and the Government has supported this recommendation.</p>	<p>page 150</p>
<p>FINDING</p> <p>The 'Government election commitment savings' initiative identified \$1.6 billion of savings to be made over five years by departments in 11 specific areas. However, departments have indicated that not all targets have been practicable. In some instances, departments were set savings targets for areas in which they historically had no expenditure.</p>	<p>page 151</p>
<p>FINDING</p> <p>Although all departments indicated that they had met their components of the \$163.6 million savings target for the 'Government election commitment savings' initiative, data supplied by departments indicated that the actual expenditure in these areas increased by \$619.5 million between 2009-10 and 2010-11. One department indicated that this was because the savings targets did not factor in other changes. This leads to a significant lack of transparency around savings initiatives.</p>	<p>page 153</p>
<p>RECOMMENDATION 18</p> <p>Targets for future savings initiatives in budget papers be set in such a way that it is possible for the Parliament and community to ascertain whether or not the targets are achieved. For example, targets could detail expenditure in certain areas (factoring in the savings initiatives and other factors), rather than the amount of savings.</p>	<p>page 153</p>

<p>FINDING</p> <p>All departments except the Department of Premier and Cabinet indicated to the Committee that the 'Government election commitment savings' initiative has had no impact on service delivery. The Department of Premier and Cabinet has indicated three areas of service delivery that have been affected by this savings initiative. These impacts are not clearly disclosed under existing reporting arrangements.</p>	<p>page 154</p>
<p>FINDING</p> <p>According to departments' disclosure in their annual reports, the total departmental expenditure on consultants in 2010-11 was \$2.4 million. However, figures provided to the Committee by departments, determined on different bases of consolidation and with different definitions of consultants, indicated a total expenditure of \$180.7 million in 2010-11.</p>	<p>page 157</p>
<p>RECOMMENDATION 19</p> <p>The Auditor-General consider conducting an audit of departments to identify whether their disclosure of expenditure on consultants in annual reports is being made in accordance with government guidance.</p>	<p>page 157</p>
<p>FINDING</p> <p>The 'Government election commitment savings' initiative has a line item of 'consultants' against which savings targets have been set. Some departments have interpreted this line item as also applying to contractors.</p>	<p>page 158</p>
<p>RECOMMENDATION 20</p> <p>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.</p>	<p>page 158</p>
<p>FINDING</p> <p>The Government has set a target of \$50.2 million to be saved through the use of shared services. Data received by the Committee indicated increased use of shared services. However, some departments indicated that they had difficulties quantifying the savings resulting from their use of shared services.</p>	<p>page 159</p>
<p>RECOMMENDATION 21</p> <p>All departments which transition to shared services ensure that they set up appropriate mechanisms to capture and report the savings that result from the transition.</p>	<p>page 160</p>

CHAPTER 5: GENERAL GOVERNMENT SECTOR OUTPUT DELIVERY IN 2009-10 AND 2010-11

Section 5.1 Introduction

<p>FINDING</p> <p>Although for most non-cost performance measures exceeding the target is a good outcome, in some cases the reverse is true. It is not always possible from the budget papers to discern whether the Government's intention is for results to be more than, less than or equal to the performance measure target.</p>	<p>page 163</p>
<p>RECOMMENDATION 22</p> <p>The Department of Treasury and Finance indicate in budget papers whether exceeding, coming under or precisely achieving the target is preferable for each performance measure.</p>	<p>page 163</p>

Section 5.2 Departmental performance in 2009-10 and 2010-11

<p>FINDING</p> <p>In both 2009-10 and 2010-11, actual results were close to target for approximately 70 per cent of performance measures, having improved from 64 per cent in 2008-09.</p>	<p>page 165</p>
<p>FINDING</p> <p>For most departments, the proportions of performance measures with results close to target have fluctuated such that no clear trend of improvement is apparent.</p>	<p>page 165</p>
<p>FINDING</p> <p>In both 2009-10 and 2010-11, the Department of Business and Innovation had the smallest proportion of performance measures with results within 10 per cent of target and the highest proportion of exceeded targets. This continues a trend noted by the Committee as going back at least to 2007-08.</p>	<p>page 166</p>
<p>RECOMMENDATION 23</p> <p>The Department of Business and Innovation seek advice from a suitably qualified source to explore ways of improving the Department's performance with respect to meeting performance measure targets.</p>	<p>page 166</p>
<p>FINDING</p> <p>Cost over-runs for output delivery fell overall from 2.7 per cent of the total budget estimate in 2009-10 to 1.6 per cent in 2010-11.</p>	<p>page 169</p>

<p>FINDING</p> <p>Expenditure on outputs in the first half of 2010-11 was similar to that of the second half of the year for all departments except for the Department of Premier and Cabinet, where overall expenditure was greater in the second half of the year.</p>	page 169
<p>FINDING</p> <p>When looking at individual cost targets, there are some substantial variations between targets and actual costs for most departments. The Department of Business and Innovation has consistently had the largest variations (in terms of proportion) over the last three years. The Department of Justice has managed to keep within its overall budget by reallocating funding between its outputs. The Department has disclosed this reallocation in its annual reports.</p>	page 171

Section 5.3 Output performance in 2009-10 and 2010-11

<p>FINDING</p> <p>In 2009-10, 88 outputs (63 per cent) had most performance measure results within 10 per cent of target levels while costing within 10 per cent of budget.</p>	page 173
<p>FINDING</p> <p>For 2009-10, there were seven outputs that had both cost measures and most non-cost measures significantly varying from target. Five of these were within the Department of Innovation, Industry and Regional Development.</p>	page 174
<p>FINDING</p> <p>In 2010-11, 86 outputs (61 per cent) had performance measure results within 10 per cent of target levels while costing within 10 per cent of budget.</p>	page 174
<p>FINDING</p> <p>In 2010-11, there were five outputs that had both cost measures and most non-cost measures significantly varying from target. Of these five outputs, three (<i>Road Safety and Regulation, Investment Attraction and Facilitation and Regional Infrastructure Development</i>) had identical variances in 2009-10.</p>	page 176
<p>FINDING</p> <p>The Department of Justice's output <i>Infringement and Orders Management</i> has run significantly under budget for three years, yet still exceeded most of its non-cost performance measures in 2010-11.</p>	page 176
<p>RECOMMENDATION 24</p> <p>The Department of Justice review the output cost for the <i>Infringement and Orders Management</i> output to ensure that the total cost is set at an appropriate level for the delivery of this output.</p>	page 176

<p>FINDING</p> <p>Two outputs have been identified in the Department of Business and Innovation where actual costs were significantly below targets but results for all non-cost measures were at or above targets. This suggests a disconnect between the non-cost performance measures and the goods and services that are being funded.</p>	<p>page 177</p>
<p>RECOMMENDATION 25</p> <p>The Department of Business and Innovation review the <i>Investment Attraction and Facilitation</i> and <i>Exports</i> outputs to ensure that the non-cost performance measures provide a comprehensive overview of what is being provided with the funding.</p>	<p>page 177</p>

Section 5.4 Issues with performance measures

<p>FINDING</p> <p>A number of performance measures have ranges as targets. In such cases it is not clear what constitutes a significant variance.</p>	<p>page 179</p>
<p>RECOMMENDATION 26</p> <p>When a target for a performance measure is a range and not a single number, the Department of Treasury and Finance explain the reasons for which a range was set, as well as the rationale for the range given, in the budget papers.</p>	<p>page 179</p>
<p>RECOMMENDATION 27</p> <p>The Department of Treasury and Finance change the Model Report to specify that, where a performance measure has a range for a target, any result falling outside that range constitutes a significant variation requiring explanation in annual reports.</p>	<p>page 179</p>
<p>FINDING</p> <p>Actual results for a number of performance measures have been reported as ranges rather than single figures. In the case of the Department of Education and Early Childhood Development, where results have a confidence interval, ranges have only been provided where the mid-point of the range is below target and the confidence interval means that there is some chance that the result may have been above target.</p>	<p>page 181</p>
<p>RECOMMENDATION 28</p> <p>Where the Department of Education and Early Childhood Development bases results for performance measures on a survey result, the department report the mid-point of the range as the performance measure result, and disclose the confidence interval in the comments.</p>	<p>page 181</p>

<p>RECOMMENDATION 29</p> <p>For all measures where results are extrapolated from a sample, departments report confidence limits for each result.</p>	<p>page 181</p>
<p>FINDING</p> <p>Some performance measures are based on achieving certain project milestones. In some cases, performance is measured against original milestones but in others it is measured against milestones as adjusted over the life of the projects.</p>	<p>page 182</p>
<p>RECOMMENDATION 30</p> <p>Where departments have performance measures that are based on project milestones, they calculate results based on the original milestones for the project, and not milestones that have been subsequently altered to reflect changes.</p>	<p>page 182</p>
<p>FINDING</p> <p>Some quality performance measures are based on compliance with a minimum standard of performance. For some measures, the standards are only what is set out in legislation, whereas other measures are based on service levels beyond what is mandated.</p>	<p>page 183</p>
<p>RECOMMENDATION 31</p> <p>Departments review quality performance measures that are solely based on compliance with legislation, to identify whether more challenging service levels might be set as targets.</p>	<p>page 183</p>
<p>FINDING</p> <p>Some performance measures have dates as targets. No guidance is given in the Model Report to indicate how to determine whether a delay in a completion date is to be considered significant or material.</p>	<p>page 184</p>
<p>RECOMMENDATION 32</p> <p>The Department of Treasury and Finance provide guidance in the Model Report to help departments determine whether a delay in a performance measure with a date as a target is significant or material.</p>	<p>page 184</p>
<p>FINDING</p> <p>There are instances of performance measures where the result was previously given in terms of 50th and 90th percentiles and is now given as a single result, which reduces the ability for stakeholders to fully understand the performance of departments. Other performance measures would also be made more meaningful through reporting results at the 50th and 90th percentiles.</p>	<p>page 184</p>

<p>RECOMMENDATION 33</p> <p>Departments review their performance measures to determine whether providing results at the 50th and 90th percentiles would convey a more comprehensive understanding of departmental performance to stakeholders.</p>	page 184
<p>FINDING</p> <p>A number of performance measures relate to whether or not a task was completed. However, measures of when the task was completed or how well the task was completed would convey more information about departmental performance.</p>	page 186
<p>RECOMMENDATION 34</p> <p>Departments review those performance measures which solely indicate whether or not a task was performed and, where meaningful, replace them with measures of the timeliness or quality of the task's performance.</p>	page 186
<p>FINDING</p> <p>The Department of Transport's 'Regional Rail Link' output performance measure provides no sufficiently meaningful information and its results are ambiguous.</p>	page 186
<p>RECOMMENDATION 35</p> <p>The Department of Transport revise its performance measure 'Regional Rail Link' to more clearly define the measure.</p>	page 186
<p>FINDING</p> <p>When preparing targets for performance measures for the next year, expected outcomes for the current year are calculated. These are included in the budget papers. In 2010-11, the expected outcomes suggested that 203 measures would vary significantly from target. The actual results, however, were that 360 measures had significant variances.</p>	page 187
<p>FINDING</p> <p>Some inaccurate expected outcomes for performance measures have come about through inappropriately using data, failing to use data and through miscalculations.</p>	page 188
<p>FINDING</p> <p>Although many performance measures' targets are adjusted in line with historic results, there are some measures where historic results appear not to have been taken into account.</p>	page 190

<p>FINDING</p> <p>Victoria Police has indicated that the target for the 'Reduction in crimes against the person' performance measure has been set with regard to criteria in addition to past or expected future performance.</p>	<p>page 190</p>
<p>RECOMMENDATION 36</p> <p>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.</p>	<p>page 190</p>
<p>FINDING</p> <p>The Department of Business and Innovation has significantly exceeded target levels for its 'New Investments Facilitated' performance measure for several years. Current procedures are not providing realistic expected outcome or target figures for this performance measure.</p>	<p>page 193</p>
<p>RECOMMENDATION 37</p> <p>The Department of Business and Innovation develop new procedures to calculate expected outcomes and targets for performance measures.</p>	<p>page 193</p>
<p>FINDING</p> <p>There are examples where the Department of Treasury and Finance appears not to be fulfilling its role (as set out in the Budget and Financial Management Guidances) of reviewing departmental performance measures for their relevance and robustness.</p>	<p>page 193</p>
<p>RECOMMENDATION 38</p> <p>The Department of Treasury and Finance ensure that it has systems in place to identify errors in the calculation of expected outcomes for performance measures.</p>	<p>page 194</p>
<p>RECOMMENDATION 39</p> <p>The Department of Treasury and Finance ensure that it has systems in place to assess whether targets as suggested by departments are appropriately realistic and robust.</p>	<p>page 194</p>
<p>FINDING</p> <p>The Department of Treasury and Finance has a role in providing accurate information to the Government to assist in decision-making about resource allocation. As part of this, the Department should ensure that the expected outcomes in the budget papers are accurate.</p>	<p>page 194</p>
<p>RECOMMENDATION 40</p> <p>The Department of Treasury and Finance develop a new quality performance measure for itself that measures the accuracy of the expected outcomes published in the budget papers.</p>	<p>page 194</p>

<p>FINDING</p> <p>Departments are required to provide explanations for significant or material variances between targets and actual results in their annual reports. However, many explanations provided were unsatisfactory, due to providing unclear or incomplete reasons, failing to identify the root cause, being simply a restatement that there was a variance, failing to identify whether the factors were internal or external or providing speculative reasons.</p>	<p>page 197</p>
<p>RECOMMENDATION 41</p> <p>The Department of Treasury and Finance provide more guidance to departments on required standards of explanations for variances for performance measures.</p>	<p>page 197</p>
<p>FINDING</p> <p>There are examples of variances that are significant or material that do not have explanations given in annual reports.</p>	<p>page 198</p>
<p>FINDING</p> <p>There is at least one instance in 2010-11 where an actual result included in an annual report has been an estimate without this being disclosed in the annual report.</p>	<p>page 199</p>
<p>RECOMMENDATION 42</p> <p>The Department of Treasury and Finance amend the Model Report to instruct departments to identify any figures reported as actual results in annual reports which are estimates.</p>	<p>page 199</p>

CHAPTER 6: GENERAL GOVERNMENT SECTOR ASSET INVESTMENT IN 2009-10 AND 2010-11

Section 6.1 Introduction

<p>FINDING</p> <p>For the general government sector, asset investment totalled \$5.9 billion in 2009-10 and \$6.8 billion in 2010-11, an increase from \$4.3 billion for 2008-09.</p>	<p>page 202</p>
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Section 6.2 *‘Investment in financial assets for policy purposes’*

<p>FINDING</p> <p>Over \$1.2 billion in 2009-10 and \$1.9 billion in 2010-11 was invested in ‘investments in financial assets for policy purposes’. However, there is no clear definition of this category nor explicit post-project reporting of these investments, either in terms of investment outcome or the achievement of policy aims.</p>	<p>page 203</p>
<p>RECOMMENDATION 43</p> <p>The Department of Treasury and Finance provide a plain English definition of ‘investments in financial assets for policy purposes’ as well as a report detailing the investments that were funded under this item and the outcomes of these investments.</p>	<p>page 203</p>

Section 6.3 *Investigation of asset projects*

<p>FINDING</p> <p>There were 297 departmental asset investment projects in the 2009-10 budget papers that continued in 2010-11. These projects had an aggregate TEI in the 2009-10 budget papers of \$12,049.8 million, which was revised to \$12,293.7 million in the 2010-11 budget papers, an increase of \$243.9 million. These changes are not currently discussed in departments’ annual reports.</p>	<p>page 206</p>
<p>FINDING</p> <p>Projects that have their TEI figures significantly revised upwards are more likely to be large projects. Projects that have their TEI figures significantly revised downwards are more likely to be small projects.</p>	<p>page 206</p>
<p>FINDING</p> <p>The Department of Education and Early Childhood Development contributed the majority of the upward revisions in TEI for projects between 2009-10 and 2010-11.</p>	<p>page 208</p>
<p>FINDING</p> <p>The greatest downward variation in TEI was from the Commonwealth-funded component of one project administered by the Department of Transport.</p>	<p>page 208</p>
<p>FINDING</p> <p>There were 251 projects that were included in the 2010-11 budget papers and again in the 2011-12 budget papers. These projects had an aggregate TEI in the 2010-11 budget papers of \$12,288.8 million, which was increased to \$12,588.1 million in the 2011-12 budget papers, a growth of \$299.3 million.</p>	<p>page 209</p>

<p>FINDING</p> <p>As in 2009-10, in 2010-11 projects that had their TEIs significantly revised upwards were more likely to be large projects. Additional changes to large projects foreshadowed by the Government but not yet quantified are expected to reinforce this relationship.</p>	<p>page 209</p>
<p>FINDING</p> <p>The largest upward variation in TEI between 2010-11 and 2011-12 was for the Department of Health. This was due to increases in TEI for the Bendigo Hospital Redevelopment project and the HealthSMART project. The increased TEI of HealthSMART seems to be a change of reporting rather than additional funding.</p>	<p>page 211</p>
<p>FINDING</p> <p>Of the projects whose TEIs were reduced downwards between 2010-11 and 2011-12, the largest revision was in the Department of Planning and Community Development. The Department did not disclose the root cause for the change in the budget papers.</p>	<p>page 211</p>
<p>FINDING</p> <p>In 2009-10, the actual expenditure on 239 projects varied significantly from the budget estimate. The net effect of these variations was an under-expenditure of \$785.5 million.</p>	<p>page 214</p>
<p>FINDING</p> <p>For 2009-10, the greatest expenditure variances from budget estimates were from the Department of Education and Early Childhood Development in terms of dollar amounts, and the Department of Innovation, Industry and Regional Development in proportionate terms.</p>	<p>page 215</p>
<p>FINDING</p> <p>During 2010-11, the expenditure on 244 projects varied significantly from their budget estimates. Overall, the effect of these variations was an under-expenditure of \$679.3 million.</p>	<p>page 216</p>
<p>FINDING</p> <p>For 2010-11, the Department of Transport had the greatest variances (both upwards and downwards) from budget in terms of dollar amounts.</p>	<p>page 217</p>
<p>FINDING</p> <p>For projects in 2010-11 where expenditure varied significantly from budget estimates, the Department of Business and Innovation showed the largest upward variation (as a proportion of budget) and the Department of Planning and Community Development showed the largest downward variation.</p>	<p>page 218</p>

<p>FINDING</p> <p>For both 2009-10 and 2010-11, expenditure was significantly less than the budget, leading to carryovers for asset projects in subsequent years.</p>	<p>page 218</p>
<p>FINDING</p> <p>For projects where there was a variation between actual expenditure and budget estimates, the Department of Business and Innovation (formerly the Department of Innovation, Industry and Regional Development) had the highest upward variations in percentage terms for both 2009-10 and 2010-11 compared to all other departments.</p>	<p>page 219</p>
<p>RECOMMENDATION 44</p> <p>The Department of Business and Innovation investigate ways of decreasing variances between budget estimates of yearly expenditure and actual asset expenditure in a year.</p>	<p>page 219</p>
<p>FINDING</p> <p>Delays in asset projects in 2009-10 and 2010-11 far outweighed early project completions.</p>	<p>page 221</p>
<p>FINDING</p> <p>Data about final TEIs and completion dates, compared to original TEIs and completion dates, are not generally made available at the completion of projects. Although some information on the progress of asset projects is reported in various documents, no systematic reporting is made of final results.</p>	<p>page 222</p>
<p>RECOMMENDATION 45</p> <p>In updating the 2011-12 Model Report, the Department of Treasury and Finance require departments to report on all completed asset investment projects. This report should include:</p> <ul style="list-style-type: none"> (a) the total actual investment; (b) the total estimated investment reported at the start of the project; (c) the final completion date; (d) the completion date reported at the start of the project; (e) a description of issues that caused variances in the project; and (f) how the department intends to avoid such issues in future similar projects. 	<p>page 222</p>
<p>FINDING</p> <p>Projects identified by the Government as 'high value, high risk', projects identified as having cost pressures and projects assisted by Major Projects Victoria had proportionately larger budget under-expenditures, proportionately smaller budget over-expenditures and longer delays than the wider 'all projects' group.</p>	<p>page 226</p>

<p>FINDING</p> <p>Major Projects Victoria has commissioned a study to compare the Victorian Government's contract delivery performance with large-scale capital projects to projects undertaken by interstate governments and the private sector.</p>	<p>page 227</p>
<p>RECOMMENDATION 46</p> <p>The benchmark study commissioned by Major Projects Victoria to compare the contract delivery performance of large-scale capital projects undertaken by the Victorian Government with similar projects undertaken by interstate governments and the private sector be made publicly available.</p>	<p>page 227</p>
<p>FINDING</p> <p>Although Major Projects Victoria reported an actual result of 100 per cent for its performance measure of projects complying with agreed plans, the Committee's data show that actual expenditure for most of Major Projects Victoria's asset investment projects in 2009-10 and 2010-11 varied significantly from budget estimates and that half of the projects experienced significant delays to their completion dates. With respect to expenditure and timeliness, Major Projects Victoria's projects performed more poorly than the average project for Victoria.</p>	<p>page 228</p>
<p>RECOMMENDATION 47</p> <p>The Department of Business and Innovation develop a set of performance measures for Major Projects Victoria that measures the performance of projects assisted by the unit compared to original targets.</p>	<p>page 229</p>
<p>RECOMMENDATION 48</p> <p>The Victorian Auditor-General's Office conduct a performance audit of Major Projects Victoria to ensure that it:</p> <p>(a) delivers value for money; and</p> <p>(b) has appropriate mechanisms in place to demonstrate that it delivers value for money.</p>	<p>page 229</p>
<p>FINDING</p> <p>The projects contributing to the 'Delivery of nominated Major Projects Victoria projects complies with agreed plans' performance measure change from year to year and do not include all active projects. However, the Department of Business and Innovation does not usually disclose which projects have been included for any year.</p>	<p>page 229</p>
<p>RECOMMENDATION 49</p> <p>The Department of Business and Innovation include in the Department's annual report a list of projects that contribute to the key performance measure 'Delivery of nominated Major Projects Victoria projects complies with agreed plans' in that year.</p>	<p>page 229</p>

Section 6.4 Existing reporting mechanisms

<p>FINDING</p> <p>Budget papers are forward-looking documents and do not provide details of variances between budgeted and actual expenditure in previous years.</p>	<p>page 232</p>
<p>FINDING</p> <p>There are instances where the identification of a project in the following year's budget papers is difficult due to amalgamation of projects or splitting projects.</p>	<p>page 233</p>
<p>RECOMMENDATION 50</p> <p>Asset investment projects reported in the budget papers should be uniquely identified to allow an unambiguous determination of the project in successive years.</p>	<p>page 233</p>
<p>FINDING</p> <p>The Committee has identified a number of cases in which the estimated expenditure to 30 June in the budget papers has been significantly inaccurate.</p>	<p>page 234</p>
<p>FINDING</p> <p>The Committee has identified two cases where the budget papers are reporting out-of-date information about asset investment projects.</p>	<p>page 235</p>
<p>RECOMMENDATION 51</p> <p>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.</p>	<p>page 235</p>
<p>FINDING</p> <p>The reporting of the HealthSMART project in the budget papers contains some unusual elements and does not clearly communicate what is occurring with that project.</p>	<p>page 236</p>
<p>FINDING</p> <p>The current system of reporting asset projects does not provide stakeholders with comprehensive and reliable information on the projects.</p>	<p>page 236</p>
<p>RECOMMENDATION 52</p> <p>To complement the State Capital Program budget paper, actual results for all asset projects should be reported each year in a single source at the end of the financial year. Consideration should be given to including, as a minimum, the information suggested in Section 6.4.2 of this report.</p>	<p>page 236</p>

CHAPTER 7: OUTCOMES ACHIEVED IN 2009-10 AND 2010-11

Section 7.2 *Growing Victoria Together*

<p>FINDING</p> <p>The previous government's overall vision, <i>Growing Victoria Together</i>, provided five visions, with ten goals and 36 measures associated with them. By the change of government, 20 measures (56 per cent) had been met or partially met, while nine measures (25 per cent) had not been met. For seven measures (19 per cent) it was not possible to tell whether or not the measures had been met, due to data not being available or the targets being set for future years.</p>	<p>page 239</p>
<p>FINDING</p> <p>For the 'thriving economy' vision, four measures were met, one was partially met, one was not met and the Committee was unable to fully determine whether or not two measures were met.</p>	<p>page 241</p>
<p>FINDING</p> <p>For the 'quality health and education' vision, two measures were met, two measures were partially met and three measures were not met.</p>	<p>page 244</p>
<p>FINDING</p> <p>For the 'healthy environment' vision, one measure was met, two partially met, one not met and the Committee was unable to determine whether or not four measures had been met, due to lack of data.</p>	<p>page 247</p>
<p>FINDING</p> <p>For the 'caring communities' vision, two measures were met, two measures were partially met, three measures were not met, while with one measure the Committee was unable to determine if the measure was fully achieved.</p>	<p>page 250</p>
<p>FINDING</p> <p>For the 'vibrant democracy' vision, four measures were met and one was not met.</p>	<p>page 251</p>

Section 7.3 *Outcomes achieved by the 57th Parliament*

<p>FINDING</p> <p>Details supplied by departments indicate a wide variety of planned outcomes that were achieved between the election and the end of 2010-11. Only one department indicated any significant program outcomes that were not achieved in that period.</p>	<p>page 252</p>
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CHAPTER 8: THE VICTORIAN AUDITOR-GENERAL'S OFFICE IN 2010-11

Section 8.3 Reports and advice

<p>FINDING</p> <p>During 2010-11, the Victorian Auditor-General's Office (VAGO) tabled 39 reports in Parliament, compared to a target of 37. VAGO's annual report currently provides information in terms of quality, cost and timeliness. It also reports in aggregate on the size of each report.</p>	<p>page 258</p>
<p>RECOMMENDATION 53</p> <p>The Victorian Auditor-General's Office add to the information currently provided in its annual report:</p> <p>(a) the audit cost compared to the original budget for each audit; and</p> <p>(b) the anticipated tabling date for each performance audit report planned to be completed in the following year.</p>	<p>page 259</p>
<p>FINDING</p> <p>Thirty performance audit reports were tabled in 2010-11 compared to a target of 28. Four reports planned for 2010-11 were not tabled in that year and three planned for other years were tabled in 2010-11.</p>	<p>page 260</p>
<p>FINDING</p> <p>When providing an update on its website of the performance audits in progress, which includes the month when each report is currently expected to be tabled, VAGO does not indicate in which financial year each report was initially planned to be completed.</p>	<p>page 261</p>
<p>RECOMMENDATION 54</p> <p>When publishing material on its website in relation to performance audits in progress, which includes information about when each report is expected to be tabled, the Victorian Auditor-General's Office also include particulars of the year in which each audit was initially earmarked for completion.</p>	<p>page 261</p>
<p>FINDING</p> <p>During 2010-11, VAGO achieved its target of having 90 per cent of reports tabled within one month of the planned tabling dates (35 out of 39 reports), compared to 81 per cent (26 out of 32) for the previous year.</p>	<p>page 261</p>
<p>FINDING</p> <p>Where VAGO reported that 98 per cent of Parliamentarians were satisfied or very satisfied with VAGO's reports and services in 2010-11, this result was based on the responses of 40 out of the 128 members of Parliament.</p>	<p>page 263</p>

<p>RECOMMENDATION 55</p> <p>The Victorian Auditor-General’s Office explore avenues for having a greater focus on the statutory requirements in section 3A(1)(b) of the <i>Audit Act 1994</i> in relation to examining effectiveness and economy in the conduct of performance audits in future.</p>	page 263
<p>FINDING</p> <p>There is potential for expanding the criteria for assessing performance audit reports to include an assessment of whether they address the concept of ‘efficiency’.</p>	page 265
<p>RECOMMENDATION 56</p> <p>In relation to the annual peer review of performance audit reports, the Victorian Auditor-General consider discussing with the Australasian Council of Auditors-General the possibility of expanding the criteria to include a focus on efficiency.</p>	page 265
<p>RECOMMENDATION 57</p> <p>The Victorian Auditor-General’s Office reconsider establishing a performance measure that quantifies the impact that performance audits have had in terms of public sector entities generating efficiency gains from their operations.</p>	page 265

Section 8.4 Parliament

<p>FINDING</p> <p>In addition to providing private briefings to members of Parliament, the Auditor-General provides briefing sessions for each report. On average, seven members of Parliament attend the briefing sessions conducted about each report.</p>	page 267
<p>RECOMMENDATION 58</p> <p>The Victorian Auditor General’s Office obtain feedback on how briefing sessions on the key findings of the Auditor-General’s reports could be made more appealing or convenient to members of Parliament in order to increase the attendance rate in the future.</p>	page 267

Section 8.5 Audit clients

<p>FINDING</p> <p>VAGO achieved a client satisfaction rating score of 67 compared to a target of 75. VAGO has included a more objective means to be reported on in future years.</p>	<p>page 269</p>
<p>RECOMMENDATION 59</p> <p>To assist in interpreting the overall quality of performance audits, the Victorian Auditor-General’s Office supplement information reported against its performance measures by:</p> <p>(a) benchmarking the average score of audit reports by external assessors against other jurisdictions; and</p> <p>(b) disclosing the credentials of the external assessors.</p>	<p>page 269</p>
<p>FINDING</p> <p>Eighty per cent of performance audit clients surveyed reported that they received a clear explanation of the audit approach. The independent performance auditor of VAGO identified a number of ways in which audit clients suggested potential improvements.</p>	<p>page 271</p>
<p>RECOMMENDATION 60</p> <p>To strengthen relationships with audit clients, the Victorian Auditor-General’s Office:</p> <p>(a) examine the reasons why particular performance audit clients considered that the audit approach had not been clearly explained to them; and</p> <p>(b) adopt appropriate means to improve communication with clients.</p>	<p>page 271</p>

Section 8.6 People

<p>FINDING</p> <p>The average level of training provided to staff of 6.7 days in 2010-11 was around twice the level provided by a comparative independent review body and compared favourably with that of the Australian National Audit Office where an average of 6.2 days was provided in 2010-11.</p>	<p>page 273</p>
<p>RECOMMENDATION 61</p> <p>The Victorian Auditor-General’s Office disclose in its annual report the level of expenditure incurred on staff training and development in each year.</p>	<p>page 273</p>

<p>FINDING</p> <p>VAGO did not include any information in its annual report about the specific areas where it was evident from the staff survey that improvement was necessary with respect to organisational alignment.</p>	<p>page 273</p>
<p>RECOMMENDATION 62</p> <p>The Victorian Auditor-General's Office disclose in its annual report key areas of organisational alignment identified through staff surveys as requiring improvement, together with strategies to address these areas of concern.</p>	<p>page 273</p>
<p>FINDING</p> <p>The outcome of the staff survey undertaken by the independent performance auditor of the Victorian Auditor-General's Office in June 2010 revealed that only 58 per cent of respondents would recommend the Victorian Auditor-General's Office as a preferred employer.</p>	<p>page 274</p>
<p>RECOMMENDATION 63</p> <p>The Victorian Auditor-General's Office consider surveying staff on a continuous basis about whether they would recommend the Victorian Auditor-General's Office as a preferred employer and, if not, the reasons for which they have not given positive responses. These matters should be addressed where appropriate.</p>	<p>page 275</p>
<p>FINDING</p> <p>The staff turnover ratio at the Victorian Auditor-General's Office increased from 17 per cent in 2009-10 to 29 per cent in 2010-11. The voluntary turnover rate increased marginally from 17 per cent to 20 per cent.</p>	<p>page 276</p>
<p>FINDING</p> <p>VAGO has either launched or planned a wide range of development and retention initiatives.</p>	<p>page 276</p>
<p>FINDING</p> <p>VAGO has implemented various initiatives that are linked to being collaborative, agile and innovative in the workplace.</p>	<p>page 279</p>

Section 8.7 Organisation

<p>FINDING</p> <p>In terms of leveraging systems and processes to improve organisational performance, demonstrated outcomes for 2010-11 included the following:</p> <ul style="list-style-type: none"> – as indicated in Section 8.3.1 of this chapter, 90 per cent of reports were tabled on time, which represented an improvement on 2009-10; – 94 per cent of financial audit opinions were issued within three months; and – the average cost per financial and performance audits was significantly lower according to VAGO than comparable Australian audit offices. 	<p>page 280</p>
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Section 8.8 Disclosure of operational activities on a regional basis

<p>FINDING</p> <p>VAGO does not disclose on a geographic basis the spread of its audit coverage of the State.</p>	<p>page 282</p>
<p>RECOMMENDATION 64</p> <p>To illustrate the breadth of audit activity and the way in which audit resources are deployed throughout Victoria, the Victorian Auditor-General’s Office report on the geographic coverage of audits (both financial and performance). This may be disclosed in the Victorian Auditor-General’s Office’s annual report or on its website.</p>	<p>page 282</p>

CHAPTER 9: THE GOVERNMENT RESPONSES TO THE COMMITTEE’S REPORT ON THE 2008-09 FINANCIAL AND PERFORMANCE OUTCOMES

Section 9.1 Summary of the Government responses to the Committee’s report on the 2008-09 financial and performance outcomes

<p>FINDING</p> <p>Of the Committee’s 67 recommendations in its <i>Report on the 2008-09 Financial and Performance Outcomes</i>, the previous Government accepted 61 (91 per cent), was reviewing one (1 per cent), rejected four (6 per cent) and did not respond to one (1 per cent). The one to which the Government did not respond related to the Parliamentary Departments, which rejected it.</p>	<p>page 284</p>
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<p>FINDING</p> <p>Of the 61 recommendations that were accepted or under review by the previous Government, 33 (54 per cent) have been fully implemented to date.</p>	<p>page 286</p>
<p>FINDING</p> <p>There were 11 accepted recommendations from the <i>Report on the 2008-09 Financial and Performance Outcomes</i> that were to be implemented as part of the Public Finance and Accountability Bill. Because the Bill did not pass in Parliament, these recommendations have not been implemented.</p>	<p>page 286</p>
<p>RECOMMENDATION 65</p> <p>The Government reconsider implementing (via appropriate guidance materials) the recommendations noted in Table 9.3 that were accepted by the previous Government and to be implemented as part of the Public Finance and Accountability Bill.</p>	<p>page 287</p>

Section 9.2 Quality of the Government's responses

<p>FINDING</p> <p>Overall, the Committee was pleased with the quality of responses to the <i>Report on the 2008-09 Financial and Performance Outcomes</i>. However, the Committee notes that six recommendations that were accepted in principle might have been better classified as 'under review', and two accepted recommendations might have been better classified as 'reject'.</p>	<p>page 292</p>
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CHAPTER 1: INTRODUCTION

1.1 Background

The Committee's Inquiry into the 2009-10 and 2010-11 Financial and Performance Outcomes has examined the use of government funds by government departments and agencies in 2009-10 and 2010-11. As part of this inquiry, the Committee has looked at what was achieved in those years and, particularly, how those achievements compare to stated expectations. The Committee has also examined how entities reported their achievements to the Parliament and the community, to ensure that mechanisms are in place to provide the appropriate levels of accountability and transparency.

As a result of this inquiry, the Committee has produced two reports.

- The *Review of the 2009-10 and 2010-11 Annual Reports* was tabled in February 2012. That report examines the annual reports of 21 entities. It specifically looks at what information the entities chose to include and how they presented that information. In that report, the Committee made 43 recommendations about ways that reporting could be improved in the future.
- This report, the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, focuses on the outcomes actually achieved by departments and agencies in those years. It compares those outcomes to the targets, goals and objectives set before the start of the year and to the outcomes of prior years. The purpose of this report is to provide an overview of departments' and agencies' performance, identifying any areas of concern and any areas where the Committee believes that additional disclosure in future years would be in the public interest.

1.2 Comparing actual results to targets, goals and objectives

As noted above, this report examines how the achievements of government entities (i.e. departments and agencies) compare to the Government's targets, goals and objectives. The main source that the Committee has drawn on for understanding the Government's targets, goals and objectives has been the budget papers. These are produced each May before the start of the financial year and include:

1. overall financial objectives (in the Strategy and Outlook budget paper);
2. estimates of financial results for the year ahead (in areas such as revenue, expenditure and levels of debt) for the general government sector and the public sector as a whole (in the Statement of Finances budget paper);
3. estimates of financial results for the year ahead for each department (in the Statement of Finances budget paper);
4. performance measures, with targets for the year ahead, for each department (in the Service Delivery budget paper); and
5. specific estimates of expenditure for the year ahead for asset investment (infrastructure) projects (in the Public Sector Asset Investment Program budget information paper).

As shown in Figure 1.1, the actual results compared to targets, goals and objectives for the first two categories above are reported in the annual Financial Report for the State. Chapters 2 and 3 of this report examine the actual outcomes compared to these targets, goals and objectives.

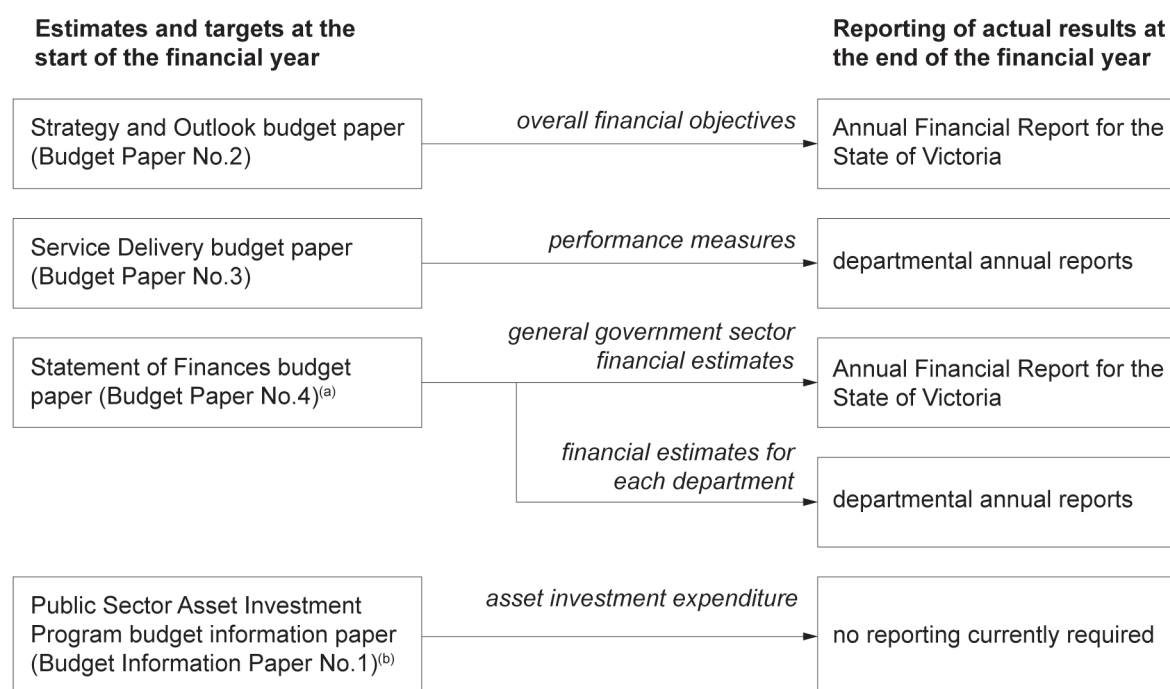
Departments' annual reports are required to include a report on their financial performance compared to the budget estimates (the third category above). These are discussed in Chapter 4 of this report.

Departments' annual reports are also required to include details of the actual results for all of the performance measures set out in the budget papers (the fourth category above), along with explanations for significant or material variances from the targets. The Committee's analysis of departments' performance on these measures, and an assessment of the explanations provided in annual reports, is included in Chapter 5 of this report.

In all of these chapters, the disclosures in the annual Financial Reports for the State and the annual reports of government entities have been supplemented with information received by the Committee in response to its 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire.

There are currently no requirements for departments to report on their progress with respect to asset investment projects. As these projects have involved more than \$5 billion of funding each year in recent years, the Committee considers that this lack of reporting is a serious deficiency in the current reporting requirements. The former Committee made a number of recommendations on this matter during the 56th Parliament. The current Government has agreed to improve this situation in future years (see further discussion in Chapter 6). For this inquiry, the Committee sought details from departments about asset investment in the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire. Based on the responses to the questionnaire, the Committee has undertaken an analysis of asset investment in 2009-10 and 2010-11, which is included in Chapter 6.

Figure 1.1: Reporting on targets, goals and objectives set out in the budget papers



Notes:

(a) published as Budget Paper No.5 in the 2011-12 Budget

(b) published as Budget Paper No.4 in the 2011-12 Budget

Source: Public Accounts and Estimates Committee

Targets, goals and objectives are published by the Government in a variety of policy documents, as well as in the budget papers. In particular, the previous government produced an overall set of visions called *Growing Victoria Together*, which set visions and goals for the State as a whole. Each goal had a number of measures associated with it and most measures included targets that were due to be accomplished by 2010. Chapter 7 of this report examines to what extent these targets were met before the change of government in November 2010. The chapter also examines the goals and objectives of the current government, elected in November 2010.

1.3 Other matters examined in this report

In addition to examining government entities' performance compared to their targets, goals and objectives, this report also explores their performance relative to prior years. A number of issues arising from the outcomes achieved in 2009-10 and 2010-11 are also identified and discussed.

In addition, the Committee has produced a chapter looking at the performance of the Victorian Auditor-General's Office in 2010-11 (Chapter 8 of this report). The Committee has included this chapter as part of its oversight role with respect to the Office.

Finally, Chapter 9 of this report examines the previous government's responses to the Committee's last report on financial and performance outcomes. In particular, the Committee has noted what recommendations were accepted, what were rejected and how many of those that were accepted have been implemented to date.

1.4 Scope of this report

This report is focused on the outcomes achieved by the public sector in 2009-10 and 2010-11 and the performance of departments and agencies in delivering those outcomes. There is some discussion about the financial outcomes achieved by the Victorian public sector as a whole (referred to as the 'State of Victoria') in Chapters 2 and 3. Most of the report, however, is focused on the general government sector, which includes '*all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production.*'¹ The general government sector can be distinguished from the public non-financial corporation sector (which recovers most of its costs through selling its goods and services) and the public financial corporation sector (which provides financial services).²

Both financial and performance outcomes have been examined in this report. The Committee has looked at how the key financial results of departments, agencies, the general government sector and the public sector as a whole compared to previous years' results and to estimates for 2009-10 and 2010-11. The Committee has also examined what goods and services were delivered with that money. The Committee has sought to determine whether those goods and services met the targets were set for them, both in terms of the outputs (that is, what was delivered) and in terms of the outcomes (that is, the results of these outputs' delivery in the community).

As the quality of disclosure in annual reports was examined in the *Review of the 2009-10 and 2010-11 Annual Reports*, this has not been the main focus for this report. However, a number of areas where disclosure in annual reports could be improved have been identified in developing this report and recommendations made accordingly. Thus, a substantial proportion of the recommendations in this report are focused on areas where additional disclosure would be appropriate.

As the two years covered by this report span the change of government in November 2010, the Committee's examination looks at both the 56th and 57th Parliaments. It therefore looks at performance relative to two different governments' objectives and goals.

Chapter 8 of this report examines the Victorian Auditor-General's Office (VAGO) in more detail than any other government agency. This is because the Committee has a special role to oversee VAGO.

1.4.1 Matters outside the scope of this review

This report is mostly focused on the outcomes achieved by the general government sector. The Committee considers that there could be value in an examination of the other components of the public sector (the public non-financial corporations and the public financial corporations), but time has not permitted such an examination to occur as part of this report other than at the high level in Chapters 2 and 3.

The review is focused primarily on 2009-10 and 2010-11. To provide context for the results in those years, data from 2008-09 have been used in many analyses. Longer-term trend data has only been used in dealing with selected matters. However, the Committee is in the process

1 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.202

2 *ibid.*, pp.205-6

of developing some databases that will facilitate additional use of longer-term trend data in future reports.

1.5 The review process

The majority of information used in this review has come from three sources:

- the 2009-10 and 2010-11 Financial Reports for the State of Victoria;
- departments' and agencies' annual reports; and
- the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire (and requests for further clarification that followed the Committee's receipt of the responses).

Copies of the responses to the questionnaire and further clarification points are all available on the Committee's website (www.parliament.vic.gov.au/paec).

1.5.1 *The 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire*

The Committee's questionnaire was sent out in two parts to all government departments and selected agencies as indicated in Table 1.1 below. Further clarification points were also sent to selected entities, as indicated in the table.

Table 1.1: Departments and agencies to which the Committee sent the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire

Entity	Questionnaire part one	Questionnaire part two	Further clarification points
Alfred Health	X		
Ambulance Victoria	X	X	
Austin Health	X		
Barwon Health	X		
Barwon Water	X		
City West Water Limited	X		
Country Fire Authority	X	X	
Department of Business and Innovation	X	X	X
Department of Education and Early Childhood Development	X	X	X
Department of Health	X	X	X
Department of Human Services	X	X	X
Department of Justice	X	X	X
Department of Planning and Community Development	X	X	X
Department of Premier and Cabinet	X	X	X
Department of Primary Industries	X	X	X
Department of Sustainability and Environment	X	X	X
Department of Transport	X	X	X
Department of Treasury and Finance	X	X	X
Eastern Health	X		
Emergency Services Telecommunications Authority	X	X	
Goulburn Murray Rural Water Authority	X		
Melbourne Health	X		
Melbourne Water Corporation	X		
Metropolitan Fire and Emergency Services Board	X	X	
National Gallery of Victoria	X		
Parks Victoria	X		
Parliamentary Departments	X	X	
Port of Melbourne Corporation	X		
Regional Development Victoria	X		
Royal Children's Hospital	X		
Rural Finance Corporation of Victoria	X		
South East Water Limited	X		
Southern Health	X		
Transport Accident Commission	X		

Entity	Questionnaire part one	Questionnaire part two	Further clarification points
Treasury Corporation of Victoria	X		
VicRoads (Roads Corporation)	X		
Victoria Police	X	X	
Victoria State Emergency Service Authority	X	X	
Victorian Auditor-General's Office	X	X	X
Victorian Funds Management Corporation	X		
Victorian Managed Insurance Authority	X		
Victorian Skills Commission	X		
Victorian WorkCover Authority (Worksafe Victoria)	X		
VicTrack	X		
VicUrban (Victorian Urban Development Authority)	X		
V-Line Passenger Corporation	X		
Western Health	X		
Yarra Valley Water Limited	X		

Source: *Public Accounts and Estimates Committee*

Part One of the questionnaire contained generic questions for all entities (as appropriate) about their:

- outputs and the associated performance measures;
- asset investment;
- revenue and revenue foregone;
- expenditure and savings;
- workforce;
- outcomes achieved; and
- adaptation to the change of government.

Part Two of the questionnaire was developed individually for each entity. It consisted of specific questions arising from the Committee's review of the entities' annual reports (and, in the case of the Department of Treasury and Finance, also from the Committee's review of the Financial Reports for the State).

The requests for further clarification sought additional details about responses that had been given in either part one or part two of the questionnaire. In two cases, the request also followed up details from the Government's responses to a previous report on financial and performance outcomes.

1.5.2 Timeliness and quality of responses

All departments and agencies to which the Committee sent questionnaires responded to them. The Committee particularly appreciates the effort made by those entities which provided their questionnaire responses by the deadlines. However, a large number of responses were returned to the Committee well after the deadlines (see Table 1.2). This caused some significant difficulties for the Committee in meeting its planned tabling dates and reduced the length of time that the Committee had available to scrutinise and analyse the data.

Table 1.2: Timeliness of responses to the Committee's questionnaire

Entity ^(a)	Questionnaire part one received ^(b) (due 2 December 2011)	Questionnaire part two received ^(b) (due 13 December 2011)	Further clarification points received ^(b) (due 2 March 2012) ^(c)
Department of Business and Innovation	5 January 2012	23 December 2011	8 March 2012
Department of Education and Early Childhood Development	6 January 2012	6 January 2012	2 March 2012
Department of Health	6 January 2012	19 January 2012	2 March 2012
Department of Human Services	5 January 2012	19 January 2012	2 March 2012
Department of Justice	12 January 2012	18 January 2012	7 March 2012
Department of Planning and Community Development	31 January 2012	31 January 2012	5 March 2012
Department of Premier and Cabinet	5 January 2012	5 January 2012	15 March 2012
Department of Primary Industries	12 December 2011	21 December 2011	2 March 2012
Department of Sustainability and Environment	5 January 2012	21 December 2011	2 March 2012
Department of Transport	11 January 2012	22 December 2011	6 March 2012
Department of Treasury and Finance	20 January 2012	24 January 2012	5 March 2012
Parliamentary Departments	2 December 2011	14 December 2011	n/a
Victorian Auditor-General's Office	2 December 2011	13 December 2011	21 March 2012

Note:

- (a) *The Committee asked departments to co-ordinate the responses of all of their portfolio agencies and provide the responses to the Committee together; therefore only the departments have been listed in this table.*
- (b) *The dates listed are those on which final responses were received – in four cases, initial responses to part one received by the Committee were deemed inadequate and the Committee requested that the response be re-submitted. All were re-submitted. Some departments received extensions of one week for parts one or two and four days for the further clarification points.*
- (c) *Except for the Victorian Auditor-General's Office, whose response was due on 7 March 2012.*

Source: *Public Accounts and Estimates Committee*

In addition to being well past the due date, there were a number of cases where the responses provided by departments were unsatisfactory. In four cases, there were so many unsatisfactory responses in the first version of the response submitted by the department that the Committee insisted on the departments resubmitting the questionnaire. All four departments did return more fulsome responses.

In addition to these cases, a number of departments answered some questions in ways that were particularly uninformative. For example, in response to a question seeking an explanation for a significant variation between the estimated and actual expenditure on a project, the Department of Treasury and Finance simply stated:³

Pattern of expenditure has not been totally consistent with original estimates.

Similarly, in response to a question seeking an explanation of why one of the Department of Transport's projects had a revised completion date, the Department advised:⁴

The revised completion date reflects earlier than expected completion of station and track works.

Both of these responses simply restated what had occurred rather than providing an explanation. There were many other responses similar to these that were received.

The Committee also notes a number of cases in which departments changed the question in the questionnaire and answered the modified question rather than the original question that the Committee had asked. This was done in some cases without any explanatory note.

Many of the questions that were asked in the further clarification points were instances where either uninformative responses had been given or the department had modified the original question.

The Committee considers that this pattern of providing late responses, uninformative responses and changing the questions that have been asked indicates a lack of respect for the Committee and Parliament and is unacceptable.

FINDING

Although all entities which were sent questionnaires by the Committee returned them, there were many instances in which questionnaires were returned late, answers to questions were unsatisfactory or uninformative and in which departments had modified the question asked by the Committee and not responded to the original question.

RECOMMENDATION 1:

In future years, departments provide timely responses to the Committee's questionnaires, with answers that are informative and without modifications to the question.

1.6 Cost

The cost of this inquiry was approximately \$100,600.

3 Department of Treasury and Finance, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 20 January 2012, p.7

4 Department of Transport, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 11 January 2012, p.49

CHAPTER 2: 2009-10 FINANCIAL OUTCOMES AND 2010-11 FINANCIAL OUTCOMES IN THE 56TH PARLIAMENT

2.1 Introduction

In this chapter, the Committee provides a high level commentary on the financial outcomes achieved by the Government in 2009-10 (Part A) and for the first six months of 2010-11 (Part B). In broad terms, this period equates with the 56th Parliament, which ended on 7 October 2010 (the 57th Parliament was opened on 21 December 2010). The Committee's examination of the financial outcomes for the newly elected Government in the 57th Parliament for the second half of the 2010-11 financial year is contained in Chapter 3 of this report.

Table 2.1 presents the operating statement for the General Government Sector for the following four periods:

- 2008-09 – 56th Parliament;
- 2009-10 – 56th Parliament;
- 1 July 2010 - 31 December 2010 – considered in this chapter as reflecting the 56th Parliament; and
- 1 January 2011 - 30 June 2011 – 57th Parliament.

Information used by the Committee in its examination covering the 18 month period from 1 July 2009 to 31 December 2010 is primarily drawn from the Government's *Financial Report for the State of Victoria 2009-10* and *2010-11 Mid-Year Financial Report*. The report issued by the Auditor-General on the result of the audit of the Government's Financial Report for the State for 2009-10 was also considered by the Committee.⁵

5 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009-10*, October 2010

Table 2.1: Operating statement for the years ended 30 June 2009 and 30 June 2010, together with the six months ended 31 December 2010 and 30 June 2011 — general government sector

	2008-09	2009-10	1 July 2010 – 31 December 2010	1 January 2011 – 30 June 2011
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Revenue				
Taxation revenue	12,626.9	13,740.5	6,902.1	7,955.3
Interest	378.2	333.5	198.5	221.6
Dividends and income tax equivalent and rate equivalent revenue	490.4	485.6	316.6	87.4
Sales of goods and services	4,940.5	5,289.5	2,910.9	3,033.3
Grants	18,970.0	22,717.8	11,361.5	11,064.1
Other current revenue	1,878.9	2,018.4	895.1	1,080.4
Total revenue	39,284.8	44,585.3	22,584.8	23,442.1
Expenses				
Employee expenses	14,296.9	15,404.8	8,046.1	8,328.7
Superannuation interest expense	609.7	866.7	469.6	461.9
Other superannuation	1,404.2	1,527.8	827.2	868.4
Depreciation	1,515.8	1,869.7	954.1	1,055.9
Interest expense	642.4	843.3	463.4	522.2
Other operating expenses	13,198.4	14,254.9	7,219.6	4,424.6
Grants and other transfers	7,366.3	9,174.5	4,122.8	7,744.9
Total expenses	39,033.7	43,941.7	22,102.9	23,406.6
Net result from transactions – Net operating balance	251.2	643.6	481.8	35.5

Sources: Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, p.41; Department of Treasury and Finance, *2010-11 Mid-Year Financial Report*, March 2011, p.3; Department of Treasury and Finance, response to the Committee's *Financial and Performance Outcomes Questionnaire — Part Two*, received 24 January 2012, pp.14-15

In terms of financial reporting, the Government reports on the following three sectors:⁶

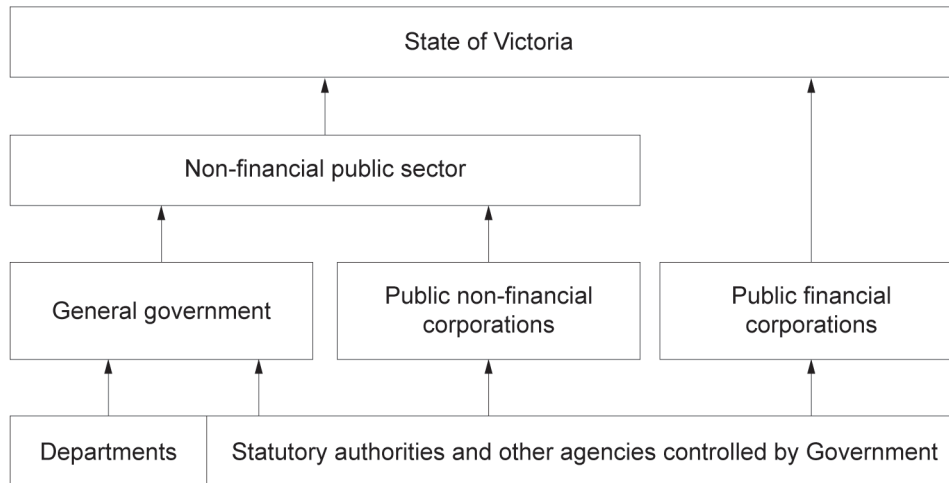
- the general government sector that consists of all government departments and other public sector agencies that are controlled and largely financed by government, which provide services free or significantly below cost;
- the public non-financial corporation sector, which includes various water, rail and port authorities that provide goods and services of a non-financial nature to the public, while meeting commercial principles through cost recovery via user charges and fees; and

⁶ Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, pp.4, 13, 27

- the public financial corporation sector that encompasses entities that provide services to the general public and businesses, such as the statutory insurers, and those that provide financial services predominately to other government entities such as the Victorian Funds Management Corporation.

Together, these sectors constitute the public sector. The aggregated results from these sectors are reported as results for the 'State of Victoria'. Figure 2.1 provides an overview of this reporting structure.

Figure 2.1: Entity framework for the State of Victoria



Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.245

The Committee has used the Government's key financial objectives, prior year figures and budget estimates when examining the financial outcomes for 2009-10 and the first six months of 2010-11.

The economic landscape exerted a major influence over the performance of the Victorian economy and public sector financial outcomes achieved in 2009-10 and the first six months of 2010-11. The 2009-10 Budget delivered the Government's response to the challenges posed by the global financial crisis.⁷ Accordingly, the Committee is cognisant of the prevailing economic conditions that had an impact on the financial outcomes achieved over this period. Support from the Commonwealth Government also had a significant impact on the financial outcomes achieved at a state level over this time.

FINDING

External factors such as the economic climate and Commonwealth Government support had a significant impact on the performance of the Victorian economy and the achievement of public sector financial outcomes in 2009-10 and the first half of 2010-11.

The high-level commentary in this chapter lays the foundation for some of the more detailed coverage contained in the later chapters of this report.

The information contained in Part B of this chapter relates to the financial outcomes achieved in the first half of 2010-11 during the 56th Parliament. This provides an avenue for making comparisons to the financial outcomes achieved in the second half of 2010-11 by the newly elected Government in the 57th Parliament (see Chapter 3).

PART A

2.2 Overview of financial outcomes achieved in 2009-10 for the general government sector

An overview of the financial outcomes achieved in 2009-10 compared to the Government’s financial objectives is set out in Table 2.2. As reported by the Government, each of the five financial objectives set out by the Government in the 2009-10 Budget was achieved.⁸ Elaboration of some of these achievements is contained in later chapters of this report.

Table 2.2: Financial performance compared to financial objectives

Objective	Performance achieved in 2009-10
<p><i>Net result from transactions (operating surplus)</i></p> <p><u>Short-term</u></p> <p>At least \$100 million in each year</p> <p><u>Long-term</u></p> <p>Maintain a substantial net result from transactions (operating surplus) that allows for the delivery of infrastructure objectives</p>	<p>The general government sector delivered a net result from transactions of \$643.6 million. This was largely attributed to an increase in income, mainly relating to increased Commonwealth grants, partly offset by a reduction in revenue from sales of goods and services. Further comment is included later in this chapter and in Chapter 4 of this report.</p>
<p><i>Infrastructure</i></p> <p><u>Short-term</u></p> <p>Implement strategic infrastructure projects</p> <p><u>Long-term</u></p> <p>Deliver world class infrastructure to maximise economic, social and environmental benefits</p>	<p>The Government stated in the annual financial report that in 2009-10 the Government accelerated job-creating infrastructure projects and worked with the Commonwealth government under the <i>Nation Building – Economic Stimulus Plan</i>.</p> <p>In 2009-10, while net infrastructure expenditure by the general government sector totalled \$5.7 billion, net infrastructure expenditure for the State of Victoria amounted to \$8.6 billion. Substantial asset investment occurred on capital projects that related to the education, transport, health, water and housing portfolios. Further comment is included in Section 2.7 of this chapter and Chapter 6 of this report.</p>

8 *ibid.*, p.5

Objective	Performance achieved in 2009-10
<p><i>Service delivery</i></p> <p><u>Short-term</u></p> <p>Implement 2006 election commitments</p> <p><u>Long-term</u></p> <p>Provide improved service delivery to all Victorians</p>	<p>The 2009-10 Budget provided funding for a number of election commitments. The 2010-11 Budget provided funding for the last of the election commitments.</p> <p>Examples of improved service delivery cited by the Government included:</p> <ul style="list-style-type: none"> • admitting more patients to public hospitals; • treating a greater number of patients in emergency departments; • increasing investment in training places; • funding education sufficiently so that Victoria performed at or above the national minimum standard for literacy and numeracy across all test levels of the years 3, 5, 7 and 9; and • providing a stronger and more accessible police force with an additional 350 police by June 2010. <p>Further comment about outcomes achieved by the Government is included in Chapter 7 of this report.</p>
<p><i>Taxation</i></p> <p><u>Short-term</u></p> <p>Implement reforms</p> <p><u>Long-term</u></p> <p>Provide a fair and efficient tax system that is competitive with other states</p>	<p>Unlike several other states that raised taxes in an attempt to address the issue of deteriorating budget positions caused by the global financial crisis, the Victorian Government reported that it maintained the levels of all tax rates in its 2009-10 Budget.</p> <p>As indicated by the Government, because Western Australia, Queensland and New South Wales have greater access to mining royalty revenue than Victoria, they are not as reliant on state taxes for revenue as is Victoria. When taxes as well as royalties are taken into account for comparative purposes between jurisdictions, Victoria's ratio of taxes plus royalties to gross state product has been below the Australian average for a decade.</p> <p>Further comment is included later in this chapter and Chapter 4 of this report.</p>
<p><i>Net financial liabilities</i></p> <p><u>Short-term</u></p> <p>Maintain a AAA credit rating</p> <p><u>Long-term</u></p> <p>Maintain state government net financial liabilities at prudent levels</p>	<p>Net debt for the general government sector increased from \$5.3 billion at 1 July 2009 (1.8 per cent of gross state product) to \$8.0 billion at 30 June 2010 (2.5 per cent of gross state product). These increases reflect the borrowings used to fund the Government's asset investment program.</p> <p>The level of net financial liabilities was also affected by an increase in the superannuation liability of \$1.9 billion, primarily driven by a reduction in the discount rate that was used to value the liability. The actuarial loss on superannuation amounted to \$1.5 billion.</p> <p>The ratio of net debt plus superannuation liability as a proportion of non-financial public sector revenue was 79 per cent as at 30 June 2010, which remains well under the 130 per cent target required by Standard and Poor's to maintain the current AAA credit rating.</p> <p>Further comment is included in Section 2.7 of this chapter.</p>

Sources: Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, pp.5-9, 22, 34; *Budget Paper No.3, 2009-10 Service Delivery*, May 2009, pp.275-81

FINDING

Key financial outcomes achieved in 2009-10 included:

- the general government sector delivered a net result from transactions of \$643.6 million compared with an objective of at least \$100 million;
- with net infrastructure expenditure by the general government sector of \$5.7 billion in 2009-10 (\$8.6 billion for the whole public sector), substantial asset investment occurred on projects that related to education, transport, health, water and housing portfolios;
- additional services were provided in a range of areas;
- while net debt for the general government sector increased from \$5.3 billion at 1 July 2009 (1.8 per cent of gross state product) to \$8.0 billion at 30 June 2010 (2.5 per cent of gross state product) to fund the Government’s capital investment program, Victoria’s AAA credit rating was maintained; and
- taxation levels were maintained.

2.3 Economic conditions that influenced financial outcomes

In reference to the conditions of 2009-10, the Government stated that:⁹

The Australian and Victorian economies have been more resilient than many other advanced economies in mitigating the impacts of recent global financial and economic turmoil.

The Government provided details of a number of factors which it considered underpinned the State’s economic strength. These are listed in Table 2.3.

Table 2.3: Examples of movements in various economic indicators

Economic indicator	Movement	Effect of movement
Population growth	Victoria’s population rose by 2.1 per cent over the year to the December quarter 2009, which exceeded the Australian average.	In underpinning economic growth, this stimulated consumer spending and investment, particularly in housing.
Employment growth	Largest increase of all the states over the 12 months to June 2010, with over 100,000 new jobs created.	Strong employment growth has supported business and consumer confidence.
Housing construction activity	At near-record levels due to low interest rates and first home buyer assistance.	Dwelling approvals far outstripped those in other states, supporting business.

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10, September 2010, pp.1, 10-11*

However, the Committee notes that the Financial Report for the State does not explain how these movements impacted on the particular revenue streams or specific financial outcomes.

9 *ibid.*, p.1

The Committee believes that the provision of such a nexus in future in the ‘Overview’ of the Government’s annual financial report or a subsequent section dealing with economic conditions and outcomes would assist in understanding the financial outcomes for the year. The Committee recommended in its *Report on the 2011-12 Budget Estimates — Part Three* that a similar nexus be provided in relation to linking economic forecasts to revenue estimates in the budget papers.¹⁰

RECOMMENDATION 2:

The Department of Treasury and Finance explain in the annual Financial Report for the State the impact that the movement in each economic indicator has had on revenue and other financial outcomes derived by the State.

2.4 Summary of financial result for 2009-10 for the general government sector

The audited operating statements for 2009-10 for the general government sector, drawn from the annual financial report, are summarised in Table 2.4 and compared to 2008-09.

The main measure used by government as an indicator of fiscal performance is the item titled ‘net result from transactions – net operating balance’, which equates to an operating result for the general government sector. This figure is the difference between the sector’s revenue and expenditure. As shown in Table 2.2, it is the first of five financial objectives of the Government.

Table 2.4 discloses that this result for 2009-10 was a surplus of \$643.6 million. Table 2.4 also shows a net result after recognising other economic flows such as disposals of non-financial assets, accounting for financial assets or liabilities at fair value and actuarial gains/losses for superannuation. The net result for the general government sector was a deficit of \$5,413.1 million.

10 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, pp.146-7

Table 2.4: Audited consolidated operating statement for the year ended 30 June 2010 — general government sector

	2008-09 (\$ million)	2009-10 (\$ million)	Variation (\$ million)	Variation (per cent)
Revenue				
Taxation revenue	12,626.9	13,740.5	1,113.6	8.8
Interest	378.2	333.5	-44.7	-11.8
Dividends and income tax equivalent and rate equivalent revenue	490.4	485.6	-4.8	-1.0
Sales of goods and services	4,940.5	5,289.5	349.0	7.1
Grants	18,970.0	22,717.8	3,747.8	19.8
Other current revenue	1,878.9	2,018.4	139.5	7.4
Total revenue	39,284.8	44,585.3	5,300.5	13.5
Expenses				
Employee expenses	14,296.9	15,404.8	1,107.9	7.7
Superannuation interest expense	609.7	866.7	257.0	42.2
Other superannuation	1,404.2	1,527.8	123.6	8.8
Depreciation	1,515.8	1,869.7	353.9	23.3
Interest expense	642.4	843.3	200.9	31.3
Other operating expenses	13,198.4	14,254.9	1,056.5	8.0
Grants and other transfers	7,366.3	9,174.5	1,808.2	24.5
Total expenses	39,033.7	43,941.7	4,908.0	12.6
Net result from transactions – Net operating balance	251.2	643.6	392.4	156.2
Net gain/(loss) on disposal of non-financial assets	62.2	-40.4	-102.6	-165.0
Net gain/(loss) on financial assets or liabilities at fair value	-83.8	64.0	147.8	176.4
Net actuarial gain/(loss) of superannuation defined benefits plans	-7,510.1	-1,450.2	6,059.9	80.7
Share of net profit/(loss) from associates/joint venture entities, excluding dividends	-74.4	-1.4	73.0	98.1
Other gains/(losses) from other economic flows ^(a)	-1,017.9	-4,628.8	-3,610.9	354.7
Total other economic flows included in net result	-8,624.0	-6,056.8	2,567.2	29.8
Net result	-8,372.8	-5,413.1	2,959.7	35.3

Note: (a) Reclassification of discount movement associated with insurance claims expense from 'transactions expense' to 'other economic flows' has required re-presentation of the 2008-09 results

Source: Department of Treasury and Finance, Financial Report for the State of Victoria 2009-10, September 2010, p.41

2.5 Analysis of operating and net result for 2009-10 in the general government sector

2.5.1 Operating result

The general government sector includes all government departments and other bodies that provide services free of charge or at prices significantly below their cost of production. The primary purpose of these entities is to provide public services mainly of a non-market nature for the community. The operations of these entities are financed mainly through taxes and other compulsory levies.

As indicated earlier, the Government's operating result in the general government sector (or 'net result from transactions') for 2009-10 was a surplus of \$643.6 million.

The Committee notes that when the Government provides summarised data about the financial results of the general government sector, the tables include data about:¹¹

- the actual results for 2009-10;
- the actual results for the prior year; and
- the revised estimates for 2009-10 published in the next year's budget papers (in May 2010).

However the Government's high-level commentary on the main factors influencing financial performance for 2009-10 for the general government sector was substantially confined to a comparison of the actual results for 2009-10 to the revised estimates in the May 2010 budget papers and does not include any commentary to explain material variances with the actual financial outcomes for the prior year.¹² The Committee believes that a more informed commentary on general government sector financial outcomes would be provided by the inclusion of an explanation of material variances in revenue and expense actual results with those of the previous year.

The Committee notes that the annual financial report also includes a note to the audited consolidated financial statements (Note 31) where explanations of material variances between actual results and the corresponding original budget estimates are reported. This is also not reflected in the high-level commentary.

FINDING

The annual Financial Report for the State explains variations between the general government sector's performance for the current year and initial and revised estimates for the year, but not variations from the actual results from the prior year.

¹¹ Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, p.14

¹² *ibid.*, pp.14-19

RECOMMENDATION 3:

The Department of Treasury and Finance include a commentary on material variances between actual financial outcomes for the general government sector for the current year with the prior year’s actual results in the annual Financial Report for the State.

As shown in Table 2.5, the general government sector’s operating surplus (net result from transactions) for 2009-10 of \$643.6 million significantly exceeded the original budget estimate (by \$414.1 million or 180 per cent), the prior year actual (by \$392.4 million or 156 per cent) and the revised estimate (by \$248.7 million or 63 per cent).

FINDING

The general government sector’s operating surplus (net result from transactions) for 2009-10 of \$643.6 million significantly exceeded the initial budget estimate by \$414.1 million, the surplus for the prior year by \$392.4 million and the revised estimate by \$248.7 million.

Table 2.5: General government sector – Comparison of the actual operating surplus for 2009-10 with the prior year actual result and the estimates for 2009-10

	(\$ million)	2009-10 actual (\$ million)	Variance (\$ million)	Variance (per cent)	Explanation for variance
2009-10 initial budget	229.5	643.6	414.1	180.4	See Table 2.6
2008-09 actual	251.2	643.6	392.4	156.2	See below
2009-10 revised estimate	394.9	643.6	248.7	63.0	See below

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10, October 2010*, pp.41, 124

Reasons for the operating surplus for 2009-10 exceeding the initial budget by \$414.1 million

Explanations for the major items that contributed to the material variations between the original budget and actual financial outcomes that impacted on the operating surplus generated for 2009-10 are set out in Table 2.6. The major drivers of the significantly higher operating surplus generated by the general government sector in 2009-10 related to higher-than-expected land transfer duty and GST revenue from the Commonwealth.

The Committee, in its *Report on the 2009-10 Budget Estimates*, drew attention to the estimated operating surplus being supported by a significant amount of funding from the Commonwealth Government, which included considerable funding for schools, social housing and the transport system.¹³ The Government stated in its 2009-10 Budget that the substantial net infrastructure investment in 2009-10 and 2010-11 reflected a temporary boost from projects being funded by the Commonwealth fiscal stimulus package to support economic growth.¹⁴ In total, the Government received \$1.6 billion of one-off grants from the

13 Public Accounts and Estimates Committee, *Report on the 2009-10 Budget Estimates — Part Two*, October 2009, p.55

14 Budget Paper No.2, *2009-10 Strategy and Outlook*, May 2009, pp.10, 25

Commonwealth for specific major asset investments in 2009-10.¹⁵ In accordance with the required accounting treatment, this money is recognised as revenue in the operating statement, but the use of this money on asset investment is not included in expenditure. As such, the remaining one-off grants from the Commonwealth have enabled the general government sector to generate an operating surplus for 2009-10 which exceeded the yearly target of \$100 million. However, if these Commonwealth grants for asset projects are not included in the State's revenue, the result would be a deficit of \$950.7 million.¹⁶

Table 2.6: General government sector, main drivers of the larger material variations between initial budget estimates and actual outcomes that impacted on the operating surplus result for 2009-10

Revenue/ expense item	2009-10 budget estimate (\$ million)	2009-10 actual (\$ million)	Financial outcome	Main drivers
Taxation revenue	13,273.7	13,740.5	Original estimate exceeded by \$466.8 million	Land transfer duty was \$409 million higher than expected, due to a greater than expected rebound in the property market following the downturn in the market during 2008-09.
Grants revenue	21,554.1	22,717.8	Budgeted grants revenue exceeded by \$1.2 billion	<p>Victoria received \$628 million more in GST grants than budgeted (actual \$10,043.3 million compared to the budget of \$9,415.1 million) and \$724 million more than in the prior year (\$9,319.0 million received in 2009-10), which reflected growth in national pool collections. This money is received by the Government without any specific purposes for its expenditure.</p> <p>A greater-than-expected level of grants from the Commonwealth Government also included a boost to the first home owners grant of \$248 million and an increase of \$173 million in grants related to the <i>Building the Education Revolution</i> program for non-government schools. However, this additional funding was offset by additional expenses (\$348 million for the first home owners and \$173 million for schools).</p> <p>An additional grant for roads projects of \$230 million was received.</p>
Other operating expenses	13,821.3	14,254.9	Other operating expenses were \$433.6 million over the original estimate	<p>This outcome was primarily due to the impact of policy decisions that were taken since the 2009-10 Budget which mainly related to:</p> <ul style="list-style-type: none"> • bushfire response, preparedness, reconstruction and recovery that amounted to \$235 million; and • drought response initiatives worth \$104 million

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10, October 2010*, pp.81, 124, 126-8

15 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.24

16 *ibid.*

FINDING

The general government sector's operating surplus (net result from transactions) for 2009-10 was higher than the original budget estimate due mainly to higher-than-expected revenue derived from land transfer duty and grants from the Commonwealth linked to the GST.

FINDING

One-off grants from the Commonwealth for asset investment are included in revenue but the use of these funds is not included in expenditure. These have enabled the general government sector to generate an operating surplus for 2009-10, thereby exceeding the annual target of at least \$100 million. If these were not included in revenue, however, the result would have been a deficit of \$950.7 million.

Reasons for the operating surplus for 2009-10 exceeding the prior year actual outcome by \$392.4 million

The higher outcome for 2009-10 was primarily due to increases in taxation and Commonwealth grant revenue. As shown in Table 2.4, the most material increases in revenue items related to:

- **Taxation:** \$1,113.6 million or 8.8 per cent

In 2008-09, lower levels of taxation reflected slower economic growth. The increase in taxation revenue during 2009-10, which reflected continued recovery from the impact of the global financial crisis, was primarily attributed to an increase in land transfer duties due to an increase in the value and number of properties sold.¹⁷

- **Commonwealth grants:** \$3,747.8 million or 19.8 per cent

The increase was due largely to moneys received from the Commonwealth Government in relation to the *Nation Building – Economic Stimulus Plan* whereby the State received funding for the *Building the Education Revolution* program. In addition, Victoria received additional funding for the construction and maintenance of public and social housing.¹⁸

These outcomes were offset by increases in the following expense items:

- **Employee benefits:** \$1,107.9 million or 7.7 per cent

Higher wage rates under enterprise bargaining agreements and employee numbers underpinned this increase, particularly in the hospital and education sectors.¹⁹

- **Other operating expenses:** \$1,056.5 million or 8.0 per cent
- **Grants and other transfers:** \$1,808.2 million or 24.5 per cent

17 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009-10*, October 2010, p.21

18 *ibid*, p.20

19 *ibid*, p.23

Reasons for the operating surplus for 2009-10 exceeding the revised estimate by \$248.7 million

Items that had the largest impact on this outcome related to movements in the following:²⁰

- **An increase of \$98.5 million in taxation revenue**

The higher-than-expected taxation revenue was primarily due to an increase in land transfer duty due to higher-than-expected volume growth, which was consistent with the improved property market.²¹

- **An increase of \$606.4 million in Commonwealth grant revenue**

The major items relating to the increase related to grants provided to the social housing program under the *Nation Building – Economic Stimulus Plan*, payments for local government assistance grants and funding for non-government schools grants as part of the *Building the Education Revolution* program.²²

- **An increase of \$261.8 million in other revenue**

Other revenue exceeding the revised estimate was due, in part, to additional revenue generated from the TAFE sector from various miscellaneous fees and assets received free of charge from the University of Melbourne, Swinburne University and the Murray-Darling Basin Authority.²³

- **A decrease of \$138.5 million in revenue derived from the sales of goods and services**

This reduction primarily reflected revised funding arrangements for the desalination plant, whereby payments from Melbourne Water Corporation were to be recognised as revenue in the year the desalination plant is commissioned.²⁴

- **A decrease in other operating expenses amounting to \$108.2 million**

Expenditure on this item, which reflects the operating supplies and consumables used to support the Government's service delivery, was below the revised estimate due to a large extent to the expenditure recorded in the schools sector that was initially budgeted as an expense, but subsequently reclassified to capital expenditure to match the actual nature of the expenditure.²⁵

20 Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, p.14

21 *ibid.*, p.16

22 *ibid.*, p.15

23 *ibid.*, p.17

24 *ibid.*

25 *ibid.*, p.19

- **An increase in expenditure of \$710.0 million in the form of grants and other transfers**

This increase was mainly due to the on-passing of Commonwealth grants where increases over the revised estimate related to payments associated with the social housing program under the *Nation Building – Economic Stimulus Plan*, local government assistance grants and non-government schools.²⁶

2.5.2 Other economic flows and net result

In addition to determining the net result from transactions (i.e. the operating result) which reflects the financial performance of the State, the Government accounts for various other economic flows that have no cash impact (such as revaluation gains or losses and actuarial gains and losses associated with the superannuation liability arising from the defined benefits superannuation scheme) to arrive at the net result for the year.

As depicted in Table 2.4, after taking into account other economic flows that amounted to a negative outcome of \$6.1 billion for 2009-10, the net result for the general government sector was a deficit of \$5.4 billion. This is in sharp contrast to the 2009-10 Budget, which estimated a net result of \$242.8 million.²⁷ The Financial Report for the State for 2009-10 indicates that factors accounting for this difference included:²⁸

- a reduction of over \$4 billion in the valuation of land under roads due to a change in the valuation methodology ; and
- \$1.5 billion of actuarial losses on superannuation due to the reduction in the discount rate used to value the superannuation liability.

The Committee notes that the Government, in discussing non-cash transactions taken into account in determining the net result, reported that:²⁹

In particular, the non-cash impact of actuarial gains and losses associated with the superannuation liability contributes to the volatility of the net result due to the impact of movements in factors such as bond rates and investment returns, over which the government has no control.

When comparing the net result between years, the net result for 2009-10 was an improvement on the net result for 2008-09 (which resulted in a deficit of \$8.4 billion, after taking into account higher aggregate negative ‘other economic flows’ of \$8.6 billion).

26 *ibid.*, p.18

27 Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, p.10

28 Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, pp.19, 128

29 *ibid.*, p.19

FINDING

The Committee acknowledges that the nature of 'other economic flows' can result in wide fluctuations from one year to the next in economic flows that are outside those operating transactions that are controlled by the Government. After taking into account other economic flows of \$-6.1 billion for 2009-10, the net result for the general government sector was a deficit of \$5.4 billion. Factors that impacted on the item 'other economic flows' included:

- a reduction of over \$4 billion in the valuation of land under roads due to a change in the valuation methodology; and
- \$1.5 billion of actuarial losses on superannuation due to the reduction in the discount rate used to value the superannuation liability.

2.6 State of Victoria outcome for 2009-10

The Financial Report for the State of Victoria also provides an overview and analysis of the outcomes for the whole State public sector (referred to as the 'State of Victoria'). This overview includes coverage of the public non-financial corporation sector and the public financial corporation sector as well as the general government sector. As there were no estimates for the public financial corporation sector and the whole of state outcome, the analysis is largely focussed on comparisons with the prior year. The Committee notes that the presentation of estimates data for the public financial corporation sector and whole public sector occurred for the first time as part of the budget papers for 2011-12, which will enable a greater level of scrutiny of public sector results in the future.³⁰

Table 2.7 shows a summary of the audited consolidated operating statements for the year ended 30 June 2010 for the State of Victoria.

30 Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.41

Table 2.7: Audited consolidated operating statement for the year ended 30 June 2010 – State of Victoria

	2008-09 (\$ million)	2009-10 (\$ million)	Variation (\$ million)	Variation (per cent)
Revenue				
Taxation revenue	12,443.6	13,534.6	1,091.0	8.8
Interest	1,190.0	982.9	-207.1	-17.4
Dividends and income tax equivalent and rate equivalent revenue	411.7	422.7	11.0	2.7
Sales of goods and services	10,326.9	11,024.2	697.3	6.8
Grants	18,722.6	22,606.6	3,884.0	20.7
Other current revenue	2,354.5	2,591.3	236.8	10.1
Total revenue	45,449.4	51,162.4	5,713.1	12.6
Expenses				
Employee expenses	15,037.0	16,218.3	1,181.3	7.9
Superannuation interest expense	610.4	867.7	257.3	42.2
Other superannuation	1,513.6	1,637.4	123.8	8.2
Depreciation	2,544.0	3,392.5	848.5	33.4
Interest expense	1,410.1	1,527.0	116.9	8.3
Other operating expenses	19,184.3	20,292.0	1,107.8	5.8
Grants and other transfers	5,273.8	6,632.8	1,359.0	25.8
Total expenses	45,573.1	50,567.6	4,994.5	11.0
Net result from transactions – Net operating balance	-123.8	594.7	718.5	580.4
Net gain/(loss) on disposal of non-financial assets	66.5	-49.5	-116.0	-174.4
Net gain/(loss) on financial assets or liabilities at fair value	-4,022.2	187.2	4,209.4	104.7
Net actuarial gain/(loss) of superannuation defined benefits plans	-7,572.5	-1,435.8	6,136.7	81.0
Share of net profit/(loss) from associates/joint venture entities, excluding dividends	-30.4	49.6	80.0	263.2
Other gains/(losses) from other economic flows ^(a)	-1,406.4	-5,023.8	-3,617.4	-257.2
Total other economic flows included in net result	-12,965.0	-6,272.4	6,692.6	51.6
Net result	-13,088.8	-5,677.7	7,411.1	56.6

Note: (a) Reclassification of discount movement associated with insurance claims expense from transactions expense to 'other economic flows' has required re-presentation of the 2008-09 results

Source: Department of Treasury and Finance, Financial Report for the State of Victoria 2009-10, September 2010, p.41

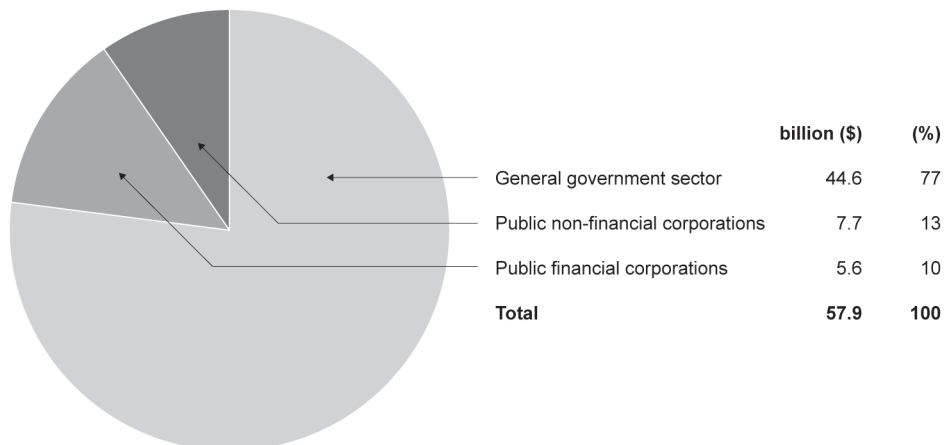
Broken down by sector and taking into account inter-sector eliminations, Table 2.8 presents a disaggregation of the financial performance of the State of Victoria between sectors for the years ended 30 June 2009 and 30 June 2010.

Table 2.8: Summary of disaggregated comprehensive operating statement for the year ended 30 June 2010 (\$ million)

	General government sector		Public non-financial corporations		Public financial corporations		Inter-sector eliminations		Consolidated (State of Victoria)	
	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10
Revenue	39,284.8	44,585.3	6,562.4	7,658.1	5,217.8	5,562.8	-5,615.7	-6,643.8	45,449.4	51,162.4
Expenses	39,033.7	43,941.7	6,380.7	7,263.5	5,407.4	5,676.7	-5,248.6	-6,314.3	45,573.1	50,567.6
Net operating balance	251.2	643.6	181.8	394.6	-189.6	-114.0	-367.1	-329.5	-123.8	594.7

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10, September 2010*, pp.72-3

Prior to taking into account inter-sector eliminations, approximately 77 per cent of revenue and expenditure of the State of Victoria was derived from transactions relating to the general government sector. The proportional breakdown of state revenue among sectors, prior to eliminating inter-sector transactions, is shown in Figure 2.2. These percentages mirror the breakdown for expenditure.

Figure 2.2: Proportional disaggregation of revenue among sectors before inter-sector eliminations for 2009-10

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10, September 2010*, pp.72-3

After taking into account inter-sector eliminations, the operating result (net result from transactions) and net result for the State of Victoria are not substantially different from the results for the general government sector (see Table 2.8), and the changes between 2008-09 and 2009-10 are mostly driven by changes in the general government sector.

2.6.1 Operating result

As shown in Table 2.8, the consolidated 2009-10 operating result (net result from transactions) for the State of Victoria was a surplus of \$594.7 million compared to a deficit of \$123.8 million in 2008-09. This positive movement comprised improved net results from transactions for the general government sector, which is the main driver. The public non-financial corporation sector and public financial corporation sector also had improved net results from transactions.

The analysis of the major movements in the consolidated 2009-10 revenue and expenses compared with the previous year for the State of Victoria, based on information disclosed in the annual Financial Report for the State, are set out below. As indicated earlier, the annual financial report also states that most components of State revenue and expenditure were largely driven by the operations of the general government sector.³¹ Movements in actual outcomes relating to revenue and expense items for the State of Victoria that are described below are therefore restricted to those that were influenced by factors outside the general government sector.

The Committee has noted that the annual financial report did not provide a commentary on major variations in actual outcomes between 2009-10 and the prior year for the general government sector. The Committee has made a recommendation for this to be addressed by the Department of Treasury and Finance (see Recommendation 3).

FINDING

The consolidated 2009-10 operating result for the public sector as a whole (the 'State of Victoria') was a surplus of \$594.7 million compared to a deficit of \$123.8 million in 2008-09.

FINDING

Most components of public sector revenue and expenditure were largely driven by the operations of the general government sector.

Revenue

As shown in Table 2.8, the aggregate revenue for the State of Victoria increased from \$45.4 billion for 2008-09 to \$51.2 billion for 2009-10, an increase of \$5.8 billion or 13 per cent. The main factors contributing to this growth related to increases in taxation revenue and grants received in the general government sector (see Section 2.5.1). In terms of the public non-financial corporation sector and public financial corporation sector, the main areas of growth related to revenue generated from the sales of goods and services, grants and other current revenue.

Sales of goods and services

In analysing the main factors contributing to this result, revenue generated by the State from the sales of goods and services increased by \$697.3 million (or 6.8 per cent) from \$10.3 billion to \$11.0 billion for 2009-10. Amounts included in this movement between the sectors are set out in Table 2.9.

Grants

The analysis shows that on a whole State public sector basis, after taking into account inter-sector eliminations, grants revenue increased by \$3.9 billion (or 21 per cent) from \$18.7 billion for 2008-09 to \$22.6 billion for 2009-10. Of the three sectors, the largest growth occurred in the general government sector, where grants grew by \$3.7 billion between 2008-09 and 2009-10. In the public non-financial corporation sector, grants revenue grew

31 Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, pp.29-30

by \$923.4 million to \$2.9 billion.³² The receipt of additional Commonwealth funding for social housing projects was a main contributor to this increase in the public non-financial corporation sector, which would have formed part of inter-sector eliminations prior to determining the consolidated figure for the State.³³

Table 2.9: Major movements in sales of goods and services, 2008-09 compared with 2009-10 (gross of inter-sector eliminations)

Sector	2008-09 (\$ million)	2009-10 (\$ million)	Variance (\$ million)	Variance (per cent)	Reasons for variance
Public non-financial corporation sector	3,922.1	4,030.9	108.8	2.8	<ul style="list-style-type: none"> An increase in the regulated price of water, as approved by the Essential Services Commission, for sales by water entities Higher residential and commercial land sales by VicUrban An offsetting reduction in revenue arising from the absorption of the Victorian Energy Networks Corporation into the national Australian Energy Market Operator on 30 June 2009
Public financial corporations	3,086.1	3,280.4	194.3	6.3	<ul style="list-style-type: none"> To a large extent, the impact on revenue from Transport Accident Commission and the Victorian WorkCover Authority premiums that were influenced by consumer price index and wage inflation increases, as well as an increase in vehicles and employment growth.

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10, September 2010*, pp.28-9, 72-3

Other revenue

On a consolidated basis, the category 'other revenue' increased by \$236.8 million (or 10 per cent) to \$2.6 billion for 2009-10 compared with the prior year. This variation included an increase of \$94.3 million in the public non-financial corporation sector. This increase included the receipt of higher developer contributions in the metropolitan water sector and land received free of charge by the Melbourne Convention and Exhibition Centre.³⁴ In relation to the land received free of charge, this transaction also would have formed part of inter-sector eliminations prior to determining the consolidated figure for the State.

Expenses

Table 2.7 shows that aggregate expenditure for the State of Victoria rose from \$45.6 billion for 2008-09 to \$50.6 billion for 2009-10, an increase of \$5.0 billion or 11 per cent. The main factors contributing to this variance in the public non-financial corporation sector and public

32 *ibid.*, p.72

33 *ibid.*, p.29

34 *ibid.*

financial corporation sector included costs associated with depreciation and interest. The factors affecting the general government sector are discussed above (see Section 2.5.1).

Depreciation

Depreciation costs for the State increased by \$848.5 million (or 33 per cent) to \$3.4 billion.³⁵ The \$492.1 million increase in depreciation within the public non-financial corporation sector was influenced by a higher depreciable asset base which largely came from:³⁶

- a revaluation of assets within the water and transport sectors at 30 June 2009; and
- substantial infrastructure investment during the period.

Interest expense

At \$1.5 billion, the interest expense for the State was \$116.9 million (or 8 per cent) higher for 2009-10 compared with 2008-09. This movement was driven by an increase in State borrowings of \$4.5 billion. Of this amount, \$1.6 billion was attributable to the public non-financial corporation sector, which reflected the significant investment in capital infrastructure, most notably projects aimed at securing the future water supplies for Victoria.³⁷ As most of the increase in State borrowings was incurred by the general government sector, the largest proportion of the increase in the interest expense for the State related to the general government sector.

FINDING

The aggregate revenue for the public sector as a whole increased from \$45.4 billion for 2008-09 to \$51.2 billion for 2009-10, an increase of \$5.8 billion or 13 per cent. In terms of the public non-financial corporation sector and public financial corporation sector, the main areas of growth related to revenue generated from the sales of goods and services, grants and other current revenue.

FINDING

The aggregate expenditure for the public sector as a whole rose from \$45.6 billion for 2008-09 to \$50.6 billion for 2009-10, an increase of \$5.0 billion or 11 per cent. The main factors contributing to this variance in the public non-financial corporation sector and public financial corporation sector included costs associated with depreciation and interest.

2.6.2 Net result

The 2009-10 net result for the State (see Table 2.7) was a deficit of \$5.7 billion (compared to a \$13.1 billion deficit in 2008-09). This improved financial outcome for the State was to a large extent due to:

- an increase in the net result from transactions of \$718.5 million;

35 *ibid.*, p.28

36 *ibid.*, p.30

37 *ibid.*

- a turn around in the net loss on financial assets or liabilities at fair value of \$4.2 billion or 105 per cent (in 2008-09 net losses occurred in the public non-financial corporation sector due largely to the revaluation of financial assets and liabilities by the State Electricity Commission of Victoria following a fall in the aluminium price, as well as losses incurred in the public financial corporation sector due to the downturn in financial markets³⁸); and
- an improvement in the net actuarial loss of superannuation defined benefits plans of \$6.1 billion or 81 per cent.

These outcomes were offset by a large extent by losses from ‘other economic flows’ of \$3.6 billion which included, as stated earlier, a downward revision of \$4.0 billion to the value of land under roads in the general government sector.

FINDING

The 2009-10 net result for the public sector as a whole was a deficit of \$5.7 billion (compared to a \$13.1 billion deficit in 2008-09).

2.7 Asset expenditure and debt movements in 2009-10 in the general government sector

2.7.1 Asset expenditure

Expenditure on asset investment on a cash basis

Table 2.10 provides an outline on a cash basis of the funding for the general government sector’s capital investment program for 2009-10 compared to the budget for 2009-10 and prior year actual. Expenditure on an accrual basis is set out in Table 2.12.

The 2009-10 budget papers reveal that the Government’s expenditure on approved projects for the year in the general government sector was initially projected to total \$7.2 billion³⁹ (this amount is equal to the investment by the general government sector for fixed assets, including investment by public non-financial corporations which is funded by the general government sector⁴⁰). In comparison, the actual expenditure was \$5.9 billion, which was \$1.3 billion (18 per cent) less than the initial estimate in the budget papers (see Table 2.10).⁴¹

Despite being less than budget, the expenditure on approved projects was \$1.6 billion higher than in 2008-09 (see Table 2.10) and represented the largest infrastructure program in Victoria’s history.⁴² Infrastructure investment in the general government sector for 2009-10 focused on education, transport, housing and health.⁴³

38 Department of Treasury and Finance, *Financial Report for the State of Victoria 2008-09*, October 2009, p.34

39 Budget Paper No.2, *2009-10 Strategy and Outlook*, May 2009, pp.10, 49

40 *ibid.*

41 Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, p.25

42 *ibid.*, pp.3, 25

43 *ibid.*, p.26

The Committee found there was a lack of disclosure in the annual Financial Report for the State for 2009-10 regarding the Government's underspend of \$1.3 billion on net infrastructure investment in the general government sector compared to initial expectations.

The Committee notes that the only commentary in the annual financial report for 2009-10 relating to these variations was as follows:⁴⁴

Net investment in fixed assets for 2009-10 was \$5.7 billion, which was 5.3 per cent lower than the revised budget figure [\$6.0 billion]. This result was over \$1.6 billion higher than the investment in fixed assets in 2008-09.

No reference was made to the variation between the budget estimate and the actual expenditure, which was a much larger variation than between the revised estimate and the actual figure.

The Committee is of the view that, as asset investment in the general government sector for 2009-10 fell short of initial expectations by \$1.3 billion or 18 per cent, the Government in its annual financial report should have disclosed the main asset investment projects where planned expenditure did not occur, the reasons for the budget underspend and the impact on the achievement of planned outcomes. For example, commentary on the effect of the underspend on the achievement of the expectations concerning job creation would have been desirable.

FINDING

The expenditure on approved asset investment projects for the general government sector in 2009-10 amounted to \$5.9 billion, which was \$1.3 billion (18 per cent) less than the initial budget of \$7.2 billion, but \$1.6 billion (36 per cent) more than the prior year actual of \$4.3 billion. There was a lack of disclosure in the *Financial Report for the State for 2009-10* regarding the underspend.

RECOMMENDATION 4:

Regarding asset investment projects, where significantly less than the budget estimate is spent in a year, the Department of Treasury and Finance disclose in the annual Financial Report for the State:

- (a) the reasons for the underspend;**
- (b) the asset projects affected; and**
- (c) the impact on the achievement of planned outcomes.**

⁴⁴ Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, p.26

Table 2.10: Funding of the capital program for the general government sector – 2009-10 compared to budget and prior year (cash basis)

Expense and funding items	2008-09 actual	2009-10 Budget	2009-10 actual	Budget variance	Actual to actual variance
	[A]	[B]	[C]	[C] – [B]	[C] – [A]
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Operating surplus	251.2	165.1	643.6	478.5	392.4
Add back: Non-cash revenues and expenses (net) ^(a)	1,729.5	2,146.2	2,559.8	1,305.7	830.3
Net cash flow from operating activities	1,980.7	2,311.3	3,203.4	892.1	1,222.7
Less:					
Net investment in fixed assets					
Expenditure on approved projects	4,319.4	7,183.4	5,897.8	-1,285.6	1,578.4
Proceeds from the sale of non-financial assets	-268.2	-222.8	-187.4		
Total net investment in fixed assets	4,051.2	6,960.6	5,710.5	-1,250.1	1,659.3
Finance leases	453.4	74.7	74.5	-0.2	-378.9
Other investment activities (net)	617.7	-39.7	90.3	130.0	-527.4
Increase in net debt	3,141.7	4,684.2	2,671.9	-2,012.3	-469.8
Net debt at year-end	5,291.7	9,900.0	7,963.6	-1,936.4	2,671.9
Net debt to GSP at year end (%)	1.8	3.7	2.5		

Note: (a) includes depreciation and non-cash movements in liabilities such as superannuation and employee benefits

Sources: Budget Paper No.2, 2009-10 Strategy and Outlook, May 2009, pp.49, 56; Budget Paper No.2, 2010-11 Strategy and Outlook, May 2010, p.51; Department of Treasury and Finance, Financial Report for the State of Victoria 2008-09, October 2009, p.29; Department of Treasury and Finance, Financial Report for the State of Victoria 2009-10, September 2010, pp.22-3, 25

Table 2.11 shows an analysis of the relationship between the expenditure on approved asset investment projects for 2009-10 and the value of land, buildings, infrastructure, plant and equipment for the general government sector as at 30 June 2010. This percentage increase in expenditure from 2008-09 to 2009-10 compared to the asset base reflects the additional expenditure offset, in part, by the increase in the disposal of land and buildings of \$1.3 billion that occurred in 2009-10, while the lower actual percentage compared to the budget was due, in part, to the closing balance for land and buildings standing at \$56.4 billion at 30 June 2010 compared to the initial estimate of \$41.1 billion – an increase of \$15.3 billion – as well as the significant underspend on asset investment.⁴⁵

45 ibid., p.108; Budget Paper No.4, 2009-10 Statement of Finances, May 2009, p.54

Table 2.11: Approved expenditure on asset investment projects as a proportion of major non-financial assets, general government sector, 2009-10 compared to prior year and budget

	2008-09 actual (\$ million)	2009-10 actual (\$ million)	2009-10 Budget (\$ million)
Expenditure on approved asset investment projects	4,319.4	5,897.8	7,183.4
Land, buildings, infrastructure, plant and equipment	87,409.7	89,419.7	74,569.2
Approved expenditure on asset investment projects as a proportion of major non-financial assets (per cent)	4.9	6.6	9.6

Sources: *Budget Paper No.4, 2009-10 Statement of Finances, May 2009, p.12; Department of Treasury and Finance, Financial Report for the State of Victoria 2008-09, October 2009, p.29; Department of Treasury and Finance, Financial Report for the State of Victoria 2009-10, September 2010, p.25, 42; Budget Paper No.2, 2009-10 Strategy and Outlook, May 2009, p.49*

In addition to examining expenditure on approved asset investment projects on a cash basis, the Committee also examined the acquisition of land, buildings, infrastructure, plant and equipment on an accrual basis whereby assets are recognised in the reporting period to which they relate regardless of whether cash is paid. This analysis is set out below.

Expenditure on asset investment on an accrual basis

Expenditure incurred in acquiring land, buildings, infrastructure, plant and equipment in 2009-10 compared to 2008-09 for the general government sector and the State is outlined in Table 2.12. In terms of the asset investment in the general government sector during 2009-10, the annual Financial Report for the State indicates that the Government concentrated on investment in key infrastructure projects that included:⁴⁶

- continuing with the Victorian Schools Plan;
- delivering the initial stages of the Victorian Transport Plan; and
- working in conjunction with the Commonwealth to deliver the *Building the Education Revolution* and expanding social housing under the *Nation Building – Economic Stimulus Plan*.

With regard to asset investment across the whole public sector, the annual financial report discloses that this largely represented capital infrastructure spending on water-related projects, social housing, port infrastructure and public transport.⁴⁷

Chapter 6 of this report provides further analysis of asset investment in 2009-10.

⁴⁶ Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, p.3

⁴⁷ *ibid.*, p.32

Table 2.12: Major categories of asset investment, 2009-10 expenditure compared to 2008-09 (accrual basis)

Asset investment category	General government sector		State of Victoria	
	2008-09 (\$ million)	2009-10 (\$ million)	2008-09 (\$ million)	2009-10 (\$ million)
Land and buildings	1,433.3	3,353.7	2,610.9	4,215.8
Plant, equipment and vehicle, and other infrastructure systems	1,477.2	909.5	5,689.0	4,406.6
Road networks and earthworks	961.1	1,056.3	963.3	1,057.1
Cultural assets	16.1	25.7	20.1	25.8
Total	3,887.7	5,345.2	9,283.3	9,705.3

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10, September 2010, pp.108-9*

2.7.2 Movements in net debt – general government sector

It can be seen from Table 2.10 that the increase in net debt of \$2.7 billion in 2009-10 in the general government sector to \$8.0 billion at year end, or 2.5 per cent of gross state product, was \$2.0 billion lower than the initial estimated increase for the year. In the annual Financial Report for the State, the Government indicated that the increase in net debt of \$2.7 billion in 2009-10 compared with the prior year reflected ‘*the Government’s commitment to deliver a record infrastructure investment program, despite the effects of the global financial crisis on the State’s GST and taxation revenues*’.⁴⁸

The information shown in Table 2.10 shows that the lower-than-initially-estimated level of debt arose, primarily, as a result of the increase of \$892.1 million in the year’s expected cashflow from operations and \$1.3 billion less than initially planned being spent. Table 2.10 also shows that the higher than expected cash flow from operations enabled a larger proportion of the net investment in fixed assets for 2009-10 to be funded from cash operating surpluses (56 per cent) than was planned (33 per cent) with a lesser proportion financed by borrowings than initially envisaged.

Victoria’s net debt is compared to other jurisdictions in Section 3.7.4 of this report.

FINDING

Net debt in the general government sector grew by \$2.7 billion in 2009-10 compared with the prior year, to fund the Government’s asset investment program. Net debt stood at \$8.0 billion at 30 June 2010. This was significantly lower than initially estimated as a result of an increase of \$892.1 million in the year’s expected cashflow from operations (which was used to fund asset investment) and spending \$1.3 billion less than initially planned.

FINDING

Net debt was 2.5 per cent of gross state product in the Victorian general government sector at 30 June 2010, which was less than the initial estimate of 3.7 per cent but more than the prior year proportion of 1.8 per cent.

2.7.3 Movements in net debt – non-financial public sector

The annual Financial Report for the State provides details of movements in net debt for the non-financial public sector (which comprises the general government sector and the public non-financial corporation sector). It excludes the public financial corporation sector. In terms of disclosing information relating to the net debt and net financial liabilities for the non-financial public sector, the Government stated that:⁴⁹

Under the Uniform Presentation Framework adopted by all Australian jurisdictions, this is the broadest sector classification for which data is currently required to be presented. It is also the sector for which current year and forward estimates are published each year, and forms the basis of analysis and interstate comparisons by the international credit rating agencies.

The Committee notes that net debt for the non-financial public sector increased from \$10.7 billion at 30 June 2009 to \$14.8 billion at 30 June 2010. As a ratio compared to gross state product, this represents an increase from 3.7 per cent to 4.7 per cent.⁵⁰ As noted earlier, the Government stated that the increase predominantly reflected the additional debt that was incurred to finance the State's expanded infrastructure program, which was aimed at placing Victoria in a competitive position to take advantage of the global economic recovery.⁵¹

PART B

Part B of this chapter provides an overview of the financial outcomes achieved for the six months to 31 December 2010 for the general government sector and the State of Victoria.

2.8 Overview of financial outcomes achieved for the first six months to 31 December 2010 for the general government sector compared to the Government's financial objectives

Table 2.13 provides summary comments on how the Government's achievements for the first six months of 2009-10 compared to its financial objectives. Elaboration of some of these achievements is contained in later chapters of this report.

The Committee notes that a mid-year analysis that discusses the Government's progress towards its financial objectives is not included in its Mid-Year Financial Report.

49 *ibid.*, p.33

50 *ibid.*, p.34

51 *ibid.*

Table 2.13: Financial performance compared to financial objectives

Objective	Performance achieved for the six months to 31 December 2010
<p><i>Net result from transactions (operating surplus)</i></p> <p><u>Short-term</u></p> <p>At least \$100 million in each year</p> <p><u>Long-term</u></p> <p>Maintain a substantial net result from transactions (operating surplus) that allows for the delivery of infrastructure objectives</p>	<p>The general government sector delivered a net result from transactions of \$481.8 million. Further comment is included later in this chapter and in Chapter 4 of this report.</p>
<p><i>Infrastructure</i></p> <p><u>Short-term</u></p> <p>Implement strategic infrastructure projects</p> <p><u>Long-term</u></p> <p>Deliver world class infrastructure to maximise economic, social and environmental benefits</p>	<p>While expenditure on approved projects by the general government sector totalled \$3.4 billion, net infrastructure expenditure for the State of Victoria amounted to \$4.7 billion. Further comment is included in Section 2.13.1 of this chapter and Chapter 6 of this report.</p>
<p><i>Service delivery</i></p> <p><u>Short-term</u></p> <p>Implement 2006 election commitments</p> <p><u>Long-term</u></p> <p>Provide improved service delivery to all Victorians</p>	<p>The 2010-11 Budget provided funding for the last of the 2006 election commitments.</p> <p>According to the Government, the 2010-11 Budget delivered quality services in health, education and public safety, in addition to responding to other high-priority community needs.</p> <p>The largest expenditure items according to government purpose for the six months to 31 December 2010 for the general government sector related to health (\$6.1 billion), education (\$5.9 billion) and transport and communications (\$2.5 billion).</p> <p>Further comment about outcomes achieved by the Government is included in Chapter 7 of this report.</p>
<p><i>Taxation</i></p> <p><u>Short-term</u></p> <p>Implement reforms</p> <p><u>Long-term</u></p> <p>Provide a fair and efficient tax system that is competitive with other states</p>	<p>Comment is included Chapter 3 of this report.</p>
<p><i>Net financial liabilities</i></p> <p><u>Short-term</u></p> <p>Maintain a AAA credit rating</p> <p><u>Long-term</u></p> <p>Maintain state government net financial liabilities at prudent levels</p>	<p>Net debt for the general government sector increased from \$8.0 billion at 30 June 2010 (2.5 per cent of gross state product) to \$9.9 billion at 31 December 2010 (3.1 per cent of gross state product). These increases reflect the borrowings used to fund the Government's asset investment program.</p> <p>The ratio of net debt to gross state product for the non-financial public sector increased from 4.9 per cent at 30 June 2010 to 5.4 per cent at 31 December 2010.</p> <p>Further comment is included in Section 2.13.2 of this chapter.</p>

Source: *Budget Paper No.2, 2010-11 Strategy and Outlook, May 2010, p.6; Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, pp.2, 11, 12, 14, 17, 41, 110*

FINDING

Key financial outcomes achieved for the six months to 31 December 2010 included:

- the general government sector delivered an operating result (net result from transactions) of \$481.8 million compared with an objective of at least \$100 million over the whole year;
- expenditure on approved asset projects incurred by the general government sector amounted to \$3.4 billion (\$4.7 billion for the public sector as a whole);
- additional services continued to be provided in a range of areas;
- net debt for the general government sector increased from \$8.0 billion at 1 July 2010 (2.5 per cent of gross state product) to \$9.9 billion at 31 December 2010 (3.1 per cent of gross state product) to fund the Government's asset investment program; and
- taxation levels were maintained.

2.9 Economic conditions that influence financial outcomes

The Committee notes that various economic/demographic factors occurred after the 2010-11 Budget was released in May 2010, which necessitated a revision to the initial budget estimates for certain taxation revenue items. These factors are outlined in the Victorian Pre-Election Budget Update of November 2010 and listed in Table 2.14. As a result of these factors, the estimates for taxation revenue for 2010-11 were revised upwards by \$286.9 million, with some impacts in the first six months of 2010-11. A description of the effect of these economic conditions on the budget estimates and the financial outcomes achieved over this term in the general government sector is contained in Table 2.14.

Table 2.14: Effect of economic/demographic factors on budget estimates and financial outcomes

Economic/demographic factor	Revision to 2010-11 budget estimates	Impact on actual outcomes achieved in the six months ended 31 December 2010
Stronger employment and wages outcomes and the upward revision to the employment outlook	Increase in payroll tax of \$139 million	Payroll tax revenue of \$2,195.1 million compared to the full-year initial budget of \$4,258.5 million, which was slightly more than half on a pro-rata basis.
Larger-than-expected increase in the number of land transfers	Increase in land transfer duty of \$149 million	The considerably higher (on a pro-rata basis) land transfer duty of \$2,050.8 million compared to the full-year initial budget of \$3,672.4 million reflects the economic factors outlined in the Pre-Election Budget Update.
Higher-than-expected registration revenue from heavy vehicles and an increase in duty from sales of new motor vehicles	Increase in motor vehicle taxation revenue of \$45 million	Motor vehicle taxes of \$768.5 million were received compared to the full-year initial budget of \$1,448.8 million, which was slightly more than half on a pro-rata basis.
Lower-than-expected revenue received since the 2010-11 Budget and lower-than-expected trend growth for certain gambling taxes in light of recent experience	Downward revision to various other tax sources, particularly gambling revenue which has been revised downwards by \$46 million	Gambling taxes of \$843.3 million compared to the full-year initial budget of \$1,722.7 million, which was slightly less than half on a pro-rata basis.

Sources: *Department of Treasury and Finance, Victorian Pre-Election Budget Update, November 2010, pp.21, 74; Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, p.36*

FINDING

The Pre-Election Budget Update identifies various economic factors that required revisions to be made to the initial budget estimates, but provides relatively little detail on the forces that impacted on these economic variables. The Mid-Year Financial Report does not provide commentary linking these variables to actual outcomes.

2.10 Summary of financial result for the six months ended 31 December 2010 for the general government sector

The operating statements for the first half of 2010-11 for the general government sector, drawn from the Government's mid-year financial report, are summarised in Table 2.15 and compared to the equivalent period for 2009-10.

As indicated earlier, the main measure used by the Government as an indicator of fiscal performance is the item titled 'net result from transactions – net operating balance', which equates to an operating result for the general government sector. As shown in Table 2.13, it is the first of five financial objectives of the Government.

Table 2.15 discloses that this result for the six months ended 31 December 2010 was a surplus of \$481.8 million. Table 2.15 also shows a net result after recognising other economic flows such as disposals of non-financial assets, accounting for financial assets or liabilities of fair value, and actuarial gains and losses for superannuation. The net result for the general government sector was a surplus of \$1,783.6 million.

Table 2.15: Consolidated operating statement for the six months ended 31 December, general government sector

	2009	2010	Variation	Variation
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Revenue				
Taxation revenue	6,159.4	6,902.1	742.7	12.1
Interest	165.0	198.5	33.5	20.3
Dividends and income tax equivalent and rate equivalent revenue	176.6	316.6	140.0	79.3
Sales of goods and services	2,659.6	2,910.9	251.3	9.4
Grants	10,974.7	11,361.5	386.8	3.5
Other current revenue	907.8	895.1	-12.7	-1.4
Total revenue	21,043.0	22,584.8	1,541.8	7.3
Expenses				
Employee expenses	7,547.4	8,046.1	498.7	6.6
Superannuation interest expense	436.9	469.6	32.7	7.5
Other superannuation	742.6	827.2	84.6	11.4
Depreciation	882.3	954.1	71.8	8.1
Interest expense	398.5	463.4	64.9	16.3
Other operating expenses	6,535.9	7,219.6	683.7	10.5
Grants and other transfers	4,487.6	4,122.8	-364.8	-8.1
Total expenses	21,031.3	22,102.9	1,071.6	5.1
Net result from transactions – Net operating balance	11.7	481.8	470.1	4,018.0
Net gain/(loss) on disposal of non-financial assets	37.0	-23.3	-60.3	-163.0
Net gain/(loss) on financial assets or liabilities at fair value	27.0	6.0	-21.0	-77.8
Net actuarial gain/(loss) of superannuation defined benefits plans	1,855.8	1,119.4	-736.4	-39.7
Other gains/(losses) from other economic flows	38.2	199.6	161.4	422.5
Total other economic flows included in net result	1,957.8	1,301.8	-656.0	-33.5
Net result	1,969.6	1,783.6	-186.0	-9.4

Source: Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, p.17

2.11 Analysis of operating and net result for the six months ended 31 December 2010 in the general government sector

2.11.1 Operating result

Comparison of financial performance for the six months to 31 December 2010 with the equivalent period for the prior year

Table 2.15 shows that during the six months to 31 December 2010, the general government sector generated an operating surplus of \$481.8 million compared with \$11.7 million for the equivalent period of 2009. The increase in the net result from transactions of \$470.1 million when comparing the financial outcomes for the corresponding six monthly period is attributed to \$1.5 billion more revenue raised, but only a \$1.1 billion increase in expenditure. The revenue and expense items that represented the largest variances in dollar terms are shown in Table 2.16.

Table 2.16: General government sector, larger variances in operating items for the six-month period ended 31 December 2010 compared with the six months ended 31 December 2009

Operating item	Variance (\$ million)	Major component items – variances (\$ million)
Revenue		
Taxation	742.7	<ul style="list-style-type: none"> • Payroll tax: 164.7 • Land transfer duty: 429.0 • Taxes on insurance: 40.1 • Vehicle registration fees: 33.2
Sales of goods and services	251.3	<ul style="list-style-type: none"> • Other regulatory fees: 47.9 • Provision of services: 133.5 • Inter-sector capital asset charge: 53.1
Grants	386.8	<ul style="list-style-type: none"> • General purpose: 802.8 • Specific purpose for on-passing: -368.7
Expenses		
Employee expenses	498.7	(a)
Other operating expenses	683.7	(a)
Grants and other transfers	-364.8	<p><u>Current grants</u></p> <ul style="list-style-type: none"> • Private sector and not-for-profit on-passing: 254.8 • Other private sector and not-for-profit: -270.4 • Grants within the Victorian Government: -222.9 <p><u>Capital grants</u></p> <ul style="list-style-type: none"> • Private sector and not-for-profit on-passing: -82.9

Note: (a) There is no breakdown of these items nor explanation for the variances in the mid-year financial report. A recommendation has been included in Part A of this chapter concerning the need for material variances between the actual financial outcomes between reporting periods to be explained.

Source: Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, pp.36, 37, 40

Comparison of actual financial performance to the revised expectations on a pro rata basis

Table 2.17 shows a comparison between outcomes for the six months to 31 December 2010 against the revised full-year estimates for 2010-11 for the main revenue and expense items drawn from information contained in the Government's Mid-Year Financial Report for 2010-11.

Table 2.17: 2010-11 operating revenue and expenses for the general government sector for the six months ended 31 December – comparisons with prior year actual and revised budget estimates for 2010-11

Operating item	2010-11 Actual to Dec [A] (\$ million)	2010-11 Revised budget estimate for the full year [B] (\$ million)	Actual to 31 December 2010 as a percentage of revised budget estimate for 2010-11 [A]/[B] (per cent)
Revenue			
Taxation	6,902.1	14,742.8	46.8
Interest	198.5	340.8	58.2
Dividends, income tax and rate equivalent revenue	316.6	519.6	60.9
Sales of goods and services	2,910.9	5,868.2	49.6
Grants	11,361.5	22,347.1	50.8
Other revenue	895.1	1,749.3	51.2
Total revenue	22,584.8	45,567.7	49.6
Expenses			
Employee expenses	8,046.1	16,173.2	49.7
Superannuation	1,296.8	2,623.4	49.4
Depreciation	954.1	2,259.0	42.2
Interest expense	463.4	963.1	48.1
Other operating expenses	7,219.6	14,822.5	48.7
Grants and other transfers	4,122.8	8,093.2	50.9
Total expenses	22,102.9	44,934.3	49.2
Operating surplus	481.8	633.4	76.1

Source: Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, pp.3, 17

In terms of interpreting these figures, the Committee notes that the Mid-Year Financial Report states that:⁵²

52 Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, p.1

...caution should be exercised in extrapolating the likely outcome for the 2010-11 financial year based on the mid-year results presented in this report, as certain items are affected by seasonal factors and therefore are not uniform across the year.

Bearing in mind the above limitations in making comparisons with pro rata expectations, the analysis shows that the actual operating surplus for the half year represented 76 per cent of the revised budget estimate for the full year. For the main revenue and expense categories disclosed in Table 2.18, the actual half yearly financial outcomes for the first six months of 2010-11 plotted very close to 50 per cent of the full-year revised budget estimates. The only items where the variance was plus or minus five percentage points from 50 per cent were as follows:

- Interest income 58 per cent
- Dividends, income tax and rate equivalent revenue 61 per cent
- Depreciation 42 per cent
- Operating surplus 76 per cent

The half-yearly operating result was \$165.1 million more than the pro rata revised budget estimate of \$316.7 million. In broad terms, the factors that contributed to this financial result were as follows:

- total revenue of \$22,584.8 million was below the pro rata revised budget estimate of \$22,783.8 million by \$199.0 million; and
- total expenses of \$22,102.9 million were below the pro rata revised budget estimate of \$22,467.1 million by \$364.2 million.

The particular revenue and expense items that had an impact on this financial outcome are detailed below:

- taxes on immovable property of \$135.0 million constituted only 8.6 per cent of the revised budget estimate, which reflected that land tax assessments are usually issued in February and March;⁵³ and
- other operating expenditure amounting to \$7.2 billion, which reflected operating supplies and consumables as well as other payments to support the Government's delivery of services, represented 49 per cent of the revised budget estimate of \$14.8 billion. The Mid-Year Financial Report indicates that spending levels against this item were expected to increase in the second half of 2010-11 and that this is a normal expenditure pattern.⁵⁴

53 *ibid.*, p.4

54 *ibid.*, p.6

FINDING

The general government sector's operating surplus (net result from transactions) for the six months to 31 December 2010 (\$481.8 million) significantly exceeded the surplus for the prior year equivalent period of \$11.7 million by \$470.1 million and represented 76 per cent of the revised budget estimate for the full year.

2.11.2 Net result including other economic flows

As disclosed in Table 2.15, after taking into account other economic flows amounting to \$1.3 billion for the first six months ended 31 December 2010, the net result for the general government sector was a surplus of \$1.8 billion. The Mid-Year Financial Report for 2010-11 indicates that the main factor impacting on the other economic flows for the general government sector related to an actuarial gain of superannuation defined benefits plans amounting to \$1.1 billion.⁵⁵

2.12 State of Victoria outcome for 2009-10

Table 2.18 shows a summary of the consolidated operating statements for the six months ended 31 December 2010 for the public sector as a whole (the 'State of Victoria').

55 *ibid.* p.17

Table 2.18: Consolidated operating statement for the six months ended 31 December, State of Victoria

	2009 (\$ million)	2010 (\$ million)	Variation (\$ million)	Variation (per cent)
Revenue				
Taxation revenue	6,074.3	6,798.6	724.3	11.9
Interest	465.7	566.1	100.4	21.6
Dividends and income tax equivalent and rate equivalent revenue	266.8	337.7	70.9	26.6
Sales of goods and services	5,393.0	5,856.0	463.0	8.6
Grants	10,884.6	11,310.6	426.0	3.9
Other current revenue	1,138.2	1,165.8	27.6	2.4
Total revenue	24,222.5	26,034.8	1,812.3	7.5
Expenses				
Employee expenses	7,942.2	8,477.1	534.9	6.7
Superannuation interest expense	436.9	469.6	32.7	7.5
Other superannuation	796.2	882.0	85.8	10.8
Depreciation	1,529.2	1,807.3	278.1	18.2
Interest expense	726.2	846.0	119.8	16.5
Other operating expenses	9,096.3	10,156.5	1,060.2	11.7
Grants and other transfers	3,195.4	3,049.6	-145.8	-4.6
Total expenses	23,722.5	25,688.0	1,965.5	8.3
Net result from transactions – Net operating balance	500.1	346.8	-153.3	-30.7
Net gain/(loss) on disposal of non-financial assets	44.4	(10.5)	-54.9	-123.6
Net gain/(loss) on financial assets or liabilities at fair value	1,473.0	1,433.7	-39.3	-2.7
Net actuarial gain/(loss) of superannuation defined benefits plans	1,863.2	1,118.7	744.5	40.0
Other gains/(losses) from other economic flows	(73.5)	325.8	399.3	543.3
Total other economic flows included in net result	3,307.0	2,867.8	-439.2	-13.3
Net result	3,807.1	3,214.6	-592.5	-15.6

Source: Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, p.17

Broken down by sector and taking into account inter-sector eliminations, Table 2.19 presents a disaggregation of the financial performance of the State of Victoria between sectors for the six month periods ended 31 December 2009 and 31 December 2010.

Table 2.19: Summary of disaggregated comprehensive operating statement for the six months ended 31 December (\$ million)

	General government sector		Public non-financial corporations		Public financial corporations		Inter-sector eliminations		Consolidated	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Revenue	21,043.0	22,584.8	3,642.3	3,754.8	2,753.2	3,050.4	(3,216.0)	(3,355.1)	24,222.5	26,034.8
Expenses	21,031.3	22,102.9	3,289.9	3,707.8	2,541.0	2,994.3	(3,139.7)	(3,117.0)	23,722.5	25,688.0
Net operating balance	11.7	481.8	352.4	46.9	212.2	56.1	(76.2)	(238.1)	500.1	346.8

Source: Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, pp.26-7

2.12.1 Operating result

As shown in Table 2.18, the consolidated operating result for the State was an operating surplus of \$346.8 million for the six months to 31 December 2010, which was less than the surplus of \$500.1 million generated for the six months ended 31 December 2009. Revenue increased by 7.5 per cent, while expenditure increased by 8.3 per cent. The main reasons for the reduction were that the material increases in revenue (taxation, \$724.3 million; sales of goods and services, \$463.0 million; and grants, \$426.0 million) were offset to a larger extent by material increases in expenses (other operating expenses, \$1,060.2 million; employee expenses, \$534.9 million; and depreciation, \$278.1 million).

FINDING

The operating result for the public sector as a whole (the 'State of Victoria') for the first six months of 2010-11 was a surplus of \$346.8 million compared to a surplus of \$500.1 million for the corresponding period of the previous year. The lower operating surplus was due to revenue rising by 7.5 per cent while expenditure rose by 8.3 per cent.

The reduction in the operating surplus at the whole-of-state level contrasts with the outcome for the general government sector, which revealed a substantial increase when comparing the periods from \$11.7 million to \$481.8 million.

While the financial outcomes for the State are driven predominately by the results for the general government sector, the Committee notes that the reduction in the surplus for the first six months of 2010-11 compared to the corresponding period for the prior year was largely due to increases in the following revenue and expense streams in the sectors other than the general government sector:

- the sale of goods and services;
- depreciation; and
- other operating expenses.

Table 2.20 sets out an explanation of the movements in these items at the whole public sector level, together with the movement for the general government sector, for the six months ended 31 December 2010 compared to the corresponding period of the previous year.

Table 2.20: State of Victoria, comparison of major movements between results for the six months to 31 December 2009 with the six months to 31 December 2010

Item	General government sector movement (\$ million)	State of Victoria movement (\$ million)	Reasons for movement
Sale of goods and services	251.3	463.0	<ul style="list-style-type: none"> • In the public non-financial corporation sector, revenue increased by \$188.6 million, primarily due to higher regulated water and sewerage prices, together with increases in the customer base of the water business. • Within the public financial corporation sector, revenue increased by \$37.4 million, which predominately reflected: <ul style="list-style-type: none"> – greater revenue generated by the Transport Accident Commission and the Victorian WorkCover Authority as a result of the impact of the consumer price index and wage-inflation increases on premiums, as well as vehicle and employment growth; and – growth in management fee revenue derived by the Victorian Funds Management Corporation.
Depreciation	71.8	278.1	<ul style="list-style-type: none"> • In the public non-financial corporation sector, depreciation rose by \$204 million, which reflected: <ul style="list-style-type: none"> – a higher depreciable asset base as a result of substantial infrastructure investment; and – the revaluation of assets within the water and transport sectors.
Other operating expenses	683.7	1,060.2	<ul style="list-style-type: none"> • The public non-financial corporation sector experienced a \$147 million increase in other operating expenses, largely as a result of capital asset charges on new infrastructure in the transport sector as well as general increases in operating costs. • Within the public financial corporation sector, an increase of \$287 million in other operating expenses was predominately influenced by a stronger insurance claims expense within the Victorian Workcover Authority.

Source: Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, pp.5-6, 26-7

2.13 Asset expenditure and debt movements for the six months ended 31 December 2010 in the general government sector

2.13.1 Asset expenditure on a cash basis

Table 2.21 provides an outline on a cash basis of the funding for the general government sector's asset investment program for the first six months of 2010-11 compared to the revised budget for 2010-11 and prior period actual. As can be seen from the analysis:

- expenditure on approved projects for the six months to 31 December 2010 of \$3.4 billion was approximately half the revised budget for the year ended 30 June 2011 and \$741.2 million more than the equivalent period for the prior year;

- the expenditure on approved projects for the six months to 31 December 2010 of \$3.4 billion was funded to a larger extent from the net cash flow from operating activities (\$1.4 billion or 40 per cent) than for the same period for the prior year (\$298.3 million or 11 per cent); and
- even though a greater level of expenditure on approved projects was incurred in the first half of 2010-11 compared to the equivalent period for the prior year, the Government's reliance on debt to fund the asset expenditure was reduced significantly during the six months to 31 December 2010 (\$1.9 billion or 57 per cent) compared to the six month period to 31 December 2009 (\$2.1 billion or 82 per cent).

The Committee notes that the Government, in its Mid-Year Financial Report for 2010-11, disclosed that the net asset position of the public non-financial corporation sector increased by \$703.4 million from 30 June 2010 to 31 December 2010. This movement, according to the report, was mainly attributable to an increase in non-financial assets due to infrastructure investment in the water and transport sectors.⁵⁶

Table 2.21: Funding of the capital program for the general government sector for the six months ended 31 December compared to revised budget and prior year

Expense and funding items	2010-11 Actual July - December (\$ million)	2010-11 Revised budget (\$ million)	2009-10 Actual July - December (\$ million)
Operating surplus	481.8	633.4	11.7
Add back: Non-cash revenues and expenses (net) ^(a)	885.8	2,790.1	286.6
Net cash flow from operating activities	1,367.6	3,423.5	298.3
Less:			
Net investment in fixed assets			
Expenditure on approved projects	3,366.9	6,750.3	2,625.7
Proceeds from the sale of non-financial assets	-78.3	-259.4	-109.1
Total net investment in fixed assets	3,288.6	6,490.9	2,516.5
Finance leases	73.8	121.0	-
Other investment activities (net)	-61.7	-13.4	-75.9
Decrease/(increase) in net debt	-1,933.1	-3,174.9	-2,142.4

Note: (a) includes depreciation and movements in the unfunded superannuation liability and liability for employee benefits

Sources: Department of Treasury and Finance, 2009-10 Mid-Year Financial Report, March 2010, p.17;
Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, p.11

Chapter 6 of this report provides further analysis of asset investment in 2010-11.

FINDING

The \$3.4 billion of expenditure on asset investment for the general government sector for the six months to 31 December 2010 was in line with the revised budget for the full year and exceeded the level of spending for the equivalent prior year period by \$741.2 million.

2.13.2 *Movements in net debt – non-financial public sector and the general government sector*

Table 2.22 presents an analysis of the movement in net debt between the six months ended 31 December 2009 and the same period for the following year that shows the position for the wider non-financial public sector and within that sector, the general government sector. The table shows that:

- net debt for the non-financial public sector and the general government sector rose by \$2.5 billion and \$1.9 billion respectively between 1 July 2010 and 31 December 2010, which was marginally lower than for the same period during the previous year;
- approximately half of the net debt incurred by the non-financial public sector as at 31 December 2010 was made up of net debt that relates to the general government sector with the other half relating to public non-financial corporations; and
- net debt has grown by a lesser amount for the six-month period to 31 December 2010 than in the prior period for both sectors.

Table 2.22: Movement in net debt, non-financial public sector and the general government sector

	Non-financial public sector (\$ billion)	General government sector (\$ billion)
Opening 1 July 2009	10.7	5.3
Actual 31 December 2009	13.4 (4.4 per cent of GSP)	7.4 (2.5 per cent of GSP)
Movement	2.7	2.1
Opening 1 July 2010	14.8	8.0
Actual 31 December 2010	17.3 (5.4 per cent of GSP)	9.9 (3.1 per cent of GSP)
Movement	2.5	1.9

Source: Department of Treasury and Finance, 2009-10; Mid-Year Financial Report, March 2010, pp.15, 25, 29; Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, pp.12, 14, 28

FINDING

Between 1 July 2010 and 31 December 2010, net debt for the general government sector and the non-financial public sector rose by \$1.9 billion and \$2.5 billion respectively.

CHAPTER 3: FINANCIAL OUTCOMES FOR 2010-11, INCLUDING FINANCIAL OUTCOMES IN THE 57TH PARLIAMENT (JANUARY 2011-JUNE 2011)

3.1 Introduction

In this chapter, the Committee provides a high-level commentary on:

- the financial outcomes achieved in 2010-11, which are compared to the prior year (Part A); and
- the financial outcomes delivered by the newly elected Government in the 57th Parliament for the second half of the 2010-11 financial year, which are compared with its fiscal objectives and the financial outcomes for the first half of 2010-11 (Part B).

Information used by the Committee in its coverage of the six month period from 1 January 2011 to 30 June 2011 is primarily drawn from information supplied by the Department of Treasury and Finance in response to the Committee's Financial and Performance Outcomes Questionnaire. The report issued by the Auditor-General on the result of the audit of the Government's Financial Report for the State for 2010-11 was also referred to by the Committee as part of its examination.⁵⁷

As described in Chapter 2 of this report, the Government reports on the following three sectors in terms of financial reporting:⁵⁸

- the general government sector, which consists of all government departments and other public sector agencies controlled and largely financed by government;
- the public non-financial corporation sector, which includes various water, rail and port authorities that provide goods and services of a non-financial nature to the public, while meeting commercial principles through cost recovery via user charges and fees; and
- the public financial corporation sector encompassing entities that provide services to the general public and businesses, such as the statutory insurers, and those that provide financial services predominately to other government entities such as the Victorian Funds Management Corporation.

The high-level commentary in this chapter lays the foundation for some of the more detailed coverage contained in the later chapters of this report.

Information contained in this chapter covering financial outcomes achieved in the second half of 2010-11 by the newly elected Government in the 57th Parliament also provides an avenue for making comparisons with information contained in Part B of Chapter 2 of this report that

57 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010-11*, November 2011

58 Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, pp.4, 13, 27

relates to the financial outcomes achieved in the first six months of 2010-11 by the former government at the end of the 56th Parliament.

In terms of the timelines of annual reporting by Government departments and agencies, the Committee has made various comments relating to this topic in its earlier report titled *Review of 2009-10 and 2010-11 Annual Reports*.⁵⁹ The Committee notes the following comments made by the Auditor-General concerning the annual Financial Report for the State for 2010-11 being tabled one month later than the report for 2009-10:⁶⁰

The AFR [annual financial report for the State of Victoria] was tabled on 13 October 2011, one month later than in 2009-10 and one month later than planned. The Department of Treasury and Finance prepared 10 drafts of the AFR with material changes in each version. As a result, the audit was disrupted and protracted.

Timely preparation of the AFR relies on the 46 material entities finalising their financial statements in accordance with AFR milestones. In 2010-11, only 17 per cent of material entities finalised their financial reports by the AFR milestone date. This compressed the time available for the Department of Treasury and Finance to prepare the AFR and increased the risk of material error.

The Auditor-General also reported that:⁶¹

Thirteen material entities were unable to achieve the AFR financial report finalisation milestone for 2011 because the Minister for Finance and Treasurer's Appropriation Certification was not provided to VAGO until 11 August 2011. This was the same day that material entities were scheduled to finalise their financial reports.

To reiterate the clear message supported by the Committee in the past, there is a need for key accountability documents, including the annual Financial Report for the State, to be tabled in a timely manner, so that they can best serve the interests of key stakeholders. Although the statutory requirement is for the annual financial report to be tabled by 15 October, the Committee notes that it is possible for this document to be published earlier, as occurred in 2010, and therefore considers that, if possible, the annual Financial Report for the State should be tabled significantly earlier than mid-October in future. If that is not possible, the reasons should be explained in the report.

59 Public Accounts and Estimates Committee, *Review of 2009-10 and 2010-11 Annual Reports*, February 2012, pp.34-5

60 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010-11*, November 2011, p.viii

61 *ibid.*, p.7

PART A

3.2 Financial performance compared to financial objectives

A high-level overview and commentary on the performance of the general government sector compared to financial objectives under the former administration is contained in Chapter 2 of this report:

- Part A covers 2009-10; and
- Part B covers the first six months of 2010-11 to 31 December 2010.

A high-level overview of the fiscal strategy put into place by the incoming Government and high-level outcomes achieved in the last six months of 2010-11 are set out in Part B (Section 3.9) of this chapter.

Part A of this chapter provides an analysis for 2010-11 of:

- the economic factors that impacted on the achievement of financial outcomes;
- the operating and net results for the general government sector; and
- asset investment and net debt for the general government sector and non-financial public sector.

3.3 Economic conditions that influenced financial outcomes

Table 3.1 shows the movements of key economic indicators between 2009-10 and 2010-11 and the impact on the financial outcomes for the State.

Overall, the Committee notes that a number of factors worked to reduce the amount of funding available through GST grants compared to expectations. Whereas the original estimate of GST grants to be received in 2010-11 was \$11,142.7 million, in fact \$10,630.9 million was received in GST grants for 2010-11,⁶² \$511.8 million less than initially envisaged. This is mitigated by several factors which increased the amount of the State's revenue from its own sources, such as the taxation and 'other revenue' income streams (see Section 3.5.1 of this chapter). The Committee notes that, despite being less than originally budgeted, the level of GST grants received in 2010-11 (\$10,630.9 million) was \$587.6 million more than the level received in the prior year (\$10, 043.3 million).⁶³

62 Budget Paper No.4, *2010-11 Statement of Finances*, May 2010, p.217: Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.72

63 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.72

Table 3.1: Movements of key economic indicators and the effect on 2010-11 financial outcomes

Economic indicator	Movement	Contributing factors	Effect of movement on financial outcomes for 2010-11
National economic growth	Slower in 2010-11 than 2009-10.	Production disruptions associated with natural disasters in eastern Australia.	Lower GST grants compared to expectations.
Consumer confidence	Continued to decline in 2010-11.	Natural disasters and heightened global economic uncertainty.	Lower GST grants compared to expectations.
Household savings	Maintained at high levels.	The global financial crisis.	Spending curtailed, especially for discretionary items. Despite this, household consumption and retail sales in Victoria proved relatively resilient to the effects of the global financial crisis.
Housing investment growth	Slower than expected.	The global financial crisis.	Lower GST revenue for Victoria than originally estimated in the Commonwealth Government's 2010-11 Budget.
Household consumption across Australia	Slightly weaker.	The global financial crisis.	Lower GST revenue for Victoria than originally estimated in the Commonwealth Government's 2010-11 Budget.
Unemployment rate	Continued to fall.		Contributed to higher payroll tax collections than in 2009-10.
Labour force participation	Rose.		Contributed to higher payroll tax collections than in 2009-10.
Wage levels	Grew in line with national outcomes.		Contributed to higher payroll tax collections than in 2009-10.
Property price growth	Solid in the first half of 2010-11, although the residential property market softened in the second half of 2010-11.		Land transfer duty increased in 2010-11 compared to the previous year.
Auction clearance rates	Solid in the first half of 2010-11, although the residential property market softened in the second half of 2010-11.		Land transfer duty increased in 2010-11 compared to the previous year.
New housing approvals	Victoria continued to lead the nation. Continued strength in the commercial, office and industrial property sectors, particularly for transactions where the duty payable exceeded \$1 million.		Land transfer duty increased in 2010-11 compared to the previous year.
Land prices	Modest growth	Biennial revaluation	Higher land tax receipts in 2010-11.

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11, October 2011*, pp.1-2

FINDING

In 2010-11, a lower GST pool than expected meant that Victoria received less GST grants from the Commonwealth Government than originally envisaged. Compared to the original budget of \$11,142.7 million, Victoria received \$10,630.9 million in GST grants for 2010-11, \$511.8 million lower than originally expected, though \$587.6 million higher than in the prior year. This was partly mitigated by increases to some streams of State-sourced funding.

3.4 Summary of financial result for 2010-11 for the general government sector

Table 3.2, which presents a summary of the audited operating statements for 2010-11 compared to 2009-10, shows that the general government sector achieved a net result from transactions of \$517.3 million for 2010-11 (compared to \$643.6 million for 2009-10).

The net result after recognising other economic flows (such as disposals of non-financial assets, accounting for financial assets or liabilities of fair value, or actuarial gains and losses for superannuation) amounted to a surplus of \$735.9 million for 2010-11 (compared to a deficit of \$5,413.1 million for 2009-10).

Table 3.2: Audited consolidated operating statement for 2009-10 and 2010-11 — general government sector

	2009-10 (\$ million)	2010-11 (\$ million)	Variation (\$ million)	Variation (per cent)
Revenue				
Taxation revenue	13,740.5	14,857.5	1,117.0	8.1
Interest	333.5	420.1	86.6	26.0
Dividends and income tax equivalent and rate equivalent revenue	485.6	404.0	-81.6	-16.8
Sales of goods and services	5,289.5	5,944.2	654.7	12.4
Grants	22,717.8	22,425.6	-292.2	-1.3
Other current revenue	2,018.4	1,975.5	-42.9	-2.1
Total revenue	44,585.3	46,026.9	1,441.6	3.2
Expenses				
Employee expenses	15,404.8	16,374.8	970.0	6.3
Superannuation interest expense	866.7	931.6	64.9	7.5
Other superannuation	1,527.8	1,695.7	167.9	11.0
Depreciation	1,869.7	2,010.0	140.3	7.5
Interest expense	843.3	985.6	142.3	16.9
Other operating expenses	14,254.9	14,964.6	709.7	5.0
Grants and other transfers	9,174.5	8,547.4	-627.1	-6.8
Total expenses	43,941.7	45,509.6	1,567.9	3.6
Net result from transactions – Net operating balance	643.6	517.3	-126.3	-19.6
Net gain/(loss) on disposal of non-financial assets	-40.4	-40.3	0.1	0
Net gain/(loss) on financial assets or liabilities at fair value	64.0	7.2	-56.8	-88.7
Net actuarial gain/(loss) of superannuation defined benefits plans	-1,450.2	306.0	1,756.2	121.1
Share of net profit/(loss) from associates/joint venture entities, excluding dividends	-1.4	-0.7	0.7	50.0
Other gains/(losses) from other economic flows	-4,628.8	-53.6	4,575.7	98.9
Total other economic flows included in net result	-6,056.8	218.6	6,275.4	103.6
Net result	-5,413.1	735.9	6,149.0	113.6

Source: Department of Treasury and Finance, Financial Report for the State of Victoria 2010-11, October 2011, p.25

3.5 Analysis of operating and net result for 2010-11 in the general government sector

3.5.1 Operating result

As shown in Table 3.3, the general government sector's operating surplus (net result from transactions) for 2010-11 of \$517.3 million was under budget when compared to the initial budget estimate by \$354.6 million or 40 per cent, but over budget when compared to the revised budget (estimated in May 2011) by \$267.9 million or 107 per cent. In comparison to the actual outcome for the previous year, the operating surplus was less than the prior year actual by \$126.3 million or 20 per cent.

FINDING

The general government sector's operating surplus (net result from transactions) for 2010-11 of \$517.3 million was below the initial budget estimate by \$354.6 million and the surplus for the prior year by \$126.3 million, but higher than the revised budget by \$267.9 million.

Table 3.3: Comparison of operating surplus for 2010-11 with the prior year actual result and the estimates for 2010-11 – general government sector

		2010-11 actual	Variance	Variance
	(\$ million)	(\$ million)	(\$ million)	(per cent)
2010-11 initial budget	871.9	517.3	-354.6	-40.7
2009-10 actual	643.6	517.3	-126.3	-19.6
2010-11 revised budget	249.4	517.3	267.9	107.4

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, pp.25, 124

The reasons for these variations are set out below.

Reasons for operating surplus for 2010-11 being below the initial budget by \$354.6 million

Table 3.4 sets out explanations for the variations between the initial budget and actual outcomes that had the largest negative impact on the operating surplus for 2010-11. The main reasons for the 2010-11 operating surplus being below the original budget related to less grants received from the Commonwealth Government than first envisaged and larger expenditure being incurred than originally planned in relation to grants and transfer payments.

Table 3.4: Main drivers that impacted negatively on the variance between the original budget and actual operating surplus for 2010-11 for the general government sector

	2010-11 Budget estimate (\$ million)	2010-11 actual (\$ million)	Financial outcome	Main drivers
Revenue item				
Grants	22,893.1	22,425.6	Victoria received \$467.5 million less in grants than expected.	<ul style="list-style-type: none"> • GST grants were \$511.8 million lower than budgeted, which reflected a downward revision in the GST pool. • Other grants from the Commonwealth Government were \$456 million lower than expected, primarily as a result of the re-phasing of funding originally budgeted for 2010-11 in relation to the education and transport sectors. This was offset to a large extent by the recognition of a one-off \$500 million Commonwealth grant to assist with the flood recovery.
Expense item				
Grants and other transfers	7,910.1	8,547.4	Payments were \$637.3 million higher than originally planned.	<ul style="list-style-type: none"> • Assistance for the recovery from the floods of 2010 and 2011 of \$230 million, predominantly for local government recovery and for the repair of transport infrastructure. • Grants expenditure to non-government schools, mainly due to increased enrolments. • The recognition of \$120 million of rail assets provided free of charge to the Australian Rail Track Corporation in relation to the Wodonga Bypass project.

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11, October 2011*, pp.120, 122-3

The above results that had a negative effect on the overall budget outcome were largely offset by variations in the following items that had a positive budgetary impact (see Table 3.5):

- Taxation : \$419.6 million or 3 per cent higher than expected
- Other revenue: \$257.5 million or 15 per cent higher than expected
- Depreciation: \$204.3 million or 9 per cent lower than expected

Table 3.5: Main drivers that acted positively on the variance between the original budget and actual operating surplus for 2010-11

	2010-11 Budget estimate (\$ million)	2010-11 actual (\$ million)	Financial outcome	Main drivers
Revenue item				
Taxation	14,437.8	14,857.5	Initial budget exceeded by \$419.6 million.	<ul style="list-style-type: none"> Land transfer duty collections were \$237.5 million higher than originally expected. Payroll tax receipts exceeded the initial estimate by \$95.5 million.
Other revenue	1,718.0	1,975.5	Other revenue was \$257.5 million higher than the original budget.	<ul style="list-style-type: none"> Higher-than-expected third party revenue of \$197 million in the health and education sectors.
Expense item				
Depreciation	2,214.3	2,010.0	Depreciation was \$204.3 million lower than the original estimate.	<ul style="list-style-type: none"> The re-phasing of capital projects mainly in the education and transport sectors.

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11, October 2011*, pp.120, 122-3

Reasons for the reduction of \$126.3 million in the operating surplus for 2010-11 compared to 2009-10

The lower operating surplus in 2010-11 compared to the prior year was due to a higher overall movement in expenses between the years (\$1,567.9 million) compared to the movement in total revenue (\$1,441.6 million). As shown in Table 3.2, the most material movements in revenue items related to:

- Taxation: \$1,117.0 million or 8 per cent higher than expected
- Sales of goods and services: \$654.7 million or 12 per cent higher than expected
- Grants: \$292.2 million or 1 per cent lower than expected

These outcomes were offset by movements in the following expense items:

- Employee expenses: \$970.0 million or 6 per cent higher than expected
- Other operating expenses: \$709.7 million or 5 per cent higher than expected
- Grants and other transfers: \$627.1 million or 7 per cent lower than expected

Reasons for operating surplus for 2010-11 exceeding the revised estimate by \$267.9 million

The operating surplus for 2010-11 exceeded the revised estimate for the year due to a higher overall movement in revenue between the revised estimate and actual (\$588.6 million) compared to the movement in total expenditure (\$320.7 million). The most material movements in revenue items related to:⁶⁴

- Grants: \$428.2 million or 2 per cent higher than expected
- Other revenue: \$154.9 million or 9 per cent higher than expected

These outcomes were offset by movements in the following expense items:⁶⁵

- Grants and other transfers \$375.8 million or 5 per cent higher than expected
- Employee expenses \$285.4 million or 2 per cent higher than expected
- Other operating expenses \$239.7 million or 2 per cent lower than expected
- Depreciation and amortisation \$106.9 million or 5 per cent lower than expected

FINDING

The lower-than-originally-expected operating surplus for 2010-11 for the general government sector was reflective, in the main, of lower-than-expected revenue from Commonwealth grants, and higher expenditure than expected with regard to grants and transfer payments that included flood recovery relief and grants to non-government schools. The impact of these factors was partly mitigated by taxation and other revenue being higher than expected and depreciation being less than expected.

Similar to prior years, the recognition of one-off Commonwealth grants for specific major capital programs as revenue (but not including the use of this funding in the operating statement as an expense) enabled the general government sector to generate an operating surplus which exceeded the yearly target of \$100 million. As detailed in the budget estimates for 2011-12, the revised estimate for this item amounted to \$1.4 billion for 2010-11, indicating that the net result from transactions would have been a deficit if this amount had not been included.⁶⁶

FINDING

As has been the case in prior years, one-off grants from the Commonwealth for asset investment have enabled the general government sector to generate an operating surplus for 2010-11 which exceeds the annual target of at least \$100 million. The Government has estimated that these grants would total approximately \$1.4 billion for 2010-11. Without including this funding, the operating result would have been a deficit.

64 *ibid.*, pp.4, 120

65 *ibid.*

66 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.24

3.5.2 Other economic flows and net result

Table 3.2 shows that the net result for the general government sector for 2010-11 of \$735.9 million includes a net gain from other economic flows that amounted to \$218.6 million. The annual financial report for 2010-11 reveals that the main item included in other economic flows related to an actuarial gain of \$306.0 million on superannuation defined benefits plans that arose during 2010-11 due to better-than-expected investment returns on superannuation assets, albeit offset to some extent by adverse bond rate movements.⁶⁷

When comparing the net result between years, the net result for 2010-11 of \$735.9 million (including other economic flows of \$218.6 million) represented a substantial improvement on the net result for 2009-10 whereby a deficit of \$5.4 billion was incurred (after taking into account other economic flows of \$-6.1 billion). As indicated in Chapter 2 of this report, the Committee again acknowledges that the nature of these items can result in wide fluctuations from one year to the next in economic flows that are outside those operating transactions that are controlled by the Government.

FINDING

After taking into account other economic flows that amounted to a net gain of \$218.6 million for 2010-11, the net result for the general government sector totalled \$735.9 million. The main factor that impacted on the item 'other economic flows' related to an actuarial gain of \$306.0 million on superannuation defined benefits plans.

3.6 State of Victoria outcome for 2010-11

The annual financial report for 2010-11 also provides an overview and analysis of the outcomes for the whole public sector (the 'State of Victoria'). This overview includes coverage of the public non-financial corporation sector and the public financial corporation sector as well as the general government sector. The analysis is largely focussed on comparisons with the prior year, as there were no estimates for the public financial corporation sector and the whole of state outcome. The Committee notes, however, that the presentation of estimates data for the public financial corporation sector and whole-of-state occurred for the first time as part of the budget papers for 2011-12.⁶⁸ This will enable a greater level of scrutiny of public sector results in the future.

Table 3.6 shows a summary of the audited consolidated operating statements for the year ended 30 June 2011 for the State of Victoria.

67 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, pp.4, 120, p.123

68 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.41

Table 3.6: Audited consolidated operating statement for the year ended 30 June 2011 – State of Victoria

	2009-10 (\$ million)	2010-11 (\$ million)	Variation (\$ million)	Variation (per cent)
Revenue				
Taxation revenue	13,534.6	14,647.1	1,112.5	8.2
Interest	982.9	1,203.6	220.7	22.5
Dividends and income tax equivalent and rate equivalent revenue	422.7	529.5	106.8	25.3
Sales of goods and services	11,024.2	12,009.3	985.1	8.9
Grants	22,606.6	22,298.6	-308.0	-1.4
Other revenue	2,591.3	2,564.6	-26.7	-1.0
Total revenue	51,162.4	53,252.8	2,090.4	4.1
Expenses				
Employee expenses	16,218.3	17,256.7	1,038.4	6.4
Superannuation interest expense	867.7	932.0	64.3	7.4
Other superannuation	1,637.4	1,807.4	170.0	10.4
Depreciation	3,392.5	3,606.3	213.8	6.3
Interest expense	1,527.0	1,797.9	270.9	17.7
Other operating expenses	20,731.6	21,955.3	1,223.7	5.9
Grants and other transfers	6,632.8	6,409.7	-223.1	-3.4
Total expenses	51,007.2	53,765.3	2,758.1	5.4
Net result from transactions – Net operating balance	155.2	-512.5	-667.7	-430.2
Net loss on disposal of non-financial assets	-49.5	-43.0	6.5	13.1
Net gain/(loss) on financial assets or liabilities at fair value	187.2	1,257.5	1,070.3	571.7
Net actuarial gain/(loss) of superannuation defined benefits plans	-1,435.8	303.0	1,738.8	121.1
Share of net profit/(loss) from associates/joint venture entities, excluding dividends	49.6	68.3	18.7	37.7
Other gains/(losses) from other economic flows	-4,584.3	573.4	5,157.7	112.5
Total other economic flows included in net result^(a)	-5,832.9	2,159.3	7,992.2	137.0
Net result	-5,677.7	1,646.8	7,324.5	129.0

Source: Department of Treasury and Finance, Financial Report for the State of Victoria 2010-11, October 2011, p.25

Broken down by sector and taking into account inter-sector eliminations, Table 3.7 presents a disaggregation of the financial performance of the State of Victoria between sectors for 2009-10 and 2010-11.

Table 3.7: Summary of disaggregated comprehensive operating statement for 2009-10 and 2010-11 (\$ million)

	General government sector		Public non-financial corporations		Public financial corporations		Inter-sector eliminations		Consolidated	
	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
Revenue	44,585.3	46,026.9	7,658.1	7,697.6	5,562.8	6,076.9	-6,643.8	-6,548.7	51,162.4	53,252.8
Expenses	43,941.7	45,509.6	7,263.5	7,706.7	6,116.3	6,851.9	-6,314.3	-6,302.9	51,007.2	53,765.3
Net result from transactions	643.6	517.3	394.6	-9.1	-553.5	-775.0	-329.5	-245.8	155.2	-512.5

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, pp.60-1

Prior to taking into account inter-sector eliminations, approximately 77 per cent of revenue and 76 per cent expenditure of the State of Victoria for 2010-11 were derived from transactions relating to the general government sector.

3.6.1 Operating result

Table 3.7 shows that, on a consolidated basis, the operating result (net result from transactions) for the State of Victoria was a deficit of \$512.5 million compared to a surplus of \$155.2 million in 2009-10.

FINDING

The consolidated 2010-11 operating result for the whole public sector (the 'State of Victoria') was a deficit of \$512.5 million compared to a surplus of \$155.2 million in 2009-10.

This overall deficit reflects the following outcomes for each sector, prior to taking into account inter-sector eliminations:

- a \$517.3 million surplus for the general government sector;
- a \$9.1 million deficit within the public non-financial corporation sector; and
- a \$775.0 million deficit with regard to the public financial corporation sector.

The Committee notes that according to the annual financial report for 2010-11:⁶⁹

It is important to note that due to the elimination of transactions occurring between the sectors in arriving at a consolidated position, not all variations in each sector will affect the overall State of Victoria result.

The negative movement in the net result from transactions for the State compared to the prior year comprised worsening results for all three of the sectors consolidated into the result.

69 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, pp.13

The Committee notes that the Auditor-General, when commenting on the net result from transactions, found that:⁷⁰

...There were negative trends underlying this figure that present risks that the state must manage. Specifically, expenditure continued to grow faster than revenue. There was upward pressure on expenditure from salaries and wages, interest and depreciation, and this is expected to continue. Conversely, revenue received from the Commonwealth is expected to decrease in 2011-12 and across the forward estimates period.

Factors contributing to the declining result for the general government sector are discussed in Section 3.5.1 of this report.

Major reasons for the decline in the net result from transactions for the public non-financial corporation sector and public financial corporation sector between 2009-10 and 2010-11 are set out in Table 3.8.

Table 3.8: Reasons for the decline in the net result from transactions within the public non-financial corporation sector and public financial corporation sector, 2009-10 compared to 2010-11

Sector	2009-10 actual (\$ million)	2010-11 actual (\$ million)	Main drivers
Public non-financial corporation sector	394.6	-9.1	<ul style="list-style-type: none"> The timing of Commonwealth fiscal stimulus payments for social housing and increased interest expenses. Payments initially expected to be received in 2010-11 were brought forward to 2009-10, which caused a reduction in overall grants in 2010-11. This was partly offset by improved outcomes within the metropolitan water sector as a result of higher water prices.
Public financial corporations	-553.5	-775.0	<ul style="list-style-type: none"> Operating expenses increased to a large extent due to higher insurance claims associated with the floods and existing claims moving closer to maturity.

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria, 2010-11, October 2011, pp.14, 16, 60-1*

Due to the previous coverage of the general government sector in this chapter, movements in actual outcomes relating to revenue and expense items for the State described below are restricted to those that were influenced by factors outside the general government sector.

Revenue

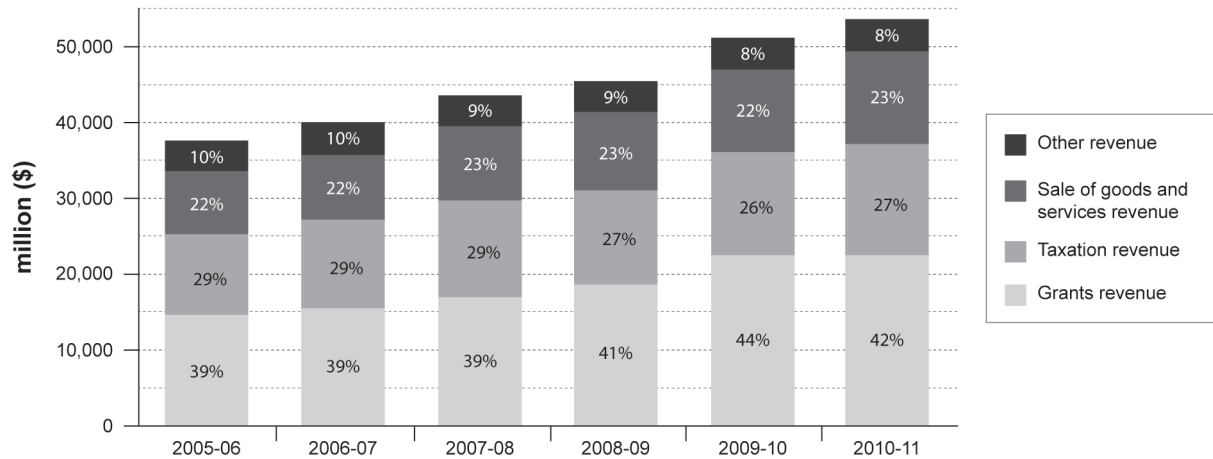
Figure 3.1 presents a breakdown of total revenue for the State from 2005-06 to 2010-11. The analysis shows that:

- throughout the period, grants revenue has been the largest component, peaking in 2009-10 before reducing slightly in 2010-11;

70 Victorian Auditor-General’s Office, *Auditor-General’s Report on the Annual Financial Report of the State of Victoria, 2010-11*, November 2011, p.viii

- taxation has been the second largest component, growing in absolute terms over the last couple of years, although reducing as a proportion of revenue when grants increased; and
- revenue derived from sales of goods and services, the third largest revenue item, has remained at between 22 and 23 per cent of total revenue since 2005-06.

Figure 3.1: Total revenue from transactions – State of Victoria



Source: Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009-10, October 2010, p.19, updated by Committee Secretariat

In terms of comparing the revenue outcomes for 2010-11 to the prior year, Table 3.6 shows that the aggregate revenue for the State of Victoria increased from \$51.2 billion for 2009-10 to \$53.3 billion for 2010-11, an increase of \$2.1 billion or 4 per cent. The main driver of this was increased taxation revenue within general government sector. The main items that impacted on the public non-financial corporations' and public financial corporations' components of this variance related to interest income, sales of goods and services and grants revenue.

Interest income

Interest income for the State of Victoria increased by \$220.7 million (or 22 per cent) from \$982.9 million to \$1,203.6 million for 2010-11, and dividend income increased by \$69.1 million (or 17 per cent) from \$396.6 million to \$465.7 million in 2010-11.⁷¹ These outcomes were primarily due to improved investment returns for the State's insurance agencies.⁷² Interest income derived by the public financial corporation sector (prior to allowing for inter-sector eliminations) increased by \$347.9 million from \$1,769.0 million in 2009-10 to \$2,116.9 million in 2010-11.⁷³

Sales of goods and services

Revenue generated by the State of Victoria from the sales of goods and services increased by \$985.1 million (or 9 per cent) from \$11.0 billion to \$12.0 billion for 2010-11. Amounts included in this movement relating to the public non-financial corporation sector and public financial corporation sector are set out in Table 3.9.

71 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, pp.25, 71

72 *ibid.* p.15

73 *ibid.*, p.61

Table 3.9: Major movements in sales of goods and services, 2009-10 compared with 2010-11

Sector	2009-10 (\$ million)	2010-11 (\$ million)	Variance (\$ million)	Variance (per cent)	Reasons for variance
Public non-financial corporation sector	4,030.9	4,465.9	435.0	10.8	<ul style="list-style-type: none"> Higher regulated water and sewerage charges.
Public financial corporations	3,280.4	3,476.7	196.3	6.0	<ul style="list-style-type: none"> Significant growth in insurance premium revenue from the Transport Accident Commission and the Victorian Workcover Authority, due to a rise in the number of vehicles and wage growth.

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria, 2010-11, October 2011*, pp.15, 60-1

Grants revenue

The analysis shows that on a whole state public sector basis, revenue increases were partially offset by a reduction in grants revenue of \$308.0 million in 2010-11 (grants revenue decreased from \$22.6 billion to \$22.3 billion).⁷⁴ This included a reduction in grants revenue within the public non-financial corporation sector whereby grants revenue reduced by \$518.3 million (18 per cent) from \$2.9 billion to \$2.4 billion in 2010-11.⁷⁵ As indicated earlier, this result reflected the timing of Commonwealth fiscal stimulus payments for social housing projects to the Director of Housing, whereby payments initially expected to be received in 2010-11 were brought forward to 2009-10, which caused a reduction of overall grants received in 2010-11.⁷⁶

Expenses

Table 3.6 shows that aggregate expenditure for the State of Victoria rose from \$51.0 billion for 2009-10 to \$53.8 billion for 2010-11, an increase of \$2.8 billion or 5 per cent. While most components of State expenditure were influenced by the activities of the general government sector, some of the components affected by factors relating to the public non-financial corporation and public financial corporation sectors are described below:⁷⁷

- while employee expenses for the State increased by \$1.0 billion (or 6 per cent) from \$16.2 billion in 2009-10 to \$17.3 billion for 2010-11, with regard to the public non-financial corporation sector, employee costs rose by \$59.5 million (or 7 per cent) from \$857.6 to \$917.1 million in 2010-11. This increase reflected growth in staff numbers for the provision of additional services, together with increases in salaries according to the requirements of public sector wage agreements;

74 *ibid.*, pp.25, 61

75 *ibid.*, p.60

76 *ibid.*, p.16

77 *ibid.*, pp.60-1

- driven by increased borrowing, the aggregated interest expense for the State increased by \$270.9 million (or 18 per cent) from \$1.5 billion in 2009-10 to \$1.8 billion during 2010-11. Interest costs relating to the public non-financial corporation sector increased by \$126.6 million (or 24 per cent) from \$534.7 million to \$661.3 million in 2010-11, which largely reflected a \$1.2 billion increase in borrowings for that sector between 2009-10 and 2010-11; and
- other operating expenses for the State rose by \$1.2 billion (or 6 per cent) from \$20.7 billion in 2009-10 to \$22.0 billion during 2010-11. In particular, the public financial corporation sector recorded a \$530.6 million (or 12 per cent) increase in other operating expenses from \$4.3 billion to \$4.9 billion in 2010-11. This increase largely reflected increased insurance claims expense for the State's insurers. As mentioned earlier, the increase in insurance claims included claims associated with flood-related events as well as costs relating to existing claims as they moved closer to maturity.

FINDING

For the public sector as a whole, expenditure grew faster than revenue in 2010-11 (expenses from transactions grew by 5 per cent, while revenue grew by 4 per cent compared to the prior year).

3.6.2 Net result

The difference between the net result and the net result from transactions is due to revaluations and re-measurement items, which are included in other economic flows and the determination of the net result, but not in the net result from transactions. As reported by the Auditor-General, the net result takes into account movements in the value of financial assets and liabilities and is therefore vulnerable to economic conditions.⁷⁸ The isolation of these items in deriving the net result from transactions provides a clearer view of the State's underlying financial performance to be reflected by the net result from transactions.

The Committee notes that the other economic flows that are accounted for in the net result reflected improved economic conditions that delivered smaller actuarial losses on unfunded superannuation as well as significantly higher gains on financial assets in excess of financial liabilities compared to the prior year.⁷⁹

Despite the reduced net result from transactions for the State, the 2010-11 net result (see Table 3.6) was a surplus of \$1.6 billion (compared to a \$5.7 billion deficit in 2009-10). This improved financial outcome for the State, which highlights a turnaround of \$7.3 billion or a 129 per cent improvement in the net result for 2010-11, was influenced to a large extent by the following:⁸⁰

- financial assets increasing in value at a faster rate than financial liabilities in 2010-11 compared to the prior year (the value of net financial assets increased by \$1.3 billion in 2010-11 compared to \$187.2 million in 2009-10);

78 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010-11*, November 2011, p.viii

79 *ibid.*

80 *ibid.*, p.11

- a turnaround of \$1.7 billion or 121 per cent from a net actuarial loss on superannuation defined benefit plans of \$1.4 billion in 2009-10 to a net actuarial gain of \$303.0 million in 2010-11; and
- no material other economic flows occurring in 2010-11 (this item included a \$4.0 billion revaluation loss in 2009-10 as a result of a change in the method for valuing land under roads).

FINDING

The 2010-11 net result for the State was a surplus of \$1.6 billion (compared to a \$5.7 billion deficit in 2009-10) due to positive movements in the value of assets and actuarial gains.

3.7 Asset investment and debt movements in 2010-11 in the general government sector

3.7.1 Asset investment

Expenditure on asset investment on a cash basis

Table 3.10 provides an outline on a cash basis of the funding for the general government sector's capital investment program for 2010-11 compared to the budget for 2010-11 and prior year actual. Expenditure on an accrual basis is set out in Table 3.11.

The 2010-11 budget papers reveal that the Government's expenditure on approved projects for the year in the general government sector was initially projected to total \$6.6 billion⁸¹ (this amount includes total purchases of property, plant and equipment, capital contributions to other sectors of government and net proceeds from sale of assets⁸²). In comparison, the actual expenditure was \$6.8 billion, which was \$209.4 million more than the initial estimate in the budget papers and \$926.0 million higher than the prior year (see Table 3.10).⁸³

FINDING

General government expenditure on approved asset investment projects was \$6.8 billion during 2010-11, \$209.4 million more than the initial budget estimate and \$926.0 million higher than the prior year.

Notwithstanding the change of government during 2010-11, the level of expenditure on approved asset investment projects for the general government sector for the first six months and second six months of 2010-11 were similar (at 31 December 2010, \$3.4 billion was incurred compared to \$6.8 billion at year end).⁸⁴

81 Budget Paper No.2, *2010-11 Strategy and Outlook*, May 2009, pp.8, 44

82 *ibid.*, p.44

83 Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, p.25

84 Department of Treasury and Finance, *2010-11 Mid-Year Financial Report*, March 2011, p.11

Table 3.10: Funding of the capital program for the general government sector – 2010-11 compared to budget and prior year (cash basis)

Expense and funding items	2009-10 actual	2010-11 budget	2010-11 actual	Budget variance	Actual to actual variance
	[A]	[B]	[C]	[C] – [B]	[C] – [A]
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Operating surplus	643.6	871.9	517.3	-354.6	-126.3
Add back: Non-cash revenues and expenses (net) ^(a)	2,559.8	2,620.9	2,379.1	-241.8	-180.7
Net cash flow from operating activities	3,203.4	3,492.8	2,896.3	-596.5	-307.1
Less:					
Net investment in fixed assets					
Expenditure on approved projects	5,897.8	6,614.4	6,823.8	209.4	926.0
Proceeds from the sale of non-financial assets	-187.4	-244.9	-184.3	60.6	3.1
Total net investment in fixed assets	5,710.5	6,369.5	6,639.6	270.1	929.1
Finance leases	74.7	121.0	195.0	74.0	120.3
Other investment activities (net)	90.3	-8.8	-65.0	56.2	-155.3
Increase in net debt	2,671.9	2,989.0	3,873.2	884.2	1,201.3
Net debt at year-end	7,963.6	11,700.0	11,836.8	136.8	3,873.2
Net debt to GSP at year end (%)	2.5	3.5	3.7		

Note: (a) includes depreciation and movements in the unfunded superannuation liability and liability for employee benefits

Sources: Budget Paper No.2, 2010-11, Strategy and Outlook, May 2010, pp.44, 51; Department of Treasury and Finance, 2009-10 Financial Report, September 2010, pp. 23, 25; Department of Treasury and Finance, 2010-11 Financial Report, October 2011, pp.11-12

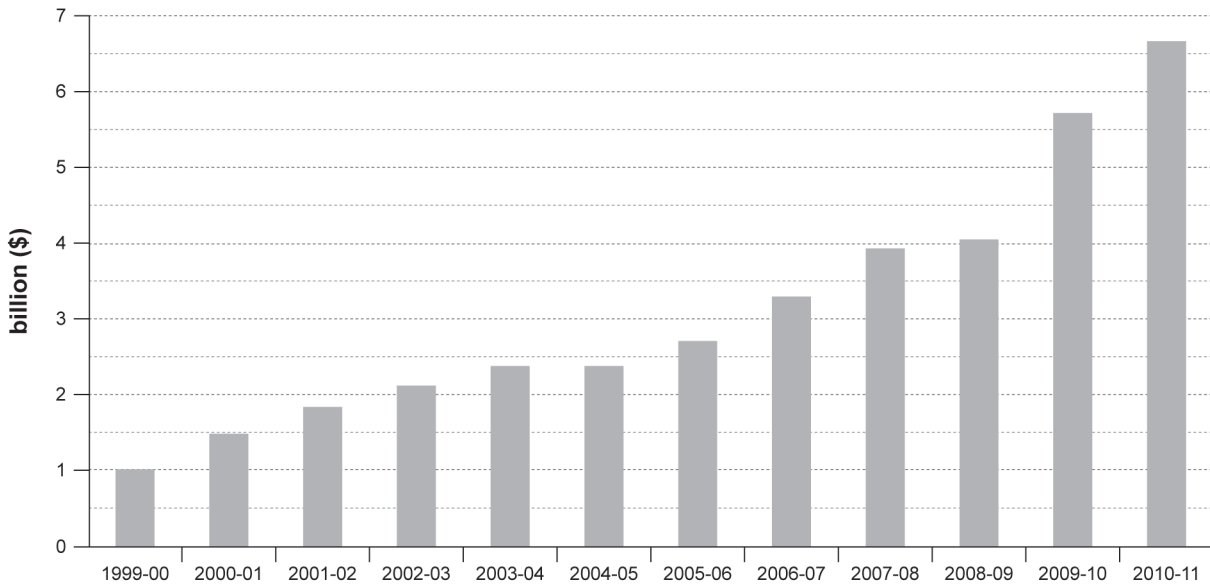
The Committee notes that the growth in asset investment from 2009-10 to 2010-11 is part of a longer trend of growth in asset investment. Figure 3.2 shows how the general government sector net infrastructure investment has grown from 1999-2000 to 2010-11.

The Committee notes that, in terms of outcomes to flow from the investment in infrastructure, the previous Government foreshadowed in the 2010-11 Budget that the:⁸⁵

significant infrastructure program [is] aimed at providing the services needed for a growing Victorian population, and at securing jobs.

... This investment, funded by the Victorian Government in partnership with the Commonwealth Government, will enhance the ongoing economic capacity of the State and improve longer-term productivity growth. The infrastructure program in Victoria is estimated to secure around 30,000 jobs in 2010-11.

Figure 3.2: General government net asset investment, 1999-2000 to 2010-11



Source: Department of Treasury and Finance, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes questionnaire — Part Two, received 24 January 2012, p.13

In response to the Committee’s Financial and Performance Outcomes Questionnaire, the Department of Treasury and Finance confirmed that asset investments are undertaken to deliver:⁸⁶

- new services;
- additional services; or
- more efficient/effective services.

The Committee notes that the Government does not currently report the extent to which its asset investment program has met its stated aims.

The Department of Treasury and Finance informed the Committee that the service benefits delivered through asset investments are reflected through changes made to performance measures in the budget papers. However, it is not currently easy to identify these changes. An encouraging development in terms of outcomes reporting was that:⁸⁷

DTF will facilitate disclosure of clear linkages between asset initiatives and their intended service delivery outcomes, although this is not expected to be completed in time for the 2012-13 budget.

The Committee reiterates that there is a lack of information to connect expenditure on asset investment with the high-level outcomes identified as the aims of the asset investment program.⁸⁸ In disclosing the success of the Government’s program towards these outcomes, it

86 Department of Treasury and Finance, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 24 January 2012, p.9

87 *ibid.*

88 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, pp.120-1

would be useful to differentiate the number of new jobs created as distinct from existing jobs that are secured.

FINDING

There is a lack of information linking expenditure on infrastructure investment with the high-level outcomes aimed for (such as improved services, securing jobs and enhancing the economic capacity and productivity of the State).

RECOMMENDATION 5:

In addition to linking asset initiatives with service delivery outcomes, the Department of Treasury and Finance also demonstrate the effect that investment in fixed assets has had on:

- (a) enhancing the ongoing economic capacity of the State;**
- (b) improving longer-term productivity growth; and**
- (c) creating new jobs and securing existing jobs.**

Expenditure on asset investment an accrual basis

Table 3.11 presents details relating to expenditure on an accrual basis that was been incurred in acquiring land, buildings, infrastructure, plant and equipment in 2010-11 compared to 2009-10 for the general government sector and the State of Victoria.

In terms of the asset investment in the general government sector during 2010-11, the increase in the investment in fixed assets compared to the previous year was mainly related to schools and roads.⁸⁹ With regard to asset investment at the State level, the increase predominantly related to the water and transport sectors.⁹⁰

As shown in Table 3.11, expenditure on land and buildings of \$5.6 billion comprised the largest component (73 per cent) of total asset acquisitions in the general government sector during 2010-11. In contrast, on a whole public sector basis (that is, including the public non-financial and the public financial sectors), the acquisition of land and buildings amounted to \$6.5 billion, comprising 45 per cent of total asset acquisitions, with an expenditure of \$6.9 billion on plant, equipment and vehicle, and other infrastructure systems (48 per cent of the total).

FINDING

Across the public sector as a whole, expenditure on 'plant, equipment and vehicle, and other infrastructure systems' of \$6.9 billion comprised 48 per cent of total asset acquisitions and the acquisition of land and buildings comprised \$6.5 billion (45 per cent).

Chapter 6 of this report provides further analysis of asset investment in 2010-11.

89 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, pp.10, 103

90 *ibid.*, p.18

Table 3.11: Major categories of asset investment, 2010-11 expenditure compared to 2009-10 (accrual basis)

Asset investment category	General government sector		State of Victoria	
	2009-10 (\$ million)	2010-11 (\$ million)	2009-10 (\$ million)	2010-11 (\$ million)
Land and buildings	3,353.7	5,625.0	4,215.8	6,447.2
Plant, equipment and vehicle, and other infrastructure systems	909.5	905.1	4,406.6	6,860.1
Road networks and earthworks	1,056.3	1,013.5	1,057.1	1,020.0
Cultural assets	25.7	147.4	25.8	55.2
Total	5,345.2	7,691.0	9,705.3	14,382.5

Source: Department of Treasury and Finance, 2010-11 Financial Report, October 2011, pp.100-1

3.7.2 Movements in net debt – general government sector

The calculation of net debt is determined by deducting liquid financial assets from gross debt.⁹¹ The Government has stated that it is committed to maintaining net debt at sustainable and prudent levels.⁹² In this regard and acknowledging that the rate of growth in expenditure of 5.4 per cent exceeded that of revenue of 4.1 per cent in 2010-11 (see Section 3.6.1 of this chapter), the Committee notes the following statements made by the Government when providing commentary on the key measures of the general government sector's financial position:⁹³

The Independent Review of State Finances was established to investigate strategies to reduce Victoria's debt levels and restrain growth in expenditure. While awaiting the final report, due in February 2012, the Government is implementing strategies to improve the underlying budget position, including cost savings to constrain general government expenditure growth.

Table 3.10 shows that for the general government sector:

- net debt grew by \$3.9 billion (or 49 per cent) in 2010-11 compared to the prior year (net debt at 30 June 2011 stood at \$11.9 billion compared to \$7.9 billion at 30 June 2010);
- the increase in net debt that occurred in 2010-11 was \$884.2 million more than the initial budget estimate; however, because the level of net debt at the end of 2009-10 was significantly less than had been estimated at the time of the 2010-11 Budget (the estimate in the 2010-11 Budget was \$8.7 billion of net debt at 30 June 2010, whereas the actual net debt at 30 June 2010 was \$7.9 billion), the level of net debt at the end of 2010-11 only varies from the initial estimate for 2010-11 by \$136.8 million; and
- expressed as a percentage of gross state product (GSP), net debt to GSP grew from 2.5 per cent at 30 June 2010 to 3.7 per cent at 30 June 2011.

91 *ibid.*, p.11

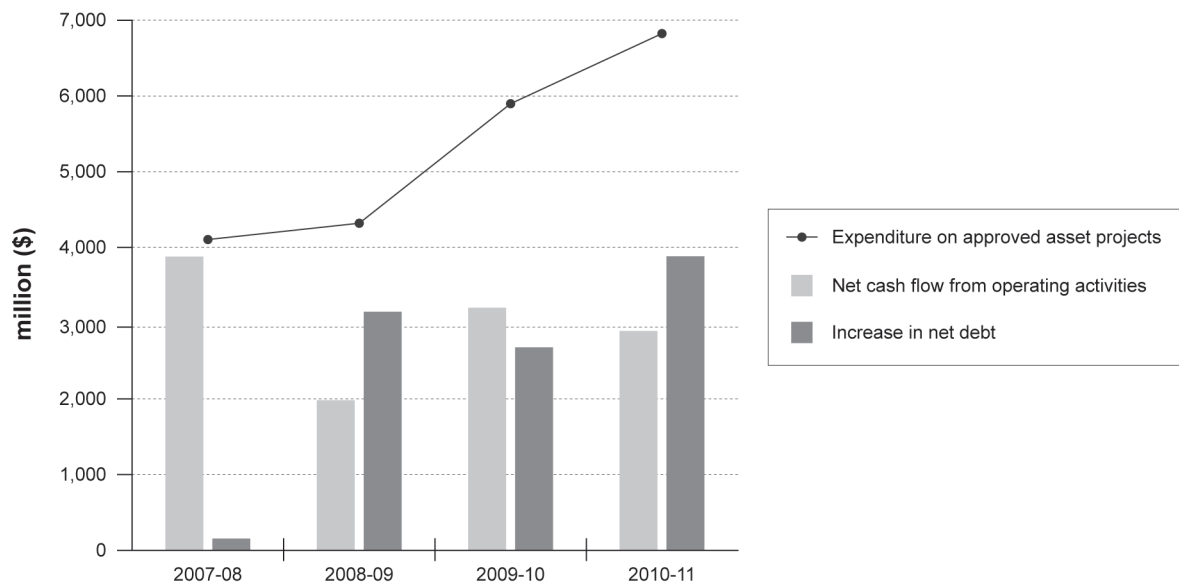
92 *ibid.*

93 *ibid.*

As shown in Table 3.10, the Government spent \$6.8 billion on asset investment in 2010-11 (on a cash basis). The net cash flow from operating activities provided \$2.9 billion of the required cash (after meeting payments of an operating nature), with other investment activities also contributing small amounts. However, to cover the difference, an additional \$3.9 billion worth of debt was incurred.

The Committee notes that the level of asset investment has increased substantially over the last four years (see Figure 3.2). The net cash flows from operating activities have been positive throughout this period, partially funding the asset investment in every year (see Figure 3.3).

Figure 3.3: Asset investment, cash flows from operating activities and increases in net debt, 2007-08 to 2010-11



Sources: Department of Treasury and Finance, *Financial Report for the State of Victoria 2007-08*, October 2008, p.30; Department of Treasury and Finance, *Financial Report for the State of Victoria 2008-09*, October 2009, p.29; Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, p.25; Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.12

As can also be seen from Figure 3.3, the amount of cash available has varied considerably from year to year, from \$3.9 billion in 2007-08 to \$2.0 billion in 2008-09 and then to \$3.2 billion in 2009-10 and \$2.9 billion in 2010-11.⁹⁴ These net cash flows are influenced, among other things, by the net result from transactions, that is, the difference between revenue and expenses (see Tables 2.10 and 3.10). In each of the last four years, the net cash flows from operating activities have been less than the amount of asset investment, requiring additional borrowings, and a steady increase in debt through the period, reaching \$11.8 billion by June 2011 (see Table 3.10).

94 Department of Treasury and Finance, *Financial Report for the State of Victoria 2007-08*, October 2008, p.30; Department of Treasury and Finance, *Financial Report for the State of Victoria 2008-09*, October 2009, p.29; Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, p.25; Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.12

FINDING

Net debt in the general government sector, which stood at \$11.8 billion at 30 June 2011, grew by \$3.9 billion (or 49 per cent) in 2010-11 compared with the prior year and exceeded the initial budget by \$884.2 million (or 30 per cent). The increase in net debt has been necessary to cover the difference between the net cash flows from operating activities and the expenditure on asset investment.

FINDING

Net debt in the general government sector represented 3.7 per cent of gross state product at 30 June 2011, which was higher than the prior year proportion of 2.5 per cent.

A breakdown of the movement in net debt for the first six months of 2010-11 compared to the second half of the financial year is shown in Table 3.12. The analysis shows that the level of net debt incurred in respect of the general government sector and as a percentage of GSP increased by similar margins in the first and second halves of 2010-11 (of around \$1.9 billion and 0.6 per cent of GSP). This is in line with the even spread of expenditure noted above.

Table 3.12: Movement in net debt, general government sector, half yearly comparisons for 2010-11

	Net debt	Net debt to gross state product
	(\$ billion)	(per cent)
1 July 2010	8.0	2.6
31 December 2010	9.9	3.1
Movement	1.9	
1 January 2011	9.9	3.1
30 June 2011	11.8	3.7
Movement	1.9	

Sources: Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, p.14; Department of Treasury and Finance, Financial Report for the State of Victoria 2010-11, October 2011, p.11

FINDING

Net debt incurred in the general government sector increased by similar amounts in the first and second halves of 2010-11 (\$1.9 billion or 0.6 per cent of gross state product).

3.7.3 Movements in net debt and debt sustainability – non-financial public sector

The Committee notes that net debt for the non-financial public sector (i.e. the general government sector and the public non-financial corporation sector) increased from \$14.8 billion at 30 June 2010 to \$19.7 billion at 30 June 2011. As a ratio compared to GSP,

this represents an increase from 4.9 per cent to 6.2 per cent.⁹⁵ According to the Government, the movement reflected the increased debt used to fund capital infrastructure expenditure, particularly in the water and transport sectors (the increase in asset investment in these sectors is referred to in Section 3.7.1 of this chapter).⁹⁶ The Committee notes, however, that the level of net debt incurred by the non-financial public sector at 30 June 2011 of \$19.7 billion was in line with the revised budget of \$19.7 billion announced in the 2010-11 Budget Update, which reflected the Government's new financial management plan.⁹⁷ The level of net debt incurred by the non-financial public sector of \$19.7 billion at 30 June 2011 was slightly less than the original estimate of \$20.6 billion.⁹⁸ In terms of outcome achievements, the Government has stated that it has stabilised debt levels and maintained parameters consistent with AAA credit rating.⁹⁹

The Committee also notes the following commentary made by the incoming Government in the 2010-11 Victorian Budget Update that was released in December 2010:¹⁰⁰

While Victoria's finances are sound, recent trend growth in the size and cost of government and the level of government debt are not sustainable.

The Government also stated that:¹⁰¹

...recent actual and forecast growth in the public sector debt must be contained to ensure the State's balance sheet is sustainable. Net debt to GSP for the non-financial public sector has risen from 1.4 per cent (\$3.9 billion) in 2007-08 to a projected 8.3 per cent (\$30.7 billion) by 2013-14.

The Auditor-General considers that debt is sustainable when it 'can be paid back while dealing with factors such as economic growth, interest rates and the state's capacity to generate surpluses in the future'.¹⁰² However, the Auditor-General notes that such factors cannot be reliably forecast across the period over which debt is repaid, making measuring debt sustainability difficult.

Nonetheless, the Auditor-General has looked at the State's debt sustainability as indicated by the ratio of borrowings and unfunded superannuation liabilities to GSP. According to this indicator, debt sustainability has declined between 2006-07 and 2010-11, with debt growing faster than GSP over this period. In 2010-11, the State's debt increased by 8.7 per cent (to \$55.6 billion at 30 June 2011), while for the same period, GSP increased by only

95 *ibid.*, p.19

96 *ibid.*

97 Department of Treasury and Finance, *2010-11 Victorian Budget Update*, December 2010, pp.4,30

98 Budget Paper No.2, *2010-11 Strategy and Outlook*, May 2010, p.64

99 Premier of Victoria, 'Economy and State Finances', www.premier.vic.gov.au/our-commitment/economy-and-state-finances.html, accessed 1 February 2012

100 Department of Treasury and Finance, *2010-11 Victorian Budget Update*, December 2010, p.1

101 *ibid.*, p.3

102 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010-11*, November 2011, p.15

3.5 per cent.¹⁰³ In calculating the State's debt, the Auditor-General used a broader measure than the Government,¹⁰⁴ taking into account:¹⁰⁵

- public sector borrowings – \$27.8 billion
- unfunded superannuation liabilities – \$22.8 billion
- finance leases entered into by public sector entities – \$2.7 billion
- derivative financial instruments – \$2.2 billion

The Committee notes that the Government has indicated that restricting the growth of net debt compared to the growth of GSP has been identified as a priority for future years. During the Committee's inquiry into the 2011-12 budget estimates, the Premier advised the Committee, in part, that:¹⁰⁶

... We have obviously stabilised debt at just under 6 per cent of GSP between 12-13 and 13-14... The net debt to GSP is stabilised under 6 per cent and maintaining the AAA rating – the ratio is maintained well under the rating agencies requirements for AAA rating. Indeed Victoria is one of the few states at the end of this estimates period to have a declining ratio... we recognise that debt remains on the increase. We are seeking to stabilise that debt, and that is what we have done in this budget...

In its Report on the 2011-12 Budget Estimates, the Committee recommended that the Department of Treasury and Finance disclose the '*debt management strategy and detail the measures, including targets, that are to be employed to ensure the successful implementation of the strategy*' in the budget papers.¹⁰⁷ The Government has supported this recommendation.¹⁰⁸

As a corollary of this, the Committee considers that the annual Financial Report for the State should report on the actual achievements compared to the targets in the debt management strategy. Although the report currently provides information about the non-financial public sector's debt, it does not compare the data to targets other than the maintenance of Victoria's AAA credit rating.¹⁰⁹

FINDING

The annual Financial Report for the State does not compare the actual figures for non-financial public sector debt to targets other than maintaining Victoria's AAA credit rating.

103 *ibid.*, p.16

104 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, pp.19-20

105 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010-11*, November 2011, p.16

106 Hon. T. Baillieu, MP, Premier, 2011-12 budget estimates hearing, transcript of evidence, 13 May 2012, p. 4

107 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 57, p.160

108 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.30

109 Department of Treasury and Finance, *Financial Report for the State 2010-11*, October 2011, pp.19-20

RECOMMENDATION 6:

The Department of Treasury and Finance compare the actual figures for non-financial public sector debt to targets established in the debt management strategy, explaining any significant variations.

3.7.4 Net debt to GSP for the general government sector

A comparison of net debt to GSP between the states and territories and the Commonwealth for the general government sector is included in Table 3.13 and presented in a diagrammatic form in Figure 3.3.

The analysis shows that net debt, as a proportion of GSP for Victoria's general government sector has risen steadily since 2007-08. As discussed in Section 3.7.2, it has been necessary to increase the debt to cover the difference between net cash flows from operating activities and the expenditure on asset investment.

The Committee notes that the ratio of net debt to GSP for Victoria's general government sector at 30 June 2011 was the third highest of the Australian jurisdictions. It is only behind:

- the Northern Territory, where additional debt was required as a result of the 2010-11 cash deficit and the decision to assist the Power and Water Corporation with their essential capital program;¹¹⁰ and
- the Commonwealth, where the impact on budget revenues from the global financial crisis, recent natural disasters and a strong Australian dollar contributed to the Australian Government's general government sector recording an underlying cash deficit of \$47.7 billion for 2010-11.¹¹¹

In most Australian jurisdictions, net debt as a percentage of gross state product has shown a worsening trend generally since the advent of the global financial crisis in 2007-08. New South Wales was the only jurisdiction to reduce its net debt as a proportion of GSP between 2010 and 2011. This improvement has been partly a result of the sale of the electricity retail businesses in 2010-11.¹¹²

110 Northern Territory Government, *2010-11 Treasurer's Annual Financial Report*, October 2011, pp.8, 14

111 The Hon Wayne Swan MP, Deputy Prime Minister and Treasurer, Joint Media Release with Senator The Hon Penny Wong, Minister for Finance and Deregulation, 'Release of 2010-11 Final Budget Outcome', 30 September 2011, <www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/119.htm&pageID=004&min=wms&Year=2011&doctype=0>, accessed 16 March 2012

112 New South Wales Treasury, *Report on State Finances 2010-11*, October 2011, p.1-1

Table 3.13: Net debt as a proportion of GSP, comparison between Victoria and other Australian jurisdictions, 2004 to 2011^(a)

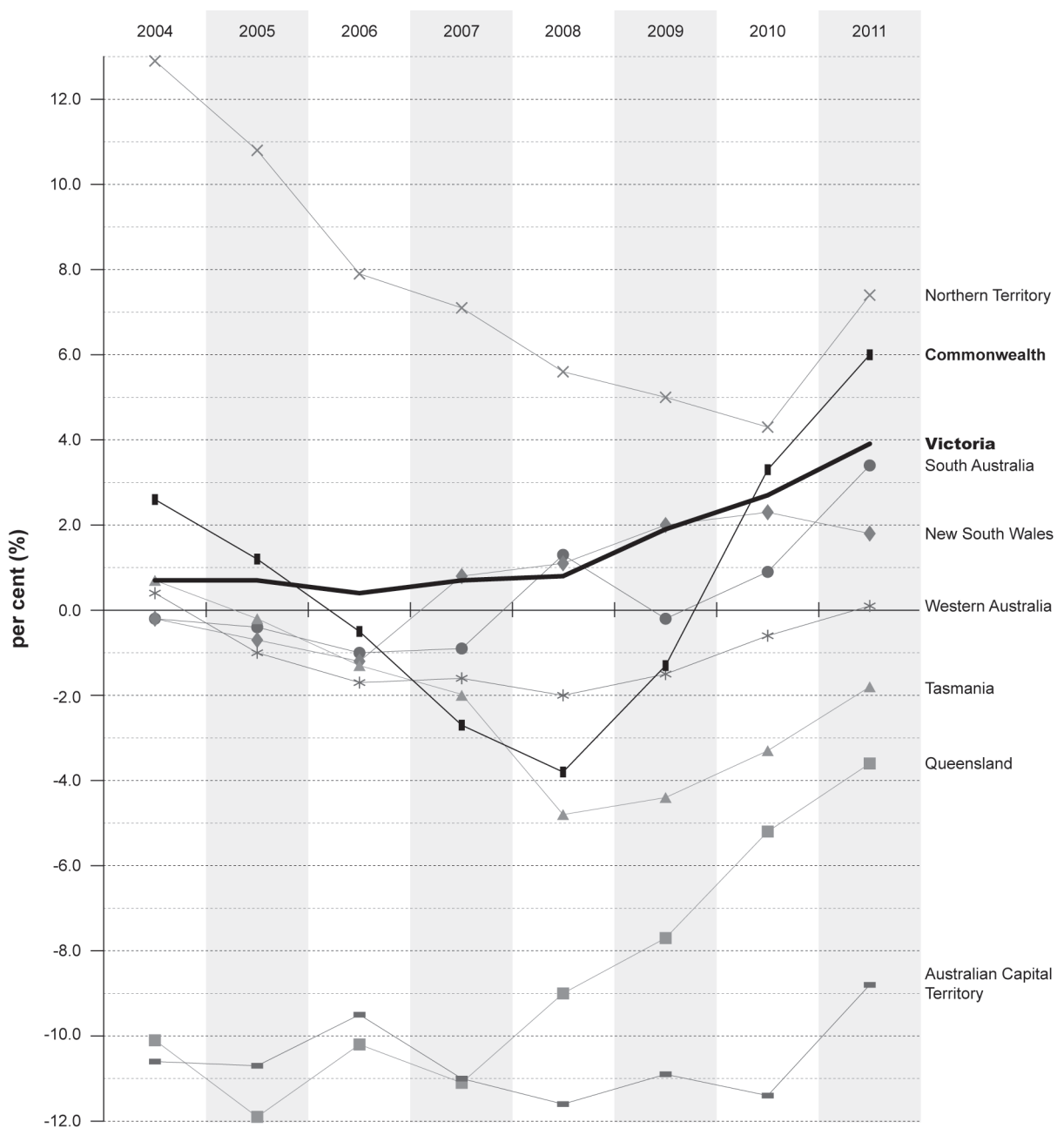
		2004	2005	2006	2007	2008	2009	2010	2011
Victoria	Net debt (\$ million)	1,399.0	1,480.0	1,195.0	2,003.0	2,182.0	5,331.0	7,932.0	11,836.8
	GSP (\$ million)	253,465.0	263,143.0	268,758.0	279,019.0	288,640.0	291,352.0	298,123.0	305,615.0
	Proportion	0.7%	0.7%	0.4%	0.7%	0.8%	1.9%	2.7%	3.9%
New South Wales	Net debt (\$ million)	-574.0	-2,061.0	-4,584.0	2,855.0	4,432.0	8,022.0	9,225.0	7,952.0
	GSP (\$ million)	365,390.0	371,892.0	379,852.0	387,743.0	398,796.0	402,003.0	410,774.0	419,895.0
	Proportion	-0.2%	-0.7%	-1.2%	0.8%	1.1%	2.0%	2.3%	1.8%^(b)
Northern Territory	Net debt (\$ million)	1,279.0	1,196.0	1,145.0	1,075.0	887.0	837.0	719.0	1,172.0
	GSP (\$ million)	12,416.0	12,962.0	13,381.0	14,145.0	15,137.0	15,813.0	16,021.0	16,281.0
	Proportion	12.9%	10.8%	7.9%	7.1%	5.6%	5.0%	4.3%	7.4%
Tasmania	Net debt (\$ million)	114.0	-28.0	-259.0	-412.0	-1,031.0	-982.0	-748.0	-416.0
	GSP (\$ million)	20,719.0	21,218.0	21,740.0	22,348.0	23,009.0	23,457.0	23,561.0	23,738.0
	Proportion	0.7%	-0.2%	-1.3%	-2.0%	-4.8%	-4.4%	-3.3%	-1.8%
South Australia	Net debt (\$ million)	-142.0	-219.0	-707.0	-639.0	984.0	-192.0	678.0	2,930.0
	GSP (\$ million)	73,621.0	74,804.0	75,866.0	77,370.0	81,942.0	83,231.0	84,269.0	86,323.0
	Proportion	-0.2%	-0.4%	-1.0%	-0.9%	1.3%	-0.2%	0.9%	3.4%
Western Australia	Net debt (\$ million)	-291	-997	-2737	-2716	-3409	-2618	-1076	230
	GSP (\$ million)	140,131.0	144,279.0	151,196.0	160,601.0	166,974.0	173,419.0	180,821.0	187,117.0
	Proportion	-0.4%	-1.0%	-1.7%	-1.6%	-2.0%	-1.5%	-0.6%	0.1%
ACT	Net debt (\$ million)	-1,869.0	-1,993.0	-2,228.0	-2,696.0	-2,957.0	-2,804.0	-2,962.0	-2,605.0
	GSP (\$ million)	23,975.0	24,475.0	24,963.0	26,060.0	26,850.0	27,780.0	28,666.0	29,473.0
	Proportion	-10.6%	-10.7%	-9.5%	-11.0%	-11.6%	-10.9%	-11.4%	-8.8%
Queensland	Net debt (\$ million)	-14,851.0	-19,446.0	-23,243.0	-26,686.0	-22,598.0	-19,285.0	-13,347.0	-9,047.0
	GSP (\$ million)	197,977.0	209,802.0	221,630.0	234,250.0	245,497.0	246,901.0	251,144.0	251,616.0
	Proportion	-10.1%	-11.9%	-10.2%	-11.1%	-9.0%	-7.7%	-5.2%	-3.6%
Commonwealth	Net debt (\$ million)	22,639	10,741	-4,531	-29,150	-44,820	-16,148	42,283	84,551
	GSP (\$ million)	1,088,945.0	1,123,646.0	1,157,783.0	1,201,563.0	1,246,899.0	1,263,934.0	1,293,380.0	1,320,057.0
	Proportion	2.6%	1.2%	-0.5%	-2.7%	-3.8%	-1.3%	3.3%	6%

Notes:

- (a) A negative sign in net debt values indicates that there are more assets that can be converted to cash easily than amounts owing in terms of debt obligations.
- (b) The reduction in the ratio of net debt to GDP in New South Wales between 2010 and 2011 reflects the impact of the proceeds from the sale of electricity retail businesses (New South Wales Report on State Finances, 2010-11, p.1-1).

Sources: Parliament of Australia, Department of Parliamentary Services, State statistical bulletin, 2007-08, 25 February 2009, p.29; Parliament of Australia, Department of Parliamentary Services, State statistical bulletin 2011, 1 June 2011, p.28; Australian Government, Budget 2011-12, Mid-Year Economic and Fiscal Outlook, Appendix D: Historical Australian Government data, Table D4, November 2011; Australian Bureau of Statistics, Australian National Accounts: State Accounts 5220.0 2010-11, Table 1. Gross State Product, Chain volume measures and current prices; and various budget papers and annual financial reports of the states and territories

Figure 3.4: Comparison of net debt to GDP between the states, territories and the Commonwealth, 2004 to 2011



Sources: see Table 3.13

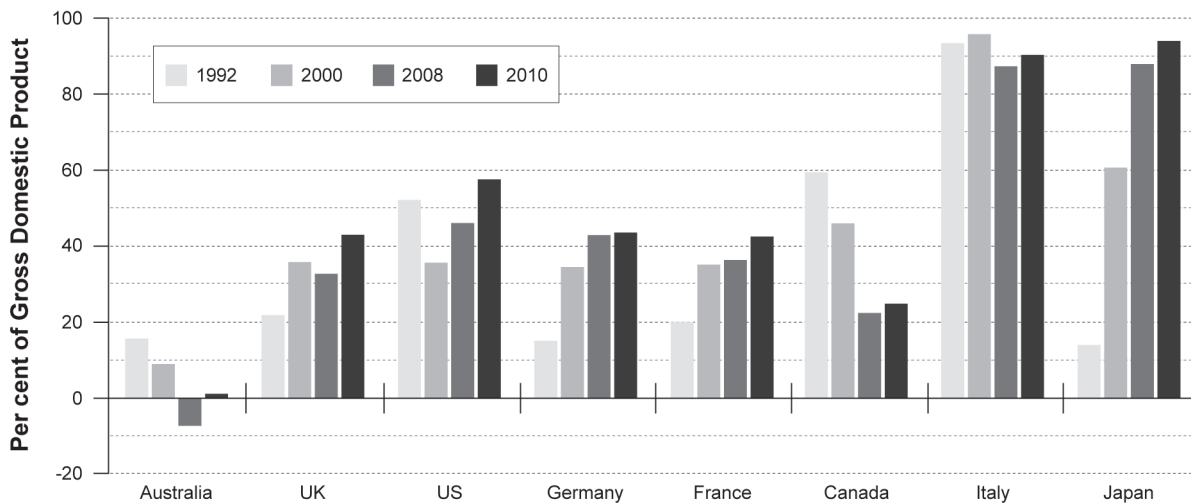
FINDING

Net debt to GSP for Victoria’s general government sector has risen steadily since 2007-08, which is in line with expansion of the State’s infrastructure program. This trend follows a similar pattern to other Australian jurisdictions following the global financial crisis in 2007-08.

3.7.5 Comparison of Australia’s general government sector net debt to G-7 countries

Figure 3.4 illustrates a comparison of general government sector net debt levels as a percentage of gross domestic product between Australia and the G-7 countries. As can be seen from the figure, Australia has significantly lower levels of net debt projected in 2010 than the G-7 countries. Net debt as a percentage of gross state product in the Victorian general government sector at 30 June 2010 was 2.5 per cent, which was significantly below that of the G-7 countries.

Figure 3.5: Australian and G-7 public sector net debt



Note: Net debt figures are drawn from the OECD Economic Outlook 84 except for Australia’s 2010 figure which is the sum of the most recent forecast for Australian, State and Territory general government sector net debt levels for the financial year 2009-10.

Source: Katrina Di Marco, Mitchell Pirie and Wilson Au-Yeung, *A history of public debt in Australia. Information based on Australian Treasury and OECD Economic Outlook 84 (November 2008).*

FINDING

The level of Victoria’s general government sector net debt is significantly below that of the G-7 countries.

PART B

Part B of this chapter provides a comparison of the fiscal performance for the six months ended 30 June 2011 with the prior six months in terms of:

- meeting the Government's fiscal objectives; and
- achieving financial results.

This analysis enables a comparison to be made of the financial outcomes achieved by the former Government of the 56th Parliament, which is discussed in Chapter 2, with the financial outcomes achieved by the Government of the 57th Parliament that are discussed in this part of the chapter, albeit for a six-month period.

3.8 Comparison of financial performance for the six months ended 30 June 2011 with the six months ended 31 December 2010 and the financial objectives/planned actions for 2010-11

The previous Government's financial objectives are set out in Chapter 2 of this report as well as Table 3.14.

The current Government has stated that in terms of its fiscal objectives:¹¹³

The 2010-11 Budget Update [published December 2010] outlined the fiscal targets for the Government, including maintaining a budget surplus [net result from transactions] of at least \$100 million a year, implementing savings in the public sector and improving the on time, on budget delivery of major projects while moving towards sustainable levels of public debt.

The Government confirmed in the annual Financial Report for the State that the 2010-11 results were consistent with these targets.¹¹⁴ However, the report does not provide a detailed discussion of actual results towards each objective.

The Committee believes that the end-of-year Financial Report for the State should include a table that provides a summary of how the financial outcomes achieved in the year compare to the Government's financial objectives that were articulated in the budget. Disclosure of this nature would complete similar disclosure recommended for mid-year financial reporting (see Chapter 2 of this report – Section 2.8).

As part of this disclosure, the Committee would like to see reporting against the Government's longer-term fiscal strategies and objectives, as well as other financial reforms emanating from the Independent Review of State Finances.

113 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.3

114 *ibid.*

The Committee notes that the Independent Review, in its April 2011 Interim Report, concluded that ‘a fresh approach to financial management is required if the State’s finances are to be sustainable into the future’.¹¹⁵ Key findings of the report included the following:¹¹⁶

- Victoria’s financial position is unsustainable into the medium-term;
- the growth in expenses, which has outpaced the growth in revenue over the past decade, has been obscured by the accounting treatment of the Commonwealth-sourced revenue for infrastructure (see Section 3.5.1);
- on the current trajectory, the level of net infrastructure investment is not sufficient to provide high-quality public services to Victoria into the medium and longer term; and
- over the past three years, Victoria’s debt has risen significantly.

These findings disclosed by the Independent Review’s analysis were similar to those identified by the Government in the *Victorian Economic and Financial Statement*, which was also released in April 2011. The Government stated that the vulnerability of the financial position arose from a number of sources which included:¹¹⁷

- various capital projects that were beset by inadequate management and very significant cost overruns;
- increased public debt in order to finance capital projects;
- a reliance on Commonwealth one-off funding; and
- spending growth exceeding growth in revenue.

The Committee will be interested in monitoring how the Government responds to the Independent Review of State Finances’ final report (due to be released in early 2012). The Committee understands this will include suggestions on how to improve the efficiency and effectiveness of service delivery and government spending, and options for improving the governance of the Victorian public sector.

FINDING

The Committee notes that the Government has articulated a number of fiscal objectives and the Independent Review of State Finances has identified several areas requiring action. However, the Government does not currently report on its progress towards these objectives and areas of action in a systematic way.

RECOMMENDATION 7:

At year end, the Department of Treasury and Finance report specific outcomes achieved against the Government’s financial management plan, including coverage of how it has performed against its fiscal strategies.

115 Independent Review of State Finances, *Interim Report*, April 2011, ‘Executive summary’

116 *ibid.*, Executive Summary, p.[4]

117 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.1

Table 3.14 provides an overview of how the financial outcomes for the six months ended 30 June 2011 for the general government sector compared to the financial outcomes for the six months ended 31 December 2010. These financial outcomes are also compared to the:

- financial objectives set by the former government that covered most of the first half of 2010-11; and
- actions initiated by the new government that was elected in November 2010 (also referred to as fiscal targets – see below). Elaboration of some of these achievements for the six months ended 30 June 2011 is contained in later chapters of this report.

FINDING

The Government has taken steps towards all of its fiscal objectives in 2010-11.

Table 3.14: Financial performance compared to financial objectives

Financial objectives set by the former government	Performance achieved for the six months to 31 December 2010	Fiscal objectives initiated by the Government, elected in November 2010, to address emerging fiscal pressures	Performance achieved for the six months to 30 June 2011
<p><i>Net result from transactions (operating surplus)</i></p> <p><u>Short-term</u> At least \$100 million in each year</p> <p><u>Long-term</u> Maintain a substantial net result from transactions (operating surplus) that allows for the delivery of infrastructure objectives</p>	<p>The general government sector delivered a net result from transactions of \$481.8 million. Further comment is included later in this chapter and in Chapter 4 of this report.</p>	<p>Commitment to a minimum budget surplus (net result from transactions) of \$100 million each year over the forward estimates period.</p>	<p>The general government sector delivered a net result from transactions of \$517.3 million for the year ended 30 June 2011 (\$35.5 million for the six months ended 30 June 2011). Further comment is included later in this chapter.</p>
<p><i>Infrastructure</i></p> <p><u>Short-term</u> Implement strategic infrastructure projects</p> <p><u>Long-term</u> Deliver world class infrastructure to maximise economic, social and environmental benefits</p>	<p>While expenditure on approved projects by the general government sector totalled \$3.4 billion, net infrastructure expenditure for the State of Victoria amounted to \$4.7 billion. Further comment is included in Section 2.13.1 of Chapter 2 and Chapter 6 of this report.</p>	<p>Deliver major projects on time and on budget through more rigorous central oversight by the Department of Treasury and Finance becoming more involved in the:</p> <ul style="list-style-type: none"> • scoping; • cost/benefit analysis; • business case development; • cost control; and • procurement. 	<p>Comment on outcome delivery against time and budget for major infrastructure projects is included in Chapter 6 of this report. A sufficient lead time will need to be provided for the new processes for monitoring major capital projects to take effect as well as the implementation of any new procedures to be recommended by the Independent Review of State Finances as part of its final report in February 2012.</p>

Financial objectives set by the former government	Performance achieved for the six months to 31 December 2010	Fiscal objectives initiated by the Government, elected in November 2010, to address emerging fiscal pressures	Performance achieved for the six months to 30 June 2011
<p><i>Service delivery</i></p> <p><u>Short-term</u></p> <p>Implement 2006 election commitments</p> <p><u>Long-term</u></p> <p>Provide improved service delivery to all Victorians</p>	<p>The 2010-11 Budget provided funding for the last of the 2006 election commitments.</p> <p>According to the Government, the 2010-11 Budget delivers quality services in health, education and public safety, in addition to responding to other high-priority community needs.</p> <p>The largest expenditure items according to government purpose for the six months to 31 December 2010 for the general government sector related to health (\$6.1 billion), education (\$5.9 billion) and transport and communications (\$2.5 billion).</p> <p>Further comment about outcomes achieved by the Government is included in Chapter 7 of this report.</p>		
<p><i>Taxation</i></p> <p><u>Short-term</u></p> <p>Implement reforms</p> <p><u>Long-term</u></p> <p>Provide a fair and efficient tax system that is competitive with other states</p>	<p>See Section 2.11 of Chapter 2 for discussion of taxation revenue in the first half of 2010-11.</p>	<p>In addition to commissioning an independent review of the State's finances, the Government earmarked in the 2010-11 Victorian Budget Update that it would 'push the Commonwealth for long-term interests of Victorians. Key to this will be reform to the Commonwealth's own taxation settings, including corporate taxes. To secure the best deal for Victoria, the Government will strengthen Victoria's advocacy for a fair share of goods and services tax revenue, which better reflects the state's population share.'</p>	

<p>Financial objectives set by the former government</p> <p><u>Net financial liabilities</u> <u>Short-term</u> Maintain a AAA credit rating <u>Long-term</u> Maintain state government net financial liabilities at prudent levels</p>	<p>Performance achieved for the six months to 31 December 2010</p> <p>Net debt for the general government sector increased from \$8.0 billion at 30 June 2010 (2.5 per cent of gross state product) to \$9.9 billion at 31 December 2010 (3.1 per cent of gross state product). These increases reflect the borrowings used to fund the Government's asset investment program.</p> <p>The ratio of net debt to gross state product for the non-financial public sector increased from 4.9 per cent at 30 June 2010 to 5.4 per cent at 31 December 2010.</p> <p>Further comment is included in Section 2.13.2 of Chapter 2 of this report of this chapter.</p>	<p>Fiscal objectives initiated by the Government, elected in November 2010, to address emerging fiscal pressures</p> <p>Contain recent actual and forecast growth in the public sector debt to ensure the State's balance sheet is sustainable.</p> <p>Total public sector net debt not to exceed the levels forecast in the 2010-11 budget update. This will form part of the new Government's debt management strategy and ensure the State's fiscal settings are consistent with it maintaining a AAA credit rating.</p>	<p>Performance achieved for the six months to 30 June 2011</p>	<p>The net debt incurred by the non-financial public sector at 30 June 2011 of \$19.7 billion was in line with the revised forecast of \$19.7 billion.</p> <p>According to the Government, debt levels have been stabilised and parameters maintained consistent with AAA credit rating.</p> <p>An Interim Report of the Independent Review of State Finances was released in April 2011.</p> <p>Commission an independent review of the State finances which is to commence in early 2011, with interim and final reports due by April 2011 and February 2012 respectively. In addition to identifying areas of waste and opportunities to increase the efficiency and effectiveness of government, the review is to inform the Government's longer-term fiscal strategies and objectives.</p>
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<p>Financial objectives set by the former government</p>	<p>Performance achieved for the six months to 31 December 2010</p>	<p>Fiscal objectives initiated by the Government, elected in November 2010, to address emerging fiscal pressures</p>	<p>Performance achieved for the six months to 30 June 2011</p>
		<p>Implement the Government's savings agenda, which includes reducing the number of ministerial and media staff, ceasing the funding of politically-based government advertising and opinion polling, as well as capping head office staffing.</p>	<p>The Government has stated that it has implemented \$2.2 billion of savings across government over 5 years with \$163.6 million to be saved in 2010-11. These savings have included a focus on advertising, consultants, ministerial staff (a cut of 25 per cent), accommodation and other back office functions such as media and marketing positions. Taxpayer funded opinion polling has been abolished. These savings are discussed further in Chapter 4.</p>
		<p>Adopt more rigorous oversight processes to ensure major projects are delivered on time and on budget.</p>	<p>A new High Value High Risk unit capability within the Department of Treasury and Finance has been established to strengthen discipline and oversight of major capital projects.</p> <p>The Public Accounts and Estimates Committee has also been asked to inquire into effective decision-making in significant infrastructure projects.</p>

Source: Budget Paper No.2, 2010-11 Strategy and Outlook, May 2010, p.6; Department of Treasury and Finance, 2010-11 Mid-Year Financial Report, March 2011, p.2; Department of Treasury and Finance, 2010-11 Victorian Budget Update, December 2010, pp.2-4, 30; Department of Treasury and Finance, Financial Report for the State of Victoria 2010-11, October 2011, p.19; Premier of Victoria, 'Economy and State Finances', <www.premier.vic.gov.au/our-commitment/economy-and-state-finances.html>, accessed 1 February 2012

3.9 Analysis of net result from transactions for the six months ended 30 June 2011 in the general government sector compared to the prior six months

A breakdown of the operating statement for the general government sector for 30 June 2011 according to the six months ended 31 December 2010 and the six months ended 30 June 2011 is shown in Table 3.15.

Table 3.15: Operating statements for the year ended 30 June 2011 and the six months ended 31 December 2010 and 30 June 2011, general government sector

	2010-11 (\$ million)	1 July 2010 – 31 December 2010 (\$ million)	1 January 2011 – 30 June 2011 (\$ million)
Revenue			
Taxation revenue	14,857.5	6,902.1	7,955.3
Interest	420.1	198.5	221.6
Dividends and income tax equivalent and rate equivalent revenue	404.0	316.6	87.4
Sales of goods and services	5,944.2	2,910.9	3,033.3
Grants	22,425.6	11,361.5	11,064.1
Other current revenue	1,975.5	895.1	1,080.4
Total revenue	46,026.9	22,584.8	23,442.1
Expenses			
Employee expenses	16,374.8	8,046.1	8,328.7
Superannuation interest expense	931.6	469.6	461.9
Other superannuation	1,695.7	827.2	868.4
Depreciation	2,010.0	954.1	1,055.9
Interest expense	985.6	463.4	522.2
Other operating expenses	14,964.6	7,219.6	7,744.9
Grants and other transfers	8,547.4	4,122.8	4,424.6
Total expenses	45,509.6	22,102.9	23,406.6
Net result from transactions – Net operating balance	517.3	481.8	35.5

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.25; Department of Treasury and Finance, *2010-11 Mid-Year Financial Report*, March 2011, p.17; Department of Treasury and Finance, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 24 January 2012, pp.14-15

Explanations provided by the Department of Treasury and Finance for variances of greater than 10 per cent between revenue and expense items for the general government sector for each of the six monthly periods of 2010-11 are given in Table 3.16.

Table 3.16: General government sector, explanation of variances of greater than 10 per cent in operating items for the six month period ended 30 June 2010 compared with the same period ended 31 December 2010

Operating item	1 July 2010 - 31 December 2010 (\$ million)	1 January 2011 - 30 June 2011 (\$ million)	Variance (\$ million)	Variance (per cent)	Explanation for variances $\pm 10\%$
Revenue					
Taxation	6,902.1	7,955.3	1,053.2	15.3	Additional income in the second half of the financial year is attributable to land taxes which are levied in the second half of the financial year (Jan to March).
Interest	198.5	221.6	23.1	11.6	Increase resulting from higher average interest rates on cash and term deposits in the second half of the financial year.
Dividends and income tax equivalent and rate equivalent revenue	316.6	87.4	-229.2	-72.3	Dividends are normally received from the Public Non Financial Corporation sector to the general government sector in April and October of each year. In 2010-11 the April dividend payment was reduced as a result of the deferral of interim dividends from the metropolitan water businesses to October/November.
Sales of goods and services	2,910.9	3,033.3	122.4	4.2	
Grants	11,361.5	11,064.1	-297.4	-2.6	
Other revenue	895.1	1,080.4	185.3	20.7	Variance driven by a number of departments, with the most substantial [changes] relating to increased Commonwealth Government revenue in the Health portfolio.
Total revenue	22,584.7	23,442.1	857.4	3.8	
Expenses					
Employee expenses	8,046.1	8,328.7	282.6	3.5	
Superannuation interest expense	469.6	461.9	-7.7	-1.6	
Other superannuation	827.2	868.4	41.2	5.0	
Depreciation	954.1	1,055.9	101.8	10.7	Related to increases in the asset base mainly the Department of Education and Early Childhood Development, the Department of Health, and the Department of Transport (roads).

Operating item	1 July 2010 - 31 December 2010 (\$ million)	1 January 2011 - 30 June 2011 (\$ million)	Variance (\$ million)	Variance (per cent)	Explanation for variances ±10%
Interest expense	463.4	522.2	58.8	12.7	Increase related to growth in borrowings over the financial year which is used to fund the Government's capital program.
Other operating expenses	7,219.6	7,744.9	525.3	7.3	
Grants and other transfers	4,122.8	4,424.6	301.8	7.3	
Total expenses	22,102.8	23,406.6	1,303.8	5.9	
Net result from transactions – Net operating balance	481.9	35.5	-446.4	-92.6	

Source: Department of Treasury and Finance, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 24 January 2012, pp.14-15

Table 3.16 shows that the net result from transactions for the general government sector for the six months ended 30 June 2011 of \$35.5 million was \$446.4 million or 93 per cent lower than the result of \$481.9 million that was generated for the prior six month period to 31 December 2010. In terms of undertaking a half-yearly comparison, growth in expenditure exceeded that of revenue in the second six-monthly period of 2010-11 – expenditure grew by \$1.3 billion in the second half of the year compared to revenue growth of \$857.4 million. Factors contributing to this outcome were as follows:

- additional revenue derived from taxation in the second half of the financial year of \$1.1 billion (as land taxation is levied in the second half of the year) was offset by lower levels of dividends (\$229.2 million less) and grants (\$297.4 million less) received in the second half; and
- higher expenditure associated with employee expenses (an additional \$282.6 million), other operating expenses (an additional \$525.3 million) and grants and other transfers (an additional \$301.8 million) in the second half of the financial year.

The Committee considers that a major factor contributing to this may have been the release of a significant value of initiatives for the second half of 2010-11 prior to and after the election. The Pre-Election Budget Update released by the former Government in November 2010 provided for an additional \$597.2 million of output initiatives for 2010-11.¹¹⁸ The 2011-12 Budget detailed an additional \$241.8 million in output initiatives, offset by \$163.6 million of savings initiatives that was released for expenditure in the second half of 2010-11.¹¹⁹

118 Department of Treasury and Finance, *Pre-Election Budget Update*, November 2010, Appendix A

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

FINDING

The operating result for the general government sector for the six months ended 30 June 2011 was \$35.5 million, significantly less than the operating result of \$481.9 million for the prior six-month period. Growth in expenditure exceeded that of revenue in the second six-month period – expenditure grew by \$1.3 billion compared to revenue growth of \$857.4 million.

CHAPTER 4: DEPARTMENTAL INCOME AND EXPENSES IN 2009-10 AND 2010-11

4.1 Introduction

Chapters 2 and 3 of this report provide details and analysis of the revenue and expenses for the general government sector as a whole in 2009-10 and 2010-11. This chapter breaks those figures down by looking at the income and expenses of the 11 Government departments, which constitute a significant portion of the general government sector.

In undertaking this analysis, the Committee seeks to understand the performance of the individual departments in 2009-10 and 2010-11. This has been done in Section 4.3 through an examination of the net results from transactions for each department and a comparison of that with the initial budget estimate. The main purpose of this examination is to identify whether or not finances are being appropriately managed, as the net result from transactions is one key measure that can be used to identify this. Through this work, the Committee has also been able to look at whether or not budget estimation is being done effectively.

This chapter also provides analyses of three particularly significant areas associated with departmental income and expenditure:

- revenue foregone (that is, concessions, subsidies and tax expenditures);
- employee expenses; and
- savings and efficiencies.

The examination of each of these areas has identified a range of issues about which the Committee has made recommendations.

The Committee notes the change of government in November 2010, mid way through the 2010-11 financial year. In comparing actual results to budget estimates, the Committee has used budget figures adjusted to account for machinery-of-government changes where available.

4.2 Comparability of figures

Details of the income and expenditure of departments (and the general government sector as a whole) are provided in a number of documents. The most important of these documents are the budget papers, entities' annual reports and the annual Financial Report for the State. Across the different documents, and sometimes within one document, figures are prepared on a variety of different bases of consolidation, as detailed below. This can make comparison difficult.

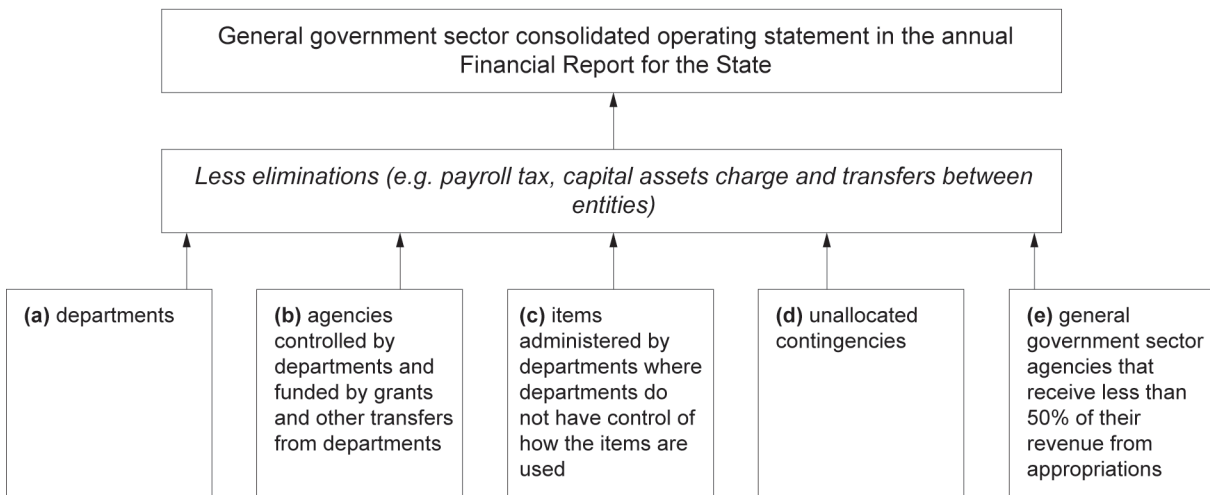
At the start of the accountability cycle, the budget papers provide estimates for the year ahead for income (listed there as 'revenue') and expenditure of the general government sector as a whole. These are detailed in the general government sector consolidated operating statement. The general government sector figures include:¹²⁰

120 cf. Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.31

- the income and expenditure of departments;
- the income and expenditure of general government sector agencies controlled by the departments, which are funded through grants and other transfers from the departments;
- income and expenditure administered by departments which the departments do not control;
- the income and expenditure of general government sector agencies which receive less than 50 per cent of their revenue through appropriations; and
- an unallocated contingency provision within the expenditure category.

This relationship is set out in Figure 4.1.

Figure 4.1: Basis of consolidation of the general government sector consolidated operating statement



Source: Public Accounts and Estimates Committee

The budget papers also include estimates for the income and expenditure of each department.¹²¹ The operating statements for departments in the budget papers consolidate departments along with their controlled agencies (that is, (a) and (b) in Figure 4.1). Administered items (such as grants that are passed on to other bodies), (c) in Figure 4.1, are also listed by department, but not included within the operating statements. Unallocated contingencies and agencies receiving less than half of their revenue from appropriations (that is, (d) and (e) in Figure 4.1) are not broken down by department.

At the end of the annual accountability cycle, details of actual income and expenditure are provided in the annual Financial Report for the State and in entities’ annual reports.

The Financial Report for the State provides actual results for the general government sector as a whole, on the same basis of consolidation as the budget papers. The Committee’s comparison between these figures is contained in Chapters 2 and 3 of this report.

121 in Budget Paper No.4, Statement of Finances, in 2009-10 and 2010-11 (published as Budget Paper No.5 in 2011-12)

The Financial Report for the State does not disaggregate the figures for the general government sector according to the categories set out in Figure 4.1. The Committee has previously recommended that some additional detail be provided in the future,¹²² and the Government has indicated that this is under review.¹²³

The annual reports of departments do provide actual results. However, these are provided on two different bases of consolidation:

- the comprehensive operating statement includes the department, (a) in Figure 4.1, the controlled agencies (b) that do not produce their own annual reports and, in some cases, agencies outside the general government sector,¹²⁴ but does not include controlled agencies that produce their own annual reports;
- the ‘budget portfolio outcomes’ statement, which also appears in the annual report, is consolidated on the same basis as the estimates in the budget papers, that is, it includes both (a) and (b) in Figure 4.1.

As the bases of consolidation differ, the figures are quite different. This is particularly the case for departments which have large numbers of controlled agencies. For example, the Department of Health’s comprehensive operating statement for 2010-11 indicates that only \$174.0 million was spent on employees, with \$10,137.0 million provided to other agencies through ‘grants and other transfers’, as these agencies have not been included in the consolidation for this statement.¹²⁵ In contrast, in the ‘budget portfolio outcomes’ statement, in which most of those agencies are consolidated with the Department, indicates that \$7,167.7 million was spent on employees, with only \$175.2 million of ‘grants and other transfers’.¹²⁶

Both of the statements provide useful information for understanding departments’ financial performance within a year. The comprehensive operating statement provides an understanding of the income and expenditure of the department itself, as opposed to the agencies which it funds. The ‘budget portfolio outcomes’ statement enables comparison with the estimates set out in the budget papers at the start of the year.

Both sets of figures have been used in this chapter. Figures from the ‘budget portfolio outcomes’ statement have been used when assessing departments’ performance compared to budget estimates. Figures from the comprehensive operating statements have been used where the focus is on income or expenditure specifically by departments rather than agencies.

4.2.1 Improving the ‘budget portfolio outcomes’ statement

The ‘budget portfolio outcomes’ statement in annual reports is essential for completing the cycle of accountability that begins with the budget papers. It is the only place where actual results for departmental income and expenditure (and other important financial data) are

122 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 73, p.199

123 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.37

124 e.g. Department of Human Services – see Department of Human Services, *Annual Report 2010-11*, p.127

125 Department of Health, *Annual Report 2010-11*, p.53

126 *ibid.*, p.158

presented on the same basis of consolidation as the budget papers. It is therefore only possible to determine whether or not departments have performed in accordance with expectations by using the ‘budget portfolio outcomes’ statement.

This makes the ‘budget portfolio outcomes’ statement essential for transparency and reporting. The Committee notes three ways in which the statement could be improved and recommends that the guidance be updated. The current guidance for the ‘budget portfolio outcomes’ statement can be found in three places – Financial Reporting Direction (FRD) 8B (Consistency of Budget and Departmental Reporting); the *Standing Directions of the Minister for Finance under the Financial Management Act 1994*; and the *2010-11 Model Report for Victorian Government Departments*.¹²⁷

Firstly, the Committee notes that, whereas the comprehensive operating statements are required to be audited by the Auditor-General, the ‘budget portfolio outcomes’ statement is explicitly excluded from the audited part of the annual report.¹²⁸ Given the significance of the ‘budget portfolio outcomes’ statements from the perspective of accountability, the Committee considers that the independent scrutiny provided by the Auditor-General for the comprehensive operating statement would also be appropriate for the ‘budget portfolio outcomes’ statement.

Secondly, the Committee notes that a number of departments in their ‘budget portfolio outcomes’ statement have compared their actual results to the revised estimates published two months before the end of the financial year, rather than the initial budget estimates made at the start of the financial year. That is, they have compared their actual results for 2010-11 to the revised estimates for 2010-11 that are published in the 2011-12 budget papers, rather than the initial estimates from the 2010-11 budget papers.

The guidance indicates that the comparison should be made between the ‘*statements published in the Budget Papers and actual results for the portfolio for the corresponding financial year.*’¹²⁹ The Committee notes that there is some ambiguity in this, in that it does not specify which budget papers the estimates should be drawn from.

The Committee considers that it is important for a comparison to be made with the initial budget estimates, and not just the revised estimates, in order to allow an understanding of variations from the budget estimates within the whole year and not just variations within the last few months. The Committee considers that the guidance should be updated to clearly specify that the comparison should be made to the initial and not the revised estimates.

Thirdly, the Committee notes that there is no requirement in the current guidance for variations from the budget estimates to be explained. The Government’s current guidance specifies that explanations for significant and material variations should be provided in annual reports for performance measures, and provides details of what constitutes a significant or

127 *Standing Directions of the Minister for Finance under the Financial Management Act 1994*, updated June 2011, Standing Directions 4.2(l)-(m); Financial Reporting Direction 8B (Consistency of Budget and Departmental Reporting); Department of Treasury and Finance, *2010-11 Model Report for Victorian Government Departments*, March 2011, p.22

128 *Standing Directions of the Minister for Finance under the Financial Management Act 1994*, updated June 2011, Standing Directions 4.2(l); Financial Reporting Direction 8B (Consistency of Budget and Departmental Reporting)

129 Financial Reporting Direction 8B (Consistency of Budget and Departmental Reporting)

material variance,¹³⁰ but does not provide any such requirements for the ‘budget portfolio outcomes’ statement. As noted in previous reports, the Committee considers that better practice in annual reporting requires entities to explain significant and material variations from all targets in budget papers.¹³¹

The majority of departments did provide at least some explanations for variances, but not all departments did this. Such explanations would help the Parliament and community to understand the reasons for departments’ performance relative to budget and would enable a more meaningful assessment to be made. The Committee considers that all departments should be required to provide explanations.

FINDING

Details of the actual income and expenditure (and other financial details) of government departments are provided on two bases of consolidation – a comprehensive operating statement and a ‘budget portfolio outcomes’ statement. The Committee has identified three areas where improvements to the guidance for the ‘budget portfolio outcomes’ statement would enhance stakeholders’ ability to understand departments’ financial performance.

RECOMMENDATION 8:

The Minister for Finance give consideration to adjusting the Standing Directions and Financial Reporting Direction 8B to require departments to have the Auditor-General audit the ‘budget performance outcomes’ statements in annual reports.

RECOMMENDATION 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.

RECOMMENDATION 10:

The Minister for Finance give consideration to adjusting the Standing Directions and Financial Reporting Direction 8B to require explanations to be given for all significant or material variations between initial budget estimates and actual results, as is required for performance measures.

130 Department of Treasury and Finance, *2010-11 Model Report for Victorian Government Departments*, March 2011, p.18

131 Public Accounts and Estimates Committee, *Review of the 2009-10 and 2010-11 Annual Reports*, February 2012, p.17

4.3 Departments’ net results from transactions

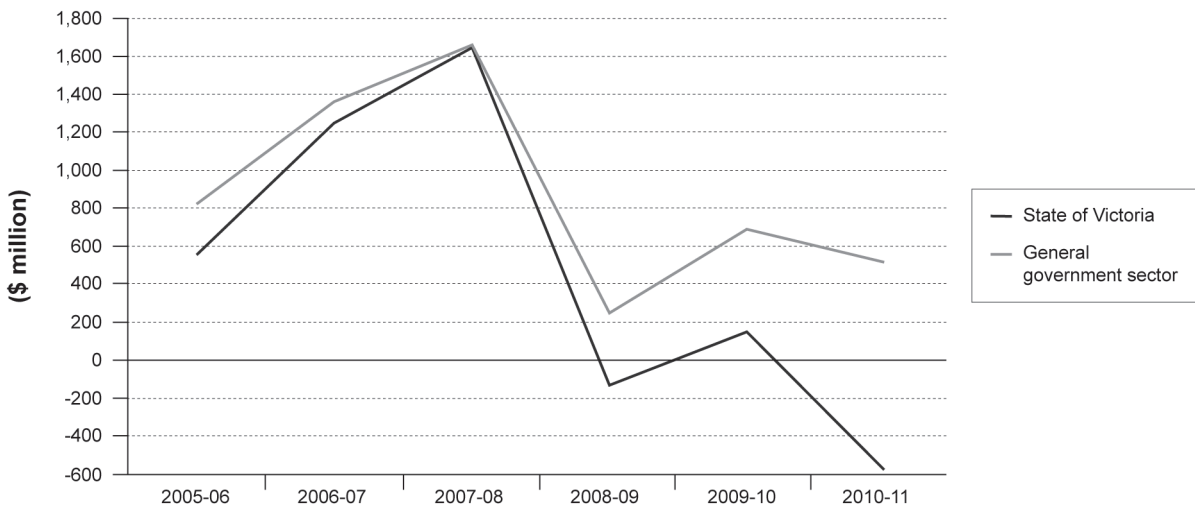
The net result from transactions (also known as the ‘operating result’) is determined by subtracting expenses from income. It has been identified by the Government as one of the key financial measures of an entity, and as an indicator of the ongoing sustainability of an entity’s operations.¹³² The Department of Treasury and Finance explains that:¹³³

The Victorian Government considers the net result from transactions to be the appropriate measure of financial management that can be directly attributed to government policy. This measure excludes the effects of revaluations (holding gains or losses) arising from changes in market prices and other changes in the volume of assets shown under ‘other economic flows’ on the comprehensive operating statement, which are outside the control of the Department.

The Committee is considering transparency and accountability of asset investment as part of its current Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects. Additional measures of departments’ financial performance may be identified as part of that Inquiry.

The net results from transactions for the general government sector and the public sector as a whole (the ‘State of Victoria’) in 2009-10 and 2010-11 have been discussed in Chapters 2 and 3 of this report. Figure 4.2 shows the trends in these indicators for the past six years.

Figure 4.2: Net result from transactions – State of Victoria and general government sector



Source: adapted from Victorian Auditor-General’s Office, Auditor-General’s Report on the Annual Financial Report of the State of Victoria, 2009-10, October 2010, p.17

Overall, the general government sector achieved net results from transactions of \$643.6 million in 2009-10 and \$517.3 million in 2010-11. In 2009-10 this was substantially more than the budget estimate made at the start of the year. In 2010-11, this was significantly less.

132 Department of Treasury and Finance, 2010-11 Financial Report for the State of Victoria, October 2011, p.204

133 Department of Treasury and Finance, 2010-11 Model Report for Victorian Government Departments, March 2011, p.19

When this result is divided among the departments (including their agencies), it can be seen that there are substantial variations between departments in terms of how much their net results from transactions are and in terms of their performance compared to the relevant year's budget estimates. Table 4.1 summarises this information.

Table 4.1: Net results from transactions for government departments

Department	2009-10				2010-11			
	Budget estimate ^(a)	Actual	Variance		Budget estimate ^(a)	Actual	Variance	
	(\$ million)	(\$ million)	(\$ million)	(%)	(\$ million)	(\$ million)	(\$ million)	(%)
Business and Innovation	96.8	137.2	40.4	41.7	-14.7	61.8	76.5	520.4
Education and Early Childhood Development	19.0	22.8	3.8	20.0	150.4	127.6	-22.8	-15.2
Health	115.7	-182.7	-298.4	-257.9	-176.9	173.4	350.3	198.0
Human Services	64.9	317.3	252.4	388.9	5.3	-5.0	-10.3	-194.3
Justice	-19.7	-19.2	0.5	2.5	-15.3	13.8	29.1	190.2
Planning and Community Development	-5.9	-16.3	-10.4	-176.3	191.2	16.3	-174.9	-91.5
Premier and Cabinet	34.7	34.0	-0.7	-2.0	34.3	29.2	-5.1	-14.9
Primary Industries	-1.5	-8.8	-7.3	-486.7	-1.0	-1.6	-0.6	-60.0
Sustainability and Environment	-14.9	79.8	94.7	635.6	-7.4	63.8	71.2	962.2
Transport	267.5	314.6	47.1	17.6	312.0	297.4	-14.6	-4.7
Treasury and Finance	4.2	-9.4	-13.6	-323.8	11.1	-15.3	-26.4	-237.8
Total of the above	560.8	669.3	108.5	11.2	489.5	761.4	271.9	55.5
General government sector	165.1	643.6	478.5	289.8	871.9	517.3	-354.6	-40.7

Source: 'budget portfolio outcomes' statements, departments' annual reports, 2009-10 and 2010-11

Notes: (a) Please note that adjusted budgets have been applied where machinery-of-government changes occurred in departments.

Five departments in 2009-10 and seven departments in 2010-11 achieved net results from transactions that were lower than the budget estimate. Five departments returned negative net results from transactions in 2009-10 and three departments in 2010-11, with the largest negative result recorded by the Department of Health in 2009-10 (\$-182.7 million). The Department of Primary Industries and Department of Treasury and Finance returned negative net results from transactions in both years.

FINDING

The net results from transactions for most departments varied substantially from the budget estimates, with five departments in 2009-10 and seven departments in 2010-11 achieving lower results than had been estimated.

The remainder of this section looks at each department in turn, to analyse what factors impacted on the income and expenses that led to net results from transactions and to understand the reasons for variances from the budget estimates.

Where machinery-of-government changes occurred, the Committee has compared the actual results to the adjusted budget estimates for the year which are supplied in the following year's budget papers. These adjusted estimates are the original budget estimates adjusted for machinery-of-government changes.¹³⁴ They differ from the revised estimates also provided in the budget papers, which factor in other changes that have occurred during the year as well. Using the adjusted estimates should enable a more meaningful comparison to budget expectations for those departments that underwent machinery-of-government changes. However, as the comparison process identified, there were still substantial discrepancies between adjusted estimates and actual figures for those departments that had large machinery-of-government changes.

In attempting to understand the reasons for variations between the budget estimates and the actual results, the Committee has drawn on a number of sources. Starting from the 'budget portfolio outcomes' statement, the Committee has examined the figures provided there, along with any explanations. This information has been supplemented with departmental responses to the Committee's Financial and Performance Outcomes Questionnaire — Part One, especially the questions seeking explanations for variances in revenue (question 21), expenditure (question 25) and output expenditure (question 1).

As part of its questionnaire, the Committee also asked departments to identify and explain any differences in their income and expenditure patterns between the first half and second half of 2010-11. This was done to differentiate as far as possible the effect of the change of government in November 2010. However, in almost all cases the principal reasons for variations were machinery-of-government changes and the timing and nature of revenue received and expenses paid. For instance, funding for major events is released by the Treasurer twice per year, both in the second half of the financial year¹³⁵ and schools generally have larger expenses in the second half of the year connected with the start of the school year.¹³⁶

4.3.1 Department of Business and Innovation (formerly the Department of Innovation, Industry and Regional Development)

The Department of Business and Innovation's net result from transactions for 2009-10 was \$40.4 million (42 per cent) more than the budget estimate. Both income and expenditure were larger than the budget estimates, but the expenditure to a lesser extent (see Table 4.2).

134 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.79

135 Department of Business and Innovation, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One (Additional Information Requested), received 5 January 2012, p.22

136 Department of Education and Early Childhood Development, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 6 January 2012, p.62

Table 4.2: Summary of results from transactions, Department of Innovation, Industry and Regional Development, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	2,602.8	2,829.2	226.4	8.7
Total expenditure	2,506.1	2,691.9	185.8	7.4
Net result from transactions	96.8	137.3	40.4	41.7

Source: Department of Innovation, Industry and Regional Development, *Annual Report 2009-10, 'budget portfolio outcomes' statement*

The larger income resulted from additional appropriations and a larger-than-budgeted amount of 'other income'. The additional appropriation funding was received for the Skills output, primarily related to additional exemptions, fee waivers, the youth compact, demand-driven funding and additional funding provided by the Commonwealth. The Department indicated that this provided opportunities for additional students to undertake training.¹³⁷ The Department also identified the following additional sources of 'other income':¹³⁸

- more residential land sales that expected in the Kew Residential Development project; and
- income received by TAFEs relating to car parking, rental and child care fees.

The increase in expenditure was primarily in employee expenses, grants and 'other operating expenses'. The Department explained that these increased in order to deliver the services for which the additional income was received.¹³⁹

In 2010-11, the net result from transactions was \$76.5 million (520 per cent) more than the adjusted budget for the Department. As in 2009-10, both income and expenditure were higher than estimated, but the expenditure by a lesser amount, leading to a positive impact on the net results from transactions (see Table 4.3).

Table 4.3: Summary of results from transactions, Department of Business and Innovation, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	1,614.0	1,816.2	202.2	12.5
Total expenditure	1,628.7	1,754.4	125.7	7.7
Net result from transactions	-14.7	61.8	76.5	520.4

Source: Department of Business and Innovation, *Annual Report 2010-11 'budget portfolio outcomes' statement; Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.78*

Note: The 2010-11 budget estimates have been adjusted for machinery-of-government changes.

137 Department of Business and Innovation, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, pp.3, 19

138 Department of Innovation, Industry and Regional Development, *Annual Report 2009-10*, pp.196-7

139 *ibid.*

The Department advised the Committee that the increase in income compared to the budget estimate related to additional funding for major events. This additional income was expended through additional grants payments. A significant amount of additional income also came from Major Projects Victoria from a larger number of land sales in the Kew Residential Development project than had been anticipated. The additional land sales also impacted on expenditure for the year through ‘costs of goods sold’.¹⁴⁰

Substantial unbudgeted income and expenditure associated with the Kew Residential Development project have affected the results in both 2009-10 and 2010-11. The Committee asked the Department about measures that have been taken to address this and was informed that the budgeted expenditure for the Major Projects output, which covers this project, ‘has been amended to reflect this activity from the 2011-12 financial year which will ensure consistency in future reporting.’¹⁴¹ The Committee hopes that this will lead to smaller discrepancies between budget estimates and actual results in future years.

FINDING

In both 2009-10 and 2010-11, the Department of Business and Innovation had higher income and expenditure than had been anticipated in the budget. In both years, though, the income exceeded the budget estimates by a larger amount than the expenditure, resulting in higher-than-budgeted net results from transactions. A factor in both years was land sales associated with the Kew Residential Development project.

4.3.2 Department of Education and Early Childhood Development

For the Department of Education and Early Childhood Development, both the income and expenditure in 2009-10 were below the budget estimates. As the decrease in income was less than the decrease in expenditure, there was an overall positive effect on the net result from transactions, resulting in it being \$3.8 million (20 per cent) higher than expected. For both income and expenditure, the variations were small in percentage terms (see Table 4.4).

Table 4.4: Summary of results from transactions, Department of Education and Early Childhood Development, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	8,392.6	8,237.8	-154.8	-1.9
Total expenditure	8,373.6	8,215.0	-158.6	-1.9
Net result from transactions	19.0	22.8	3.8	20.0

Source: Department of Education and Early Childhood Development, Annual Report 2009-10, ‘budget portfolio outcomes’ statement

140 Department of Business and Innovation, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, pp.20-5

141 Department of Business and Innovation, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 23 December 2011, p.2

The Department explained that the decrease in income was a result of:¹⁴²

- reduced output appropriations compared to the budget estimate; and
- reduced interest income due to a decline in rates associated with the global financial crisis.

The Department noted that these were partially offset by an increase in special appropriations through Commonwealth funding for National Partnership Programs and additional grants income for a range of Commonwealth special projects.¹⁴³

The Department explained the decrease in expenditure by:¹⁴⁴

- asset costs for the *Building the Education Revolution – National Schools Pride Program* being recognised earlier than budgeted; and
- other expenses deferred to be spent in the next financial year.

These were partially offset by a small increase in employee expenses and an increase in ‘grants and other transfers’. The Department explained the increase in ‘grants and other transfers’ as arising from ‘*unbudgeted grants for continued support for non-overnment schools initiative*’.¹⁴⁵

In 2010-11, the Department had larger income and expenditure than had been budgeted, though in both cases the variations was small in percentage terms. Because the dollar increase in income was less than the dollar increase in expenditure, the net result from transactions was \$22.8 million (15 per cent) lower than the budget estimate (see Table 4.5).

Table 4.5: Summary of results from transactions, Department of Education and Early Childhood Development, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	9,742.7	9,932.3	189.6	1.9
Total expenditure	9,592.3	9,804.7	212.4	2.2
Net result from transactions	150.4	127.6	-22.8	-15.2

Source: Department of Education and Early Childhood Development, *Annual Report 2010-11, ‘budget portfolio outcomes’ statement*; *Budget Paper No. 5, 2011-12 Statement of Finances, May 2011, p. 84*

Note: The 2010-11 budget estimates have been adjusted for machinery-of-government changes.

The Committee notes that there were significant machinery-of-government changes in 2010-11, with the Victorian Skills Commission, TAFEs and Adult Community Further Education Board being transferred to the Department. While the adjusted budget attempts to account for these changes, the Committee notes that complexities during such transitions can

142 Department of Education and Early Childhood Development, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 6 January 2012, pp.53-4

143 *ibid.*, p.53

144 *ibid.*, p.59

145 *ibid.*

make fully accounting for the changes in adjusted estimates a challenge. This may partially explain the variances between actual figures and the adjusted budget estimates for both income and expenditure.

The Department explained the increase in income as mainly from additional revenue compared to the budget estimate as a result of the transfer of the unanticipated additional grants income from Commonwealth grants, including a capital grant received directly by TAFEs and special Commonwealth programs, including the *National Asian Languages and Studies in School Program* and *Local Schools Working Together*.¹⁴⁶

The increase in expenditure related to:

- employee expenses being higher than estimated (possibly as a result of the machinery-of-government transfer discussed above); and
- additional grants payments for non-government schools as result of the *Fair Funding for Non-Government Schools* initiative released by the Government after its election in 2010.¹⁴⁷

FINDING

The Department of Education and Early Childhood Development's net results from transactions was slightly above the budget estimate in 2009-10 and \$22.8 million (15 per cent) below the budget estimate in 2010-11. In both years, the actual results for the total income and expenditure varied from the budget estimates by less than 3 per cent.

4.3.3 Department of Health

The net result from transaction for the Department of Health in 2009-10 was \$-182.7 million, \$298.4 million less than the adjusted budget. This is a result of both the income and expenditure varying significantly from the budget estimates (see Table 4.6).

Table 4.6: Summary of results from transactions, Department of Health, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(%)
Total income	12,201.5	9,610.5	-2,591.0	-21.2
Total expenditure	12,085.8	9,793.2	-2,292.6	-19.0
Net result from transactions	115.7	-182.7	-298.4	-257.9

Source: Department of Health, *Annual Reports 2009-10, 'budget portfolio outcomes' statement; Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.119*

Note: The 2010-11 budget estimates have been adjusted from the Department of Human Services, from which the Department was created on 1 October 2009.

146 *ibid.*, pp.53-4

147 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.18

The Committee notes that it was in 2009-10 that the Department of Health was created out of the Department of Human Services. Complexities associated with this change possibly explain the variations, and the Committee notes that the reduced income and expenditure compared to the adjusted budget in the Department of Health are matched by larger income and expenditure than the adjusted budget estimates in the Department of Human Services (see Section 4.3.4 of this report).

The Department of Health's net result from transactions in 2010-11 was a surplus of \$173.4 million, compared to a budgeted deficit of \$176.9 million (a 198 per cent variation). This occurred due to the income being \$644.6 million more than the budget estimate and the expenditure being only \$294.4 million more than budget (see Table 4.7).

Table 4.7: Summary of results from transactions, Department of Health, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	13,041.6	13,686.2	644.6	4.9
Total expenditure	13,218.5	13,512.9	294.4	2.2
Net result from transactions	-176.9	173.4	350.3	198.0

Source: Department of Health, *Annual Report 2010-11*, 'budget portfolio outcomes' statement; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.89

Note: The 2010-11 budget estimates have been adjusted for machinery-of-government changes.

The Department explained the increase in income as related to 'additional funding provided for purposes including depreciation equivalent funding costs, costs associated with the declaration of three additional public holiday funding for health services, long service leave and for 340 new ambulance paramedics' and additional Commonwealth funding (as detailed below under grant payments).¹⁴⁸

The small increase in expenditure was explained by:¹⁴⁹

- additional grant payments 'for Commonwealth Aged Care grants for Extended Aged Care at Home packages, sustainability, assessment and training funding paid directly to health services';
- increase in depreciation and amortisation (particularly an increase in the depreciation of 'health service assets'); and
- a small increase in 'other operating costs' (6.3 percent).

FINDING

The Department of Health returned a net result from transactions of \$-182.7 million in 2009-10, the year in which it was formed. In 2010-11, however, it achieved a net result from transactions of \$173.4 million, \$350.3 million (198 per cent) higher than the budget estimate.

148 Department of Health, *Annual Report 2010-11*, 'budget portfolio outcomes' statement, pp.158-9

149 Department of Health, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 6 January 2011, p.5; Department of Health, *Annual Report 2010-11*, 'budget portfolio outcomes' statement p.158

4.3.4 Department of Human Services

For 2009-10, the Department of Human Services’ net result from transactions was \$317.3 million, \$252.4 million (389 per cent) more than the adjusted budget (see Table 4.8).

Table 4.8: Summary of results from transactions, Department of Human Services, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	3,474.8	6,925.9	3,451.1	99.3
Total expenditure	3,409.8	6,608.6	3,198.8	93.8
Net result from transactions	64.9	317.3	252.4	388.9

Source: Department of Human Services, Annual Report 2009-10, ‘budget portfolio outcomes’ statement; Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.128

Note: The 2010-11 budget estimates have been adjusted for machinery-of-government changes.

As with the Department of Health’s result (see Section 4.3.3 above), the Committee notes that complexities associated with the machinery-of-government changes that removed the Department of Health’s functions from the Department of Human Services in 2009-10 are the most likely cause for the large variance between the adjusted budget and the actual results.

The net result from transactions in 2010-11 was a deficit of \$5.0 million. This was \$10.3 million (194 per cent) less than the budget estimate. Both income and expenditure were approximately 4 per cent less than the budget estimates (see Table 4.9).

Table 4.9: Summary of results from transactions, Department of Human Services, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	3,416.8	3,269.9	-146.9	-4.3
Total expenditure	3,411.5	3,274.9	-136.6	-4.0
Net result from transactions	5.3	-5.0	-10.3	-194.3

Source: Department of Human Services, Annual Report 2010-11, ‘budget portfolio outcomes’ statement; Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.94

Note: The 2010-11 budget estimates have been adjusted for machinery-of-government changes.

The Department indicated that the decrease in revenue related mainly to:¹⁵⁰

- Commonwealth funding which was budgeted for 2010-11 being received in advance in 2009-10; and
- additional government initiatives, including continuing to provide concessional rates commensurate with the rising costs of utilities and extending the winter energy concession on electricity bills from six months to all year round.

¹⁵⁰ Department of Human Services, Annual Report 2010-11, p.209

As a result of the reduced funding, there was a corresponding decrease in expenditure (compared to the budget estimate) for grant payments made.¹⁵¹

FINDING

The Department of Human Services' net result from transactions of \$317.3 million in 2009-10 was significantly affected by the machinery-of-government change that created the Department of Health. The 2010-11 net result from transactions was a deficit of \$5.0 million.

4.3.5 Department of Justice

The Department of Justice's net result from transactions in 2009-10 was \$-19.2 million, within \$0.5 million of the budget estimate. Both income and expenditure were approximately 2 per cent less than had been expected (see Table 4.10).

Table 4.10: Summary of results from transactions, Department of Justice, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	3,887.0	3,807.2	-79.8	-2.1
Total expenditure	3,906.7	3,826.4	-80.3	-2.1
Net result from transactions	-19.7	-19.2	0.5	2.5

Source: Department of Justice, *Annual Report 2009-10, 'budget portfolio outcomes' statement; Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.144*

The decrease in income was mainly a result of output and special appropriations being less than expected.¹⁵² The Committee notes that the variance was only 2 per cent of the budget estimate.

The similarly small decrease in expenditure was related to decreases in employee expenses and depreciation expenses. The Department explained that, as depreciation and amortisation expense is recognised only upon the completion of asset projects, delays in the completion of projects such as the Old County Court Modernisation project and the Integrated Courts Management System have led to expenses expected in 2009-10 not occurring.¹⁵³

The net result from transactions in 2010-11 was \$13.8 million, \$29.1 million (190 per cent) more than the budget estimate. This was primarily due to a small decrease (1 per cent) in the Department's expenditure compared to the budget estimate, partially offset by a small decrease (0.4 per cent) in income compared to the budget (see Table 4.11).

151 *ibid.*

152 Department of Justice, *Annual Report 2009-10*, p.139

153 Department of Justice, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 22 December 2011, p.40

Table 4.11: Summary of results from transactions, Department of Justice, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	4,197.1	4,178.8	-18.3	-0.4
Total expenditure	4,212.3	4,164.9	-47.4	-1.1
Net result from transactions	-15.3	13.8	29.1	190.2

Source: Department of Justice, *Annual Report 2010-11, 'budget portfolio outcomes' statement; Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.144*

As in 2009-10, the decrease in income is due to less funding than anticipated being received from output and special appropriations and the decrease in expenditure was related to lower depreciation expenses than had been expected.¹⁵⁴

FINDING

The Department of Justice's net result from transactions in 2009-10 was a deficit of \$19.2 million, within \$0.5 million of the budget estimate. The 2010-11 result was \$13.8 million, \$29.1 million more than estimated due to proportionately small variations in income and expenditure compared to the budget estimates.

4.3.6 Department of Planning and Community Development

The Department of Planning and Community Development's net result from transactions for 2009-10 was \$-16.3 million, \$10.4 million (176 per cent) less than the budget estimate. This was due to an increase in both income and expenditure relative to the budget estimates, with expenditure growing by a larger amount (see Table 4.12).

Table 4.12: Summary of results from transactions, Department of Planning and Community Development, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	539.6	581.8	42.2	7.8
Total expenditure	545.5	598.1	52.6	9.6
Net result from transactions	-5.9	-16.3	-10.4	-176.3

Source: Department of Planning and Community Development, *Annual Report 2009-10, 'budget portfolio outcomes' statement*

The Department advised the Committee that the increase in income and expenditure was partly due to grants being received and passed on for sport and recreation projects being approved post budget.¹⁵⁵ Employee expenses were also over budget.¹⁵⁶ However,

154 Department of Justice, *Annual Report 2010-11*, p.153

155 Department of Planning and Community Development, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 31 January 2012, pp.17-19

156 Department of Planning and Community Development, *Annual Report 2009-10*, p.110

the Committee notes that the actual employee expenses for 2009-10 were in line with the actual costs in 2008-09 and is not sure on what basis the estimate was reduced in the 2009-10 Budget.

The net result from transactions in 2010-11 was substantially less than the budget estimate. Although the Department did achieve a surplus of \$16.3 million, this was \$174.9 million (91 per cent) less than had been anticipated in the Budget. The cause of this was a decrease in income accompanied by an increase in expenditure (see Table 4.13).

Table 4.13: Summary of results from transactions, Department of Planning and Community Development, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	724.7	619.2	-105.5	-14.6
Total expenditure	533.5	602.9	69.4	13.0
Net result from transactions	191.2	16.3	-174.9	-91.5

Source: Department of Planning and Community Development, Annual Report 2010-11, 'budget portfolio outcomes' statement; Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.105

Note: The 2010-11 budget estimates have been adjusted for machinery-of-government changes.

The Department indicated that the decrease in income was primarily due to assets which had been expected to be received free of charge not being granted to the Department. This was only partially offset by small increases in income from other sources.¹⁵⁷ The Committee sought further details from the Department about the assets expected to be received free of charge and was informed that:¹⁵⁸

The estimate reflected the transfer of assets through machinery-of-Government changes. Upon clarification of accounting treatment with DTF [the Department of Treasury and Finance] the transfer was recognised through contributed capital rather than as assets received free of charge.

The Department explained that the increase in expenditure resulted from the reclassification of some capital projects to output expenditure.¹⁵⁹

FINDING

The Department of Planning and Community Development's net results from transactions were below budget estimates in both 2009-10 and 2010-11. The net result from transactions was a small deficit (\$-16.3 million) in 2009-10 and a small surplus (\$16.3 million) in 2010-11.

157 Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.105; Department of Planning and Community Development, Annual Report 2010-11, p.116

158 Department of Planning and Community Development, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 5 March 2012, p.2

159 Department of Planning and Community Development, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 31 January 2012, p.19

4.3.7 Department of Premier and Cabinet

The Department of Premier and Cabinet’s net result from transactions in 2009-10 was \$34.0 million, within \$0.7 million of the budget estimate. Both income and expenditure exceeded the budget estimates by similar amounts (see Table 4.14).

Table 4.14: Summary of results from transactions, Department of Premier and Cabinet, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	638.4	690.3	51.9	8.1
Total expenditure	603.7	656.3	52.6	8.7
Net result from transactions	34.7	34.0	-0.7	-2.0

Source: Department of Premier and Cabinet, 2009-10 Annual Report, ‘budget portfolio outcomes’ statement

The Department explained the increase in expenditure as a result of:¹⁶⁰

- additional bushfire clean-up costs compared to budget; and
- employee expenses being higher than anticipated with the first full year of activity for two areas of the department:
 - the Victorian Bushfire Reconstruction and Recovery Authority; and
 - the Victorian Multicultural Commission, which was transferred from the Department of Planning and Community Development, effective 1 January 2009.

The increase in income was attributed by the Department to:¹⁶¹

- one-off revenue transactions received under ‘other income’ for the Public Record Office Victoria Records Management Standard Levy placed on departments; and
- contributions from the Department of Human Services and Department of Education and Early Childhood Development to fund the Office of Victorian Coordinator General.

The Committee notes that the additional expenditure for bushfire clean-up costs was accompanied by additional funding for those costs released after the 2009-10 Budget.¹⁶²

The net result from transactions for 2010-11 was \$29.2 million, \$5.1 million (15 per cent) less than the original budget estimate. Both income and expenditure were more than the budget estimates, although expenditure varied by a greater amount (see Table 4.15).

160 Department of Premier and Cabinet, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, p.21

161 *ibid.*, p.17

162 Department of Treasury and Finance, 2009-10 Budget Update, November 2009, p.129

Table 4.15: Summary of results from transactions, Department of Premier and Cabinet, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	650.7	680.8	30.1	4.6
Total expenditure	616.4	651.6	35.2	5.7
Net result from transactions	34.3	29.2	-5.1	-14.9

Source: Department of Premier and Cabinet, 2010-11 Annual Report, 'budget portfolio outcomes' statement

The increase in income and expenses was mainly due to:¹⁶³

- small increases in output appropriations (2 per cent), special appropriations and grants income to cover additional grant expenditure and additional staff expenses;
- larger-than-expected amounts of income earned at portfolio agencies from sources such as donations at National Gallery of Victoria and box office receipts at the Australian Centre for the Moving Image; and
- small increases in operational costs at the portfolio agencies.

FINDING

The Department of Premier and Cabinet achieved a net result from transactions of \$34.0 million in 2009-10 and \$29.2 million in 2010-11. In both years, income and expenditure were in excess of the budget estimates, but in all cases by less than 10 per cent.

4.3.8 Department of Primary Industries

The net result from transaction in 2009-10 for the Department of Primary Industries was a deficit of \$8.8 million, which was \$7.3 million less than the budget estimate. This was due to an increase in expenditure from budget of \$35.9 million only partially offset by an increase in income of \$28.6 million (see Table 4.16).

Table 4.16: Summary of results from transactions, Department of Primary Industries, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	522.6	551.2	28.6	5.5
Total expenditure	524.1	560.0	35.9	6.8
Net result from transactions	-1.5	-8.8	-7.3	-486.7

Source: Department of Primary Industries, Annual Report 2009-10, 'budget portfolio outcomes' statement

163 Department of Premier and Cabinet, 2010-11 Annual Report, p.103; National Gallery of Victoria, Annual Report 2010-11, pp.53, 63-4; Australia Centre for the Moving Image, Annual Report 2010-11, pp. 52, 62-3

The Department advised the Committee that the increase in expenditure related to additional grant payment for items such as the exceptional circumstances interest rate subsidy program, farming family shire rate assistance, drought related projects and Brown Coal Innovation Australia.¹⁶⁴ There were also interest payments relating to the Showgrounds joint venture, despite the budget estimate for this category being nil. The Department explained that this was not budgeted ‘*due to the variables in forecasting the final result of the joint venture operations.*’¹⁶⁵

These additional expenses were partly offset by increases compared to budget estimates for output appropriations, sales of goods and services and interest income connected with the Showgrounds joint venture.¹⁶⁶

In 2010-11, the Department’s net result from transactions was \$-1.6 million, within \$0.6 million of the budget estimate. Both income and expenditure in the year were approximately 6 per cent higher than the budget estimates (see Table 4.17).

Table 4.17: Summary of results from transactions, Department of Primary Industries, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	509.9	540.9	31.0	6.1
Total expenditure	510.9	542.5	31.6	6.2
Net result from transactions	-1.0	-1.6	-0.6	-60.0

Source: Department of Primary Industries, Annual Reports 2010-11, ‘budget portfolio outcomes’ statement

The increase in expenditure was explained by the Department as related to:¹⁶⁷

- additional employee expenses incurred for locust response activities;
- interest costs associated with the Showgrounds joint venture (for which, as in 2009-10, there was a budget of nil ‘*due to the variables in forecasting the final result of the joint venture operations*’); and
- ‘grants and other transfers’ for a variety of different programs.

The increased costs were mostly offset by an increase in revenue in output appropriations.¹⁶⁸

FINDING

The Department of Primary Industries returned a net result from transactions of \$-8.8 million in 2009-10 and \$-1.6 million in 2010-11. Both income and expenditure exceeded the budget estimates in both years, though in no case was the variance greater than 10 per cent.

164 Department of Primary Industries, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 13 December 2011, pp.25-6

165 *ibid.*

166 *ibid.*, pp.20-1

167 *ibid.*, pp.26-7

168 *ibid.*, pp.21-2

4.3.9 Department of Sustainability and Environment

The net result from transactions for the Department of Sustainability and Environment in 2009-10 was \$79.8 million, which was \$94.7 million (636 per cent) more than the budget estimate of a deficit of \$14.9 million. The difference between the budget estimate and actual net result from transactions is due to income being significantly more than the budget estimate, with expenditure exceeding the budget estimate by a smaller amount (see Table 4.18).

Table 4.18: Summary of results from transactions, Department of Sustainability and Environment, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	1,372.7	1,516.9	144.2	10.5
Total expenditure	1,387.6	1,437.1	49.5	3.6
Net result from transactions	-14.9	79.8	94.7	635.6

Source: Department of Sustainability and Environment, *Annual Report 2010, 'budget portfolio outcomes' statement*

The increase in income came from additional output and special appropriations and revenue from the sale of goods and services and other income. The Department explained that the special appropriations not budgeted were provided '*for Continuing the Werribee Vision, catchment management authority regional works program and groundwater monitoring and assessment program*'. In addition, the increase in sales of goods and services was attributed by the Department to '*additional revenue credited to the Trust fund for Valuation Services, BushBroker native vegetation offsets, river health works in northern Victoria, increased regulatory fees collected under Environment Protection Fund, Act No. 8056/1970 and Lake Mokoan – rehabilitation and decommissioning*'.¹⁶⁹

Additional expenditure was primarily explained by reference to fire suppression activities.¹⁷⁰

In 2010-11, the Department also achieved a positive net result from transactions, despite a negative budget estimate. As in 2009-10, this was a result of both income and expenditure exceeding the budget estimates, but income exceeding the estimate by a significantly larger extent (see Table 4.19).

169 Department of Sustainability and Environment, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, Attachment A, received 5 January 2012, pp.2-4; Department of Sustainability and Environment, *Annual Report 2010*, p. 208

170 Department of Sustainability and Environment, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, Attachment A, received 5 January 2012

Table 4.19: Summary of results from transactions, Department of Sustainability and Environment, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	1,338.6	1,436.2	97.6	7.3
Total expenditure	1,345.9	1,372.4	26.5	2.0
Net result from transactions	-7.4	63.8	71.2	962.2

Source: Department of Sustainability and Environment, Annual Report 2011, 'budget portfolio outcomes' statement

The Department indicated that the increased income related to unanticipated additional grants revenue from the Commonwealth for Snowy Joint Government Enterprise and flood recovery activities. There was also additional revenue received for sales of good and services for valuation services, Bushbroker Native Vegetation Offset and Weeds and Pest on Public Land Initiative. Additional other income was attributed to 'higher than budgeted Landfill Levy revenue and higher regulatory fees for Prescribed Industrial Wastes as a direct consequence of the revised waste tonnage estimates.'¹⁷¹ See below for more discussion of the Landfill Levy. The increased expenditure related to 'grant payments to Parks Victoria and the Snowy Joint Government Enterprise', as well as additional expenditure for planned burning, other fire-related activities and flood-recovery activities.¹⁷²

FINDING

In both 2009-10 and 2010-11, the Department of Sustainability and Environment significantly exceeded the budget estimates for its net result from transactions, returning surpluses where the budgets had estimated deficits. In both years, this was a result of the income varying from the budget estimates by a significantly larger amount than the expenditure.

Landfill levy

According to the Department of Sustainability and Environment, \$114.4 million was received from the Landfill Levy in 2010-11,¹⁷³ which was \$45.9 million more than the budget estimate (\$68.5 million).¹⁷⁴ The Committee asked the Department about the reasons for the large increase and was advised that:¹⁷⁵

Increase in revenue is a direct consequence of the higher than expected waste tonnage estimates and the effect of increased \$rates/per tonne of waste. Initial budget revenues were based on significantly lower waste volume estimates.

171 Department of Sustainability and Environment, Annual Report 2011, p. 175

172 *ibid.*

173 Department of Sustainability and Environment, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 21 December 2011, p.7

174 Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.206

175 Department of Sustainability and Environment, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 21 December 2011, p.8

The Committee also requested further information on the amount of waste estimated to be diverted from landfill in 2010-11, and the number of jobs created as a result of the levy increase from 2010. The following information was provided:¹⁷⁶

Environment Protection Authority is responsible for collecting the municipal and industrial (M&I) landfill levy from licensed landfills and distributing the revenue as per the Environment Protection (Distribution of Landfill Levy) Regulations 2010.

- (i) *The estimate of the amount of waste diverted from landfill in 2010-11 will be detailed in Sustainability Victoria's Victorian Recycling Industries Annual Survey 2010-11.*
- (ii) *Environment Protection Authority does not forecast, monitor or report job creation from the Landfill Levy.*

The Committee will be reviewing the further information included in the Sustainability Victoria's *Victorian Recycling Industries Annual Survey 2010-11* once the results have been analysed and considers that this will be useful to inform the public about the effectiveness of this program. The Committee notes that a review of Sustainability Victoria's activities, the funding for much of which comes from the Landfill Levy, was recently undertaken and stakeholder feedback is currently being sought.¹⁷⁷ One of the expected results of the levy when it was initially introduced was the creation of 700 new jobs by 2015.¹⁷⁸ Given this, the Committee considers that measures should be in place to identify whether or not that is actually occurring.

FINDING

Sustainability Victoria intends to report on the amount of waste diverted from landfill as a result of the Landfill Levy. However, despite initial predictions that the levy would create 700 new jobs, no specific monitoring of job creation as a result of the levy is taking place.

RECOMMENDATION 11:

The Environment Protection Authority monitor and report on job creation as a result of the Landfill Levy.

4.3.10 Department of Transport

The net result from transactions for the Department of Transport in 2009-10 was \$314.6 million, which was \$47.1 million (18 per cent) higher than the budget estimate. Both income and expenditure were higher than had been budgeted, but income varied by a larger amount (see Table 4.20).

176 *ibid.*

177 Sustainability Victoria, 'Sustainability Victoria Review', <www.sustainability.vic.gov.au/www/html/2945-sustainability-victoria-review.asp>, accessed 26 March 2012

178 Hon. P. Batchelor, *Victorian Parliamentary Debates*, Legislative Assembly, 25 March 2010, p.1125

Table 4.20: Summary of results from transactions, Department of Transport, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	5,036.1	5,404.6	368.5	7.3
Total expenditure	4,768.6	5,090.0	321.4	6.7
Net result from transactions	267.5	314.6	47.1	17.6

Source: Department of Transport, Annual Report 2009-10, 'budget portfolio outcomes' statement

The Department attributed the increase in income to:¹⁷⁹

- additional revenue from sales of goods and services, due to revised arrangements for public transport fare revenue (this is explained below);
- additional funding for national disaster relief recovery; and
- additional income from the Southern Cross Station Authority following its abolition and transfer of assets to the Department.

The increase in expenditure was explained by the Department as a result of higher employee expenses for additional staff to deliver new or expanded transport projects and services to improve the network. The Department also identified increased expenses for new arrangements under the new franchise agreement for farebox revenue (see below) which were not known at budget preparation.¹⁸⁰

In 2010-11 the Department again returned a large surplus as its net result from transactions, though in 2010-11 this was \$14.6 million (5 per cent) less than the budget estimate. Income and expenditure both exceeded the budget estimates, but by small proportions, with expenditure exceeding its budget target by a slightly larger proportion (see Table 4.21).

Table 4.21: Summary of results from transactions, Department of Transport, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	5,841.2	5,909.8	68.6	1.2
Total expenditure	5,529.2	5,612.3	83.1	2.5
Net result from transactions	312.0	297.4	-14.6	-4.7

Source: Department of Transport, Annual Report 2010-11, 'budget portfolio outcomes' statement

The increase in expenditure was in relation to proportionately small increases in employee benefits and 'grants and other transfers'. The Department explained the increase in income as a result of additional funding with the acceleration of the Safer Roads Infrastructure Program,

179 Department of Transport, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 11 January 2012, pp.50-6

180 *ibid.*, pp.64-9

and funding for natural disaster relief recovery. The Department also noted additional unanticipated income from a GST refund.¹⁸¹

FINDING

The Department of Transport achieved large positive net results from transactions in both 2009-10 and 2010-11. The result was above the budget estimate in 2009-10 and below in 2010-11. Both income and expenditure exceeded budget estimates in each year, though by varying proportions, with particularly sizable variations in 2009-10.

Farebox revenue

Since 30 November 2009, the Department of Transport has received the full farebox collection across all transport modes. This resulted in a significant increase in revenue to the Department, with income from the ‘sale of services’ increasing from \$159.8 million in 2008-09 to \$384.0 million in 2009-10¹⁸² and \$577.5 million in 2010-11.¹⁸³ The Committee sought details of this change and the rationale for it from the Department, as well as information about the benefits and budget implications of this new arrangement. The following information was provided:¹⁸⁴

Under the new rail franchise arrangements, which commenced on 30 November 2009, the former government determined that during the myki start up period, the State would receive all farebox revenue and guarantee to pay the franchisees their contracted level of farebox income. The guarantee continues up to 18 months after the Metcard system is decommissioned. After this date, the train and tram operators will receive a share of the actual farebox revenue.

These arrangements were constructed to shelter franchisees from farebox volatility during the myki start-up period in an effort to better balance risk and provide a better value for money proposition.

This has enabled franchisees to remain focused on delivering operational outcomes and not be distracted by farebox volatility due to the implementation of myki which is largely outside of their control.

The Department’s budget was adjusted to record all farebox revenue being received by the State and contracted guarantee farebox payments being made to franchisees.

The Committee also enquired about the Department’s plans to tackle public transport fare evasion, including the costs of these plans. The Committee was advised that:¹⁸⁵

181 *ibid.*, pp.52, 70

182 Department of Transport, *Annual Report 2009-10*, p.87

183 Department of Transport, *Annual Report 2010-11*, p.48

184 Department of Transport, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 22 December 2011, p.2

185 *ibid.*, p.8

Primary responsibility for reducing fare evasion rests with Metlink and the public transport operators. However, the Department of Transport (DOT) works very closely with Metlink and transport operators to ensure activities are coordinated and effectively target fare evasion... Fare evasion targets have also been negotiated under the terms of the Franchise Agreements with Yarra Trams and Metro for the first time this year.

In response to fare evasion levels, the Director of Public Transport recently met with the CEOs of Yarra Trams and Metro to emphasise the importance of reducing fare evasion and to discuss additional fare evasion activities, particularly for Yarra Trams. This has resulted in some additional initiatives to target fare evasion.

These initiatives include the extension of the fare evasion advertising campaign, the introduction of fare evasion messages on all trams, and continued focus to ensure better targeted deployment of Authorised Officers. An important part of ensuring fare compliance is Authorised Officer visibility and interception of fare evaders. DOT will continue to work with operators and Metlink to maximise Authorised Officer ticket checking rates and infringement activity

...

There is no additional cost to DOT resulting from any of these initiatives.

The Committee also requested data on the amount of revenue lost in 2009-10 and 2010-11 due to fare evasion. Table 4.22 replicates the data supplied by the Department.

Table 4.22: Estimated revenue loss from fare evasion, 2009-10 and 2010-11^(a)

Period	Revenue loss (\$ million)
July-December 2009	25.5
January-June 2010	29.6
July-December 2010	40.8
January-June 2011	44.2

Note: (a) excludes school buses

Source: Department of Transport, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 22 December 2011, p.8

The Department explained that targets have been set for the public transport operators to reduce the level of fare evasion (to 14 per cent for Yarra Trams and to 7.7 per cent for Metro Trains) by June 2012.¹⁸⁶ The Department indicated that ‘the October 2011 survey shows a 1.6% reduction in the metropolitan fare evasion rate from May 2011 to 11.9%.’¹⁸⁷

186 Department of Transport, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 6 March 2012, p.8

187 *ibid.*

The Victorian Auditor General's Office is planning to conduct a performance audit on fare evasion on public transport for 2012-13.¹⁸⁸ The Committee looks forward to reviewing the findings from this report. In the meantime, the Committee considers that, given the size of the estimated revenue loss due to fare evasion, the Department should detail the efforts at reducing fare evasion, along with the outcomes of those efforts, in its annual reports.

FINDING

An estimated \$55.1 million of revenue was lost due to fare evasion in 2009-10, while an estimated \$85.0 million was lost in 2010-11.

RECOMMENDATION 12:

The Department of Transport include details in future annual reports of measures taken to reduce fare evasion and estimates of the impact of those measures.

4.3.11 Department of Treasury and Finance

The Department of Treasury and Finance's net result from transactions in 2009-10 was a deficit of \$9.4 million, which is \$13.6 million less than the budget estimate. This is a result of both income and expenditure being higher than the budget estimates, but the expenditure varying to a greater extent (see Table 4.23).

Table 4.23: Summary of results from transactions, Department of Treasury and Finance, 2009-10

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	398.6	422.0	23.4	5.9
Total expenditure	394.4	431.4	37.0	9.4
Net result from transactions	4.2	-9.4	-13.6	-323.8

Source: Department of Treasury and Finance, *Annual Report 2009-10*, 'budget portfolio outcomes' statement

The increase in expenditure resulted from increased employee costs and other operating costs attributable to increased staff numbers. The Department indicated that this was due to the 'establishment of the Shared Service Provider, increased compliance requirements within the State Revenue Office and additional departments transitioning across to CenITex for information technology support during the year.'¹⁸⁹ CenITex and the Shared Service Provider are discussed further in Section 4.6.3 of this chapter.

The increase in income came from the sales of goods and services, which the Department attributed to the transfer of additional operations of other departments to CenITex, and to the operations of the newly created Shared Service Provider. The Department explained that the operational scope of these activities was not yet finalised during the budget process.¹⁹⁰ There

188 Victorian Auditor General's Office, *Annual Plan 2011-12*, May 2011, p.34

189 Department of Treasury and Finance, *Annual Report 2009-10*, p.90

190 *ibid.*

were small decreases in income compared to budget for output appropriations and other income.

The Department of Treasury and Finance returned a negative net result from transactions in 2010-11 as well, with a result of \$-15.3 million. As in the previous year, this was in contrast to a positive budget estimate, with the actual result being \$26.4 million less than the estimate. Both income and expenditure varied from the budget estimates by significant proportions, with expenditure varying by a larger amount (see Table 4.24).

Table 4.24: Summary of results from transactions, Department of Treasury and Finance, 2010-11

	Budget estimate (\$ million)	Actual (\$ million)	Variation	
			(\$ million)	(per cent)
Total income	417.6	464.7	47.1	11.3
Total expenditure	406.5	480.0	73.5	18.1
Net result from transactions	11.1	-15.3	-26.4	-237.8

Source: Department of Treasury and Finance, Annual Reports 2010-11, 'budget portfolio outcomes' statement; Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.133

Note: The 2010-11 budget estimates have been adjusted for machinery-of-government changes.

As in the prior year, there was an increase in expenses in employee and other operating costs and small increases in appropriations, sales of good and services and 'other revenue'. The Department explained the increase in sales of goods and services as a result of the 'transfer of further operations (of other departments) to both CenITex (for the provision of IT services) and the shared service provider (SSP) (for the provision of library, vehicle fleet management and accommodation facilities management services), with some uncertainties around operational scope during the budget process.'¹⁹¹ The Department also indicated that the additional activity in CenITex and the Shared Services Provider were the major cause of the increase in 'other operating costs' and depreciation and amortisation (due to the transfer of additional equipment and motor vehicles).¹⁹²

In addition, the Department noted an increase in income from 'unbudgeted resources received free of charge from other organisations during the year.'¹⁹³

FINDING

In both 2009-10 and 2010-11, the Department of Treasury and Finance achieved negative net results from transactions, despite budget estimates of positive results. In both years income and expenditure were above the budget estimates, but expenditure by a larger amount.

191 Department of Treasury and Finance, Annual Report 2010-11, p.86

192 *ibid.*

193 *ibid.*

4.4 Revenue foregone

4.4.1 Concessions and subsidies

The budget papers explain that concessions are:¹⁹⁴

... a direct budget outlay or reduction in government charges that have the effect of reducing the price of a good or service for particular groups. Certain characteristics of the consumer, such as possession of a Commonwealth pension card or a health care card, are the basis for entitlement. Concessions allow certain groups in the community to access and/or purchase important amenities like energy, health and transportation at a cheaper rate or zero cost.

As part of its Financial and Performance Outcomes Questionnaire, the Committee sought details of concessions and subsidies provided by departments in 2009-10 and 2010-11. Tables 4.25 and 4.26 include the details of the concessions and subsidies provided by each department for 2009-10 and 2010-11 including explanations for variations from the budget targets, the number of concessions and subsidies granted and outcomes achieved from the concessions. The Committee also performed comparisons to prior years and reviewed the movements in the number of concessions/subsidies.

In total, the departments identified \$1,238.2 million worth of concessions delivered in 2009-10 and \$1,338.5 million worth of concessions in 2010-11.

In all cases but two, the value of concessions in 2009-10 was within 10 per cent of the value in the prior year and the budget target. The two material variances were:

- the Department of Transport's 'Rail freight support' subsidy, where the actual expenditure was \$6.9 million compared to a budget of \$13.7 million; and
- VicRoads' 'Discounted registration fee for primary producers (4.5 tonnes or less)', which had an expenditure of \$5 million against a target of \$12.8 million.

In the former case, the Department explained that the additional budget was a result of a carry-over from the previous year. The Committee notes that the expected outcome in terms of units transported was met, despite the under-expenditure (suggesting that the target had not been adjusted to include expenditure of the additional funds) and that the actual expenditure in 2009-10 was in line with expenditure in the years prior and after.

In the latter case, no explanation was provided by VicRoads, but the Committee notes in this case as well, the actual result was in line with the prior year and the next year.

¹⁹⁴ Budget Paper No.4, 2009-10 Statement of Finances, May 2009, p.227

In 2010-11, there were seven instances of variances greater than 10 per cent between the actual value of the concession and either the prior year or the budget. As detailed in Table 4.26, departments indicated that:

- for the Department of Health's 'Dental service' and 'Community health services' concessions, in which actual results varied significantly from both the prior year and the budget, the variation was due to new data as a result of better information systems;
- the values of the Department of Health's 'Spectacles' and the Department of Human Services' 'Rental rebates' concessions had both grown compared to the prior year, but were in line with budget estimates;
- the 'Driver licence rewards' concession in 2010-11 had a value of \$12.4 million, compared to a value of \$2.9 million in the prior year and a budget of \$5.5 million – no explanation was provided by VicRoads;
- VicRoads' 'Discounted registration fee for primary producers (4.5 tonnes or less)', had an actual expenditure of \$5.1 million compared to a budget of \$13 million, for which VicRoads also supplied no information; and
- the Department of Transport's 'Rail freight support' concession, discussed above, had an 11 per cent underspend, which the Department attributed to absorbing the previous carry-over amount.

New concessions after change in government

The Committee asked for details from all departments of any new concessions or subsidies introduced after the change in government in 2010. The only new concession identified was introduced at the Department of Human Services. This related to an extension of electricity concessions to the entire year and the value for 2010-11 was \$30.2 million.¹⁹⁵ The Committee was informed that a *'communication strategy was developed to inform customers and stakeholders of the change. Retailers were informed of the change and implemented system changes. Approximately 800,000 households received the Winter Energy Concession for the extended period.'*¹⁹⁶

195 Department of Human Services, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, p.28

196 Department of Human Services, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 2 March 2012, p.9

Table 4.25: Concessions and subsidies, 2009-10

Entity	Concession/ subsidy	Purpose	2008-09 actual (\$ million)	2009-10 Budget (\$ million)	2009-10 actual (\$ million)	Explanations for variances greater than ±10 per cent	Number of concessions/ subsidies granted in 2009-10	Outcomes achieved
Department of Education and Early Childhood Development	Education maintenance allowance	To assist eligible low income families with the cost of educating their children	58.5	62.8	60.6	The variance is less than 10 per cent	210,260	The Education Maintenance Allowance (EMA) provides assistance to low-income families by helping with the costs associated with the education of their children. The expected outcome for 2009-10 as published in Budget Paper No. 3 (Service Delivery 2010-11, p 70) was \$60.2 million and \$60.6 million was expended.
	Kindergarten fee subsidy	To make kindergarten services more affordable and accessible for eligible low income families	12.7	13.1	13.5	The variance is less than 10 per cent	17,741	The kindergarten fee subsidy (KFS) supports eligible children attend kindergarten by meeting the cost of 10 hours and 45 minutes of kindergarten per week. \$13.5 million was expended for the KFS for 2009-10.

Entity	Concession/ subsidy	Purpose	2008-09 actual (\$ million)	2009-10 Budget (\$ million)	2009-10 actual (\$ million)	Explanations for variances greater than ± 10 per cent	Number of concessions/ subsidies granted in 2009-10	Outcomes achieved
Department of Health	Ambulance	The State subsidises Ambulance Victoria membership for all Victorians	296.1	321.1	321.1	The variance is less than 10 per cent	<p>The number of pensioner and concession card holder emergency cases = 219,832</p> <p>The number of pensioner and concession card holder non-emergency cases = 182,750</p> <p>Total number of pensioner and concession transports in 2009-10 = 402,582</p>	<p>Victorian concession card holders are entitled to free ambulance cover throughout Australia.</p> <p>This funding provided free emergency and medically authorised non-emergency ambulance transport to the nearest and most appropriate hospital.</p> <p>The funding provided to concession card holders helps ensure all Victorians can access the best ambulance service no matter where they live.</p>
	Dental services (including adult and children's)	Dental Services provides public dental care to eligible clients through the Royal Dental Hospital and 54 community health services and rural hospitals (operating from 79 clinics)	111.0	117.5	114.9	The variance is less than 10 per cent	<p>246,629 concession card holders or dependants of concession card received dental treatment^(a)</p>	This funding provided dental treatment to concession card holders or dependants of concession card holders.

Entity	Concession/subsidy	Purpose	2008-09 actual (\$ million)	2009-10 Budget (\$ million)	2009-10 actual (\$ million)	Explanations for variances greater than ±10 per cent	Number of concessions/subsidies granted in 2009-10	Outcomes achieved
Department of Health	Spectacles	The VES [Victorian Eyecare Service] provides low cost eye care and visual aids for disadvantaged and vulnerable Victorians, including pension and health care card holders. This initiative maintains and enhances service delivery levels of the VES	6.1	6.2	6.2	The variance is less than 10 per cent	Occurrences of service for 2009-10 = 69,299	In 2009 VES outreach visited 36 metropolitan Supported Residential Services (SRS), providing quality eye care examinations, visual aid prescription and provision, ophthalmological referrals, and diabetes-specific eye care examinations. To provide outreach services, the Australian College of Optometry (ACO) works collaboratively with other health care and social service providers, providing a holistic approach to eye care and social connection
	Community health services	Community Health delivers public allied health, counselling and casework, health promotion and nursing services	Refer to Note (a) below	Refer to Note (a) below	118.5		111,741 registered clients ^(c)	This funding provided allied health (audiology, dietetics, exercise physiology, physiotherapy, podiatry, occupational therapy and speech therapy), counselling and casework, health promotion and nursing services
Department of Human Services	Rental rebates	The purpose of the rental rebates is to reduce the impact of market rent on low-income and vulnerable people	242	226	233	The variance is less than 10 per cent	52,270	Assisted low-income and vulnerable people who need access to short-term or long-term housing and accommodation.
	Rental subsidies	Subsidies are not income related but rather a discount on rent afforded to an agency or individual based on a delivery of client service or an extraordinary event (for example: subsidies to individuals afflicted by flood; bushfire, etc)	5	5	5	The variance is less than 10 per cent	151	Assisted low-income and vulnerable people who need access to short-term or long-term housing and accommodation.

Entity	Concession/ subsidy	Purpose	2008-09 actual (\$ million)	2009-10 Budget (\$ million)	2009-10 actual (\$ million)	Explanations for variances greater than ±10 per cent	Number of concessions/ subsidies granted in 2009-10	Outcomes achieved
Department of Transport	Public transport	Provide public transport concessions to ensure services remain affordable for lower income groups.	207.7	n/a	210.2	The variance is less than 10 per cent	Not applicable due to ticketing structure.	Public transport concessions continue to ensure that services remain affordable for lower income groups.
	Multi purpose taxi program	To provide subsidised taxi transport to all Victorians with severe and permanent disabilities who are unable to access public transport.	44.8	44.7	47.1	The variance is less than 10 per cent	4.32 million trips were made utilising the Multi Purpose Taxi Program.	The Multi Purpose Taxi Program continues to ensure that subsidised taxi transport is available to all Victorians with severe and permanent disabilities who are unable to access public transport.
	Rail freight support	Funding to ensure export container freight continues on rail that would otherwise go by road.	6.7	13.7	6.9	Drought conditions in 2008-09 impacted forecasted freight volumes and funds were subsequently carried over to 2009-10 Budget.	4	Expected outcome was achieved: 34,035 TEUs [twenty-foot equivalent units] transported by rail from regional Victoria to PoM [Port of Melbourne].

Entity	Concession/ subsidy	Purpose	2008-09 actual (\$ million)	2009-10 Budget (\$ million)	2009-10 actual (\$ million)	Explanations for variances greater than ±10 per cent	Number of concessions/ subsidies granted in 2009-10	Outcomes achieved
VicRoads	Discounted motor vehicle registration fee for eligible beneficiaries	To provide a discounted registration fee for vehicles operated by an eligible beneficiary (eg. Healthcard holders, Pensioners)	65.2	67	69.4	The variance is less than 10 per cent	895,316	Administered by VicRoads on behalf of Victorian Government to provide financial benefit to disadvantaged groups.
	Discounted registration fee for primary producers (4.5 tonnes or less)	To provide a discounted registration fee for light vehicles operated by primary producers	5	12.8	5	Explanation not provided for material variance	122,288	Administered by VicRoads on behalf of Victorian Government to provide financial benefit to primary producers.
	Discounted registration fee for primary producers (heavy vehicles)	To provide a discounted registration for heavy vehicles operated by primary producers	21.2	n/a	21.9	The variance is less than 10 per cent	43,923	Administered by VicRoads on behalf of Victorian Government to provide financial benefit to primary producers.
	Discounted motor vehicle registration fee for Totally and Permanently Incapacitated persons	To provide a discounted registration fee for light vehicles operated by Totally & Permanently Incapacitated persons	1.2	1.3	1.3	The variance is less than 10 per cent	7,925	Administered by VicRoads on behalf of Victorian Government to provide financial benefit to disadvantaged groups.
	Driver licence rewards	To provide discount on licence renewals to reward good driver behaviour	3.8	2.9	3.6	The variance is less than 10 per cent	179,280	Administered by VicRoads on behalf of Victorian Government to encourage safe driving.
	Total^(b)			1,087.0	894.1	1,238.2		

Sources: Entities' responses to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One

Notes:

- (a) The 'number of concessions' provided counts concession card holders or dependants of concession card holders who received care funded under the Primary, Community and Dental Output Group. It does not count clients who had their fees waived, as this information is not available.
- (b) Total concession costs have been calculated for all concessions/subsidy values where provided.
- (c) The Department notes that 'This performance is based on registered clients who are only a portion of all clients receiving community health services.'

Table 4.26: Concessions and subsidies in 2010-11

Entity	Concession/ subsidy	Purpose	2009-10 actual (\$ million)	2010-11 Budget (\$ million)	2010-11 actual (\$ million)	Explanations for variances greater than ±10 per cent	Number of concessions/ subsidies granted in 2010-11	Outcomes achieved
Department of Education and Early Childhood Development	Education maintenance allowance	To assist eligible low income families with the cost of educating their children	60.6	63.5	61.1	The variance is less than 10 per cent	205,423	The Education Maintenance Allowance (EMA) provides assistance to low-income families by helping with the costs associated with the education of their children. The expected outcome for 2010-11 as published in Budget Paper No. 3 (Service Delivery 2011-12, p.180) was \$62.9 million and \$61.1 million was expended.
	Kindergarten fee subsidy	To make kindergarten services more affordable and accessible for eligible low income families	13.5	14.1	15.1	The variance is less than 10 per cent	18,159	The kindergarten fee subsidy (KFS) supports eligible children attend kindergarten by meeting the cost of 10 hours and 45 minutes of kindergarten per week. \$15.1 million was expended for the KFS in 2010-11.

Entity	Concession/ subsidy	Purpose	2009-10 actual (\$ million)	2010-11 Budget (\$ million)	2010-11 actual (\$ million)	Explanations for variances greater than ±10 per cent	Number of concessions/ subsidies granted in 2010-11	Outcomes achieved
Department of Health	Ambulance	The State subsidises Ambulance Victoria membership for all Victorians	321.1	350.6	350.6	The variance is less than 10 per cent	The number of pensioner and concession card holder emergency cases = 229,303 The number of pensioner and concession card holder non-emergency cases = 194,445 Total number of pensioner and concession transports in 2010-11 = 423,748	Granting concessions helps reduce the financial barriers to people on low incomes gain access to emergency health services when needed.
	Dental services (including adult and children's)	Dental Services provides public dental care to eligible clients through the Royal Dental Hospital and 54 community health services and rural hospitals (operating from 79 clinics)	114.9	125.0	100.0 ^(b)	Reduction due to revision of percentage of usage by Concession Card holders as better information systems are now available which indicate a large increase in percentage of general community usage.	259,928 concession card holders or dependants of concession card holders received dental treatment	This funding provided dental treatment to concession card holders or dependants of concession card holders.

Entity	Concession/ subsidy	Purpose	2009-10 actual (\$ million)	2010-11 Budget (\$ million)	2010-11 actual (\$ million)	Explanations for variances greater than ±10 per cent	Number of concessions/ subsidies granted in 2010-11	Outcomes achieved
Department of Health	Spectacles	The VES (Victorian Eyecare Service) provides low cost eye care and visual aids for disadvantaged and vulnerable Victorians, including pension and health care card holders. This initiative maintains and enhances service delivery levels of the VES	6.2	7.1	7.0	The variance is less than 10 per cent	Occurrences of service for 2010-11 = 69,676	VES increased capacity to meet the growing eye care needs of disadvantaged Victorians, adding support to the Victorian optometry business: <ul style="list-style-type: none"> • additional provision of 3,000 spectacles requires additional optometric consultations; • increased outreach targets support a viable program using the specially designed and modified van to provide thorough on-site tests and eye care to people less able to travel or access mainstream services.
	Community health services	Community Health delivers public allied health, counselling and casework, health promotion and nursing services	118.5	123.8	87.2 ^(b)	Reduction due to revision of percentage of usage by Concession Card holders as better information systems are now available which indicate a large increase in percentage of general community usage.	118,050 registered clients in community health were concession card holders	This funding provided allied health (audiology, dietetics, exercise physiology, physiotherapy, podiatry, occupational therapy and speech therapy), counselling and casework, health promotion and nursing services.

Entity	Concession/ subsidy	Purpose	2009-10 actual (\$ million)	2010-11 Budget (\$ million)	2010-11 actual (\$ million)	Explanations for variances greater than ±10 per cent	Number of concessions/ subsidies granted in 2010-11	Outcomes achieved
Department of Human Services	Rental rebates	The purpose of the rental rebates is to reduce the impact of market rent on low-income and vulnerable people	233	306	298	Explanation not provided for material variance	53,588	Assisted low-income and vulnerable people who need access to short-term or long-term housing and accommodation.
	Rental subsidies	Subsidies are not income related but rather a discount on rent afforded to an agency or individual based on a delivery of client service or an extraordinary event (for example: subsidies to individuals afflicted by flood; bushfire, etc)	5	5	5	The variance is less than 10 per cent	480	Assisted low-income and vulnerable people who need access to short-term or long-term housing and accommodation.
	Annual electricity concessions (extension of period for provision of concessions)			30.2	30.2	The variance is less than 10 per cent	Approximately 800,000 households	Approximately 800,000 households received the Winter Energy Concession for the extended period.

Entity	Concession/ subsidy	Purpose	2009-10 actual (\$ million)	2010-11 Budget (\$ million)	2010-11 actual (\$ million)	Explanations for variances greater than ±10 per cent	Number of concessions/ subsidies granted in 2010-11	Outcomes achieved
Department of Transport	Public transport	Provide public transport concessions to ensure services remain affordable for lower income groups	210.2	n/a	216.1	The variance is less than 10 per cent	Not applicable due to ticketing structure	Public transport concessions continue to ensure that services remain affordable for lower income groups.
	Multi purpose taxi program	To provide subsidised taxi transport to all Victorians with severe and permanent disabilities who are unable to access public transport	47.1	48.1	47.1	The variance is less than 10 per cent	4.29 million trips were made utilising the Multi Purpose Taxi Program	The Multi Purpose Taxi Program continues to ensure that subsidised taxi transport is available to all Victorians with severe and permanent disabilities who are unable to access public transport.
	Rail freight support	Funding to ensure containerised freight continues on rail that would otherwise go by road	6.9	6.7	6	11% underspend due to absorbing previous carry-over amount	4	Expected outcome was achieved: 36,170 TEUs [twenty-foot equivalent units] transported by rail from regional Victoria to PoM [Port of Melbourne].
VicRoads	Discounted motor vehicle registration fee for eligible beneficiaries	To provide a discounted registration fee for vehicles operated by an eligible beneficiary (eg. Healthcard holders, Pensioners)	69.4	70	73	The variance is less than 10 per cent	944,362	Administered by VicRoads on behalf of Victorian Government to provide financial benefit to disadvantaged groups.
	Discounted registration fee for primary producers (4.5 tonnes or less)	To provide a discounted registration fee for light vehicles operated by primary producers	5	13	5.1	Explanation not provided for material variance	122,157	Administered by VicRoads on behalf of Victorian Government to provide financial benefit to primary producers.

Entity	Concession/ subsidy	Purpose	2009-10 actual (\$ million)	2010-11 Budget (\$ million)	2010-11 actual (\$ million)	Explanations for variances greater than ±10 per cent	Number of concessions/ subsidies granted in 2010-11	Outcomes achieved
VicRoads	Discounted registration fee for primary producers (heavy vehicles)	To provide a discounted registration for heavy vehicles operated by primary producers	21.9	n/a	23.3	The variance is less than 10 per cent	43,923	Administered by VicRoads on behalf of Victorian Government to provide financial benefit to primary producers.
	Discounted motor vehicle registration fee for Totally & Permanently Incapacitated persons	To provide a discounted registration fee for light vehicles operated by Totally & Permanently Incapacitated persons	1.3	1.3	1.3	The variance is less than 10 per cent	7,822	Administered by VicRoads on behalf of Victorian Government to provide financial benefit to disadvantaged groups.
	Driver licence rewards	To provide discount on licence renewals to reward good driver behaviour	2.9	5.5	12.4	Explanation not provided for material variance	254,330	Administered by VicRoads on behalf of Victorian Government to encourage safe driving.
Total^(a)			1,237.5	1,169.9	1,338.5			

Sources: Entities' responses to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One

Note:

- (a) Total concession costs have been calculated for all concessions/subsidy values where provided.
- (b) The Department advised the Committee that this is a 'revised actual', which therefore may not correspond with figures provided elsewhere. 'Reduction due to revision of percentage of usage by Concession Card holders as better information systems are now available which indicate a large increase in percentage of general community usage compared to budget and prior years.'

4.4.2 Tax expenditures managed by the Department of Treasury and Finance

Unlike concessions, which involve a direct budget outlay, tax expenditures involve less tax revenue being received by the Government. As the budget papers explain:¹⁹⁷

Tax expenditures are defined as tax concessions granted to certain taxpayers, activities or assets, which are a deviation from the normal taxation treatment. This includes tax free thresholds and can also take the form of exempting or applying a lower rate, deductions or rebate of a tax for a certain class of taxpayer, activity or asset.

The Department of Treasury and Finance has responsibility for the administration of tax expenditures, with most managed through the State Revenue Office.

The Committee sought details from the Department of Treasury and Finance about tax expenditures in its questionnaire. Table 4.27 provides details of tax expenditures in 2009-10 and 2010-11, along with the explanations provided by the Department for variances between the actual value in the year and the value from the prior year and from the budget estimate. The outcomes achieved from each category of tax expenditure, as detailed by the Department, are also included in the table. The Department of Treasury and Finance advised the Committee that there were no new tax expenditures introduced after the change in government.

As can be seen from the table, the value of tax expenditures has grown steadily over the last three years, from \$4.9 billion in 2008-09 to \$5.1 billion in 2009-10 and \$5.7 billion in 2010-11. In the majority of cases, actual tax expenditures were within 10 per cent of the budget. The exceptions to this related to more growth in the number of principal places of residence than anticipated and to a growth in stamp duty on land.

FINDING

In total, \$5.1 billion worth of tax expenditures (as defined by the Department of Treasury and Finance) were provided in 2009-10 and \$5.6 billion worth in 2010-11, up from \$4.9 billion in 2008-09.

197 Budget Paper No. 4, 2009-10 Statement of Finances, May 2009, p.223

Table 4.27: Tax expenditures, 2009-10 and 2010-11

Tax expenditure	Purpose	2008-09 actual (\$ million)	2009-10 Budget (\$ million)	2009-10 actual (\$ million)	Explanations for variances greater than ±10 per cent	2010-11 Budget (\$ million)	2010-11 actual (\$ million)	Explanations for variances greater than ±10 per cent	Outcomes achieved
Land tax (19 categories)	Mainly exemption for principal place of residence	1,815	1,788	2,003	The 2009-10 actual differs to the 2009-10 Budget mainly due to greater principal place of residence exemption than expected at time of 2009-10 Budget. The 2008-09 actual differs to the 2009-10 actual mainly due to an increase in Principal place of residence exemption between the periods.	2,246	2,325	The variance is less than 10 per cent	Homeowners (principal place of residence), farmers, charities and other groups received exemption.
Payroll tax (13 categories)	Mainly exemption for small business and not-for-profit organisations. Larger firms exempt from first \$550,000 of payroll	2,683	2,718	2,674	The variance is less than 10 per cent	2,825	2,782	The variance is less than 10 per cent	Small business and not-for-profit organisations received exemption. Larger firms were exempted from first \$550,000 of payroll.
Gambling tax (1 category)	Clubs pay lower tax rate than hotels on Electronic Gaming Machines (EGMs) and are required to spend an equivalent percentage on community activities	79	77	74	The variance is less than 10 per cent	77	74	The variance is less than 10 per cent	Clubs received lower tax rate.

Tax expenditure	Purpose	2008-09 actual (\$ million)	2009-10 Budget (\$ million)	2009-10 actual (\$ million)	Explanations for variances greater than ±10 per cent	2010-11 Budget (\$ million)	2010-11 actual (\$ million)	Explanations for variances greater than ±10 per cent	Outcomes achieved
Motor vehicle tax (5 categories)	Mainly lower registration fee for eligible beneficiaries	78	82	83	The variance is less than 10 per cent	86	85	The variance is less than 10 per cent	Eligible car owners received discount (generally 50 per cent or 100 per cent).
Other stamp duties (6 categories)	Mainly to give Land transfer duty relief to (i) eligible home buyers and (ii) corporations who restructure their business	171	195	229	The 2009-10 actual differs to the 2009-10 [Budget] mainly due to greater Land transfer duty relief for principal place of residence (lower duty rate payable) than expected at time of 2009-10 Budget. The 2008-09 actual differs to the 2009-10 actual mainly due to an increase in stamp duty (land transfer duty) for principal place of residence between the periods.	215	373	Due to one-off large item in 2010-11 in the sub-category "Stamp duty for corporate reconstruction"	Various home buyers paid lower rate of land transfer duty. Eligible corporations were exempt from land transfer duty with respect to reorganisation of their businesses.
Congestion levy (3 categories)	Mainly exemption for short-stay car parks	31	33	33	The variance is less than 10 per cent	33	33	The variance is less than 10 per cent	Owners of eligible car parking spaces did not pay the levy.
Total		4,857	4,893	5,096		5,482	5,672		

Source: Department of Treasury and Finance, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 20 January 2011, pp. 18-19

4.4.3 Disclosure of concessions and tax expenditures

The Committee notes that the Statement of Finances budget paper includes five-year projections for tax expenditures and three-year estimations for concessions. The actual results, however, are not included in the annual Financial Report for the State. The Committee notes that the Department of Human Services produces a report annually on concession data,¹⁹⁸ which include both concessions and some tax expenditures.

The Committee also considers that, given that \$1.3 billion worth of concessions were provided in 2010-11 (see Table 4.26) and \$5.7 billion of revenue was foregone through tax expenditures (see Table 4.27), these are significant factors impacting on the result for the Government and should be detailed in the annual Financial Report for the State.

FINDING

The budget papers include five-year tax expenditure and three-year concessions estimates. However, actual results are not included in the annual Financial Report for the State.

RECOMMENDATION 13:

The Department of Treasury and Finance include details of the trends and actual results of tax expenditures and concessions in the annual Financial Report for the State.

4.5 Employee expenses

The largest expenditure line item for the general government sector is 'employee expenses', which accounted for \$15.4 billion (35 per cent) of expenditure in 2009-10 and \$16.4 billion (36 per cent) in 2010-11. If 'superannuation interest expense' and 'other superannuation' expenses are included, those figures rise to \$17.8 billion (41 per cent) for 2009-10 and \$19.0 billion (42 per cent) in 2010-11.¹⁹⁹

The Auditor-General has noted a substantial growth in employee expenses over the last four years,²⁰⁰ during which time employee expenses in the general government sector have increased from \$12.4 billion in 2006-07 to \$16.4 billion in 2010-11,²⁰¹ an average growth rate of over 7 per cent per year over the period. With reference to the expense for the State of Victoria (i.e. all three public sectors), the Auditor-General indicated that:²⁰²

198 Department of Human Services, *State Concessions and Hardship Programs 2010-11*, March 2012

199 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.25

200 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010-11*, November 2011, p.13

201 Department of Treasury and Finance, 'Historical Financial Tables - Operating Statement General Government', from 'Financial Data Sets', <www.dtf.vic.gov.au/CA25713E0002EF43/pages/publications-financial-data-sets-financial-statements>, accessed 14 February 2012

202 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010-11*, November 2011, p.13

Employee expenses ... were one of the key drivers of the increase in [overall] expenses. The renegotiation of expiring major enterprise bargaining agreements, will likely further increase employee expenses. ... This will impose additional cost pressure on the net result as employee expenses have historically grown at a rate above CPI.

The Auditor-General did not identify the possible rationale for the increases, which might include factors such as administering Commonwealth grants, new projects, major disaster reconstruction and expanded portfolio responsibilities.

The current Government has similarly identified public sector employment costs as contributing to the overall growth in expenses for the general government sector, explaining that:²⁰³

The high growth in expenses since 2003-04 is due in large part to the significant increase in the size of the Victorian public sector. The number of public servants, departments and agencies has grown over this period. ... Victorian public service (VPS) numbers grew at an average annual rate of 5.3 per cent over the period 2006 to 2010, compared to 2.0 per cent average annual population growth over the same period.

The Government has further identified that it will seek to reduce expenses in the future in this area through:

- reducing the number of public servants in ‘non-service delivery and back-office roles’,²⁰⁴ which commenced in 2010-11 with the ‘capping head office staff’ component of the Government’s 2010 election commitment savings,²⁰⁵ with additional savings announced in the 2011-12 Budget Update²⁰⁶; and
- restricting the growth in the cost of wages without productivity gains.²⁰⁷

FINDING

Employee expenses in the general government sector were \$15.4 billion (35 per cent of total expenditure) in 2009-10 and \$16.4 billion (36 per cent of total expenditure) in 2010-11.

4.5.1 Employee expenses in departments

Given this focus by the Government, the Committee was particularly interested to examine the growth in employee expenses within the departments themselves (as opposed to other entities within the general government sector) and to examine the relationship between employee expenses and staff numbers. Table 4.28 details the growth in each department’s employee expenses as detailed in departments’ annual reports over the last three years.

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

204 *ibid.*, pp.6, 114

205 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.92

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

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

Table 4.28: Employee expenses by department, 2008-09 to 2010-11

Department	2008-09 (\$ million)	2009-10 (\$ million)	2010-11 (\$ million)	Change 2008-09 to 2010-11 (%)
Business and Innovation	83.8	87.9	84.9	1.3
Education and Early Childhood Development	4,330.7	4,559.9	4,726.1	9.1
Health	n/a	136.4	174.0	n/a
Human Services	900.0	829.8	849.5	-5.6
Justice	574.0	632.6	691.2	20.4
Planning and Community Development	94.0	101.5	101.3	7.8
Premier and Cabinet ^(a)	83.3	96.8	101.3	21.6
Primary Industries	193.2	197.9	207.8	7.6
Sustainability and Environment	259.5	272.8	270.2	4.1
Transport	100.0	108.2	114.9	14.9
Treasury and Finance	97.5	111.5	121.0	24.1
Total of the above	6,716.0	7,135.3	7,442.2	10.8
General government sector ^(b)	16,310.8	17,799.3	19,002.1	16.5

Notes:

- (a) excludes 'bushfire clean-up costs' in 2008-09 and 2009-10, which are listed as a separate line item – Department of Premier and Cabinet, Annual Report 2009-10, p.57
- (b) includes 'employee expenses', 'superannuation interest expense' and 'other superannuation' line items, to be more comparable to departments' figures

Sources: comprehensive operating statements in departments' annual reports; Department of Treasury and Finance, Financial Report for the State of Victoria 2009-10, September 2010, p.41; Department of Treasury and Finance, Financial Report for the State of Victoria 2010-11, October 2011, p.25

The substantial difference between the total of the figures provided by the departments in their comprehensive operating statements and the total for the general government sector is due to the fact that many service delivery roles which are part of the general government sector (such as hospital workers and Victoria Police) are not included in departmental figures. At the same time, though, some service delivery staff (such as teaching staff in State schools, disability support staff and prison staff) are included, which is why the figures for the Department of Education and Early Childhood Development, Department of Human Services and Department of Justice are significantly more than other departments.

For some departments, a certain amount of the variations from one year to the next is a result of machinery-of-government changes. However, the four largest increases were attributed by departments to the following factors:

- the Department of Premier and Cabinet attributed its growth to the Victorian Bushfire Reconstruction and Recovery Authority having its first full year in 2009-10 and the Victorian Multicultural Commission being moved to the Department;²⁰⁸
- the Department of Transport explained its growth by a need to hire additional staff to cover ‘*new or expanded transport projects and services to improve the network*’;²⁰⁹
- the Department of Treasury and Finance indicated that its employee expenses grew due to the formation of the Shared Services Provider;²¹⁰ and
- the Department of Justice did not provide an explanation, as the growth in each year was less than 10 per cent.²¹¹

In each of the three explanations that were provided, the department cited additional responsibilities. The Committee examines other factors which may also have contributed to increased expenditure below.

FINDING

Between 2008-09 and 2010-11, departmental expenditure on employee expenses increased by 11 per cent, while employee expenses across the whole general government sector increased by 17 per cent.

Noting that the Government has taken a particular interest in ‘non-service delivery’ and ‘head office’ positions, however, the Committee was interested to determine to what extent the increases in expenses were being driven by such positions.

Firstly, the Committee noted that the overall growth in the general government sector (at 17 per cent) is substantially higher than the growth of departmental expenditure (11 per cent), indicating that the growth in expenses is much higher in those areas of the general government sector that are not included by departments in their annual reports (see Table 4.29). These areas are generally more associated with service delivery roles, indicating that most of the growth in employee expenses in 2009-10 and 2010-11 occurred within these areas, rather than non-service delivery areas.

FINDING

The growth in employee expenses for the general government sector has been driven more by increases in non-departmental agencies (which are generally associated with service delivery) than departments.

208 Department of Premier and Cabinet, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, p.21

209 Department of Transport, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 11 January 2012, p.64

210 Department of Treasury and Finance, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 20 January 2012, p.21

211 Department of Justice, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 12 January 2012, pp.40-1

Table 4.29: Growth in employee expenses in the general government sector, 2008-09 to 2010-11

Area	Growth between 2008-09 and 2009-10 (\$ million)	Growth between 2009-10 and 2010-11 (\$ million)	Growth between 2008-09 and 2010-11 (per cent)
Departments	419.4	306.8	10.8
Other entities in the general government sector	1,069.1	895.9	20.5
Total general government sector	1,488.5	1,202.7	16.5

Sources: *comprehensive operating statements in departments' annual reports; Department of Treasury and Finance, Financial Report for the State of Victoria 2009-10, September 2010, p.41; Department of Treasury and Finance, Financial Report for the State of Victoria 2010-11, October 2011, p.25*

Secondly, in terms of the growth in employee expenses within departments, the Committee was interested to determine how much of this growth is a result of service delivery as opposed to non-service delivery staff. It was not possible to disaggregate the costs of these two groups, but the Committee has been able to identify what proportion of the employees covered by departments' costs were executives and Victorian public service employees within the Department, as opposed to other staff (see Table 4.30).

Table 4.30: Staff numbers covered by the employee expenses in departments' annual reports

	Staff at 30 June 2009 (number) ^(a)	Staff at 30 June 2010 (number) ^(a)	Staff at 30 June 2011 (number) ^(a)	Change 2009 to 2011 (per cent)
Executives	556	562	562	1.1
Victorian public service staff	17,639	18,231	18,234	3.4
Other ^(b)	65,285	66,128	66,421	1.7
Total	83,481	84,921	85,217	2.1

Notes:

- (a) all staff numbers are full-time equivalent numbers
- (b) includes non-Victorian public service staff and Victorian public service staff identified in annual reports as part of distinct entities within the department (e.g. State Revenue Office, Regional Rail Link Authority)

Sources: *departments' 2009-10 and 2010-11 annual reports*

Table 4.30 indicates that, over the last three years, the Victorian public service staff within departments have grown proportionately at a greater rate than executives and other staff. Almost all of this increase occurred between 2009 and 2010, with numbers stabilised between 2010 and 2011. This is consistent with the commitment by the Government elected in November 2010 to cap head office staff.

The Committee also notes, though, that the growth in employee expenses for the departments (11 per cent between 2008-09 and 2010-11 – see Table 4.28) is significantly higher than the growth in the number of staff members between 2009 and 2011 (2 per cent – see Table 4.30). The Committee has identified several factors which have contributed to this:

- increases to the Victorian public service pay rates in 2009-10;

- due to the timing of pay days, there were 27 pay days in 2010-11, as opposed to the usual 26 (which accounts for an additional 3.8 per cent expenditure); and
- there has been an increase in the number of employees in the higher-paid grades and a decrease in the number of employees in the lower-paid grades within Victorian public service positions.

Some difference may also result from the fact that employee numbers are provided at a point in time (30 June), whereas employee expenses cover all staff employed at any time of the year. Staff who are employed for only part of the time between 30 June of one year and 30 June of the next will therefore contribute to employee expenses but not be reflected in staff numbers. This is particularly an issue for the Department of Sustainability and Environment, which employs large numbers of fire-fighters during summer but not at 30 June.²¹²

Regarding the trend towards more Victorian public service employees at higher grades, the State Services Authority has identified that the number of people employed at each of the grades 1-3 has decreased consistently from 2006 to 2010 and that the number of people employed at each of the grades 4-6 has increased over the same period.²¹³ The Committee did a similar analysis of the data in departments’ annual reports for 2009-10 and 2010-11 and found that this trend has continued (see Table 4.31), especially with regard to grades 5 and above.

Table 4.31: Changes in the proportions of Victorian public service staff at different grades, 2009 to 2011

	Staff at 30 June 2009 (number)	Staff at 30 June 2010 (number)	Staff at 30 June 2011 (number)	Change 2009 to 2011 (per cent)
Grades 1-3	6,582	6,535	6,349	-3.5
Grade 4	3,549	3,671	3,680	3.7
Grades 5-6 and senior technical specialists	7,508	8,025	8,205	9.3

Sources: departments’ 2009-10 and 2010-11 annual reports

The Committee notes that no explanation for this trend was provided by the State Services Authority other than to note that the trend ‘*is consistent with the increasing professionalisation of the public service workforce over time.*’²¹⁴ However, given that the Government is endeavouring to restrict the growth in employee expenses, the Committee considers that there may be benefits from understanding this trend in more detail.

212 Department of Sustainability and Environment, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, p.39

213 State Services Authority, *The State of the Public Sector in Victoria 2009-10*, December 2011, p.39

214 *ibid.*, p.38

FINDING

The increase in employee expenses for departments has been the result of wage rises, of there being an additional pay day in 2010-11 and of an increase in the number of Victorian public service employees at higher grades, accompanied by a decrease in the number of employees at lower grades.

RECOMMENDATION 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.

4.5.2 Executive remuneration

As with the costs associated with departmental employees in general, the Committee observed that the growth in executive remuneration similarly exceeded the growth in the number of executives. Table 4.32 shows the growth in base remuneration and total remuneration for executives between 2008-09 and 2010-11.

The Committee notes that these figures need to be treated with some caution for two reasons. Firstly, the remuneration figures provided in this table are the amount paid to executives, regardless of whether the executive was employed for the full year or only part of it. The average remuneration per executive is thus quite different to what the average annual entitlement for a year's work would be for each executive, as there may be a number of executives included who only work for part of a year. Secondly, the total remuneration figure, in addition to including bonuses, also includes any annual leave, long service leave and retrenchment payments for executives who leave a department within the year.²¹⁵

These factors may produce some fluctuations from one year to another that do not reflect changes in executives' remuneration rates. However, the Committee notes a clear trend towards an increased aggregate cost for executive remuneration over the last three years. Moreover, this increase appears to be more than is accounted for by changes in the numbers of executives (using either the figures in Table 4.30 or Table 4.32). It therefore appears to the Committee that, as with the Victorian public service staff, there is a trend towards higher salaries among executives.

The Committee also notes that the remuneration paid to contractors engaged in executive functions is not included in the data from which Table 4.32 is drawn, as this is not required by the relevant financial reporting direction. The Committee is unaware of how many contractors are employed in such roles, though it notes that the Department of Business and Innovation (currently the only department to disclose the number of contractors in executive positions) had eight of 72 executives as contractors at 30 June 2010 and five of 68 executives at 30 June 2011.²¹⁶ The Committee has recommended in its *Report on the 2009-10 and 2010-11 Annual Reports* that the financial reporting direction be modified so that remuneration for these contractors is disclosed in the future.

215 Financial Reporting Direction 21A (Responsible Person and Executive Officer Disclosures in the Financial Report), November 2005, p.5

216 Department of Business and Innovation, *Annual Report 2009-10*, p.95; Department of Business and Innovation, *Annual Report 2010-11*, p.89

Table 4.32: Executive remuneration in departments, 2008-09 to 2010-11

	2008-09	2009-10	2010-11	Change, 2008-09 to 2010-11
Base remuneration				
Aggregate remuneration	\$93,239,915	\$98,871,954	\$108,482,580	16.3%
Number of executives	598	696	648	8.4%
Average remuneration per executive	\$155,920	\$142,057	\$167,411	7.4%
Total remuneration				
Aggregate remuneration	\$101,655,342	\$108,034,091	\$118,524,370	16.6%
Number of executives	601	699	650	8.2%
Average remuneration per executive	\$169,144	\$154,555	\$182,345	7.8%

Note: (a) These numbers differ from the figures in Table 4.30, as the figures in Table 4.30 are at a point in time (30 June), whereas the figures in this table include all executives who received remuneration at any point within the year. The numbers in Table 4.32 also include all portfolio agencies, which the numbers in Table 4.30 do not.

Sources: departmental annual reports (FRD 21A disclosures), 2009-10 and 2010-11, with adjustment to the base remuneration for Department of Education and Early Childhood Development in 2009-10 based on correspondence from the Department – Department of Education and Early Childhood Development, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 6 January 2012, p.13

The Committee was interested to understand what proportion of this growth was from executive bonuses. Information provided by departments in response to its questionnaire indicated that the value of bonuses paid to executives has increased by a smaller proportion than executive remuneration costs as a whole, especially between 2009-10 and 2010-11 (see Table 4.33).

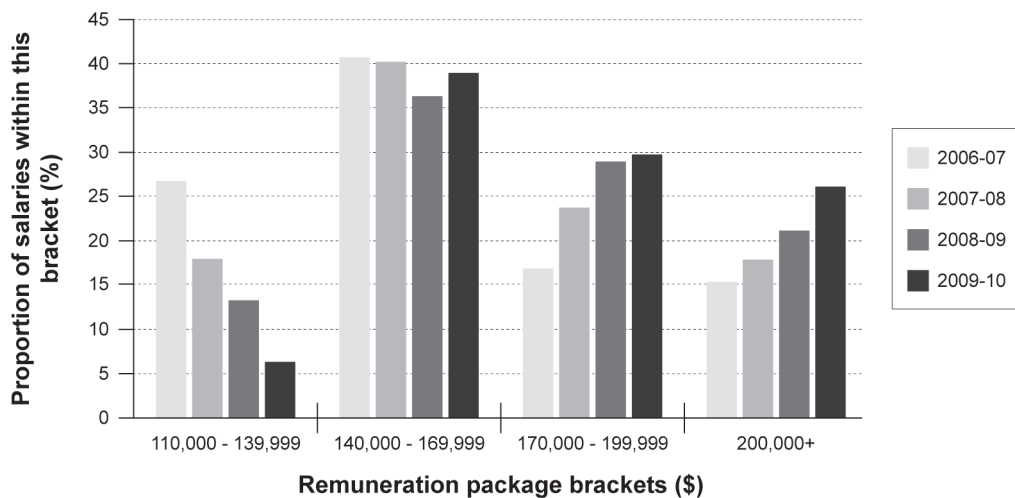
Table 4.33: Executive bonuses awarded, 2008-09 to 2010-11

2008-09	2009-10	2010-11	Change, 2008-09 to 2010-11
\$6,535,600	\$6,817,942	\$6,903,804	5.6%

Sources: departmental responses to the Committee's 2008-09 Financial and Performance Outcomes Questionnaire — Part One and the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One

As with the Committee's data in Table 4.32, data gathered by the State Services Authority about executive remuneration packages between 2006-07 and 2009-10 also show an increase in the remuneration packages received by individual executives (see Figure 4.3). The remuneration packages detailed in this figure exclude bonuses and are the amounts that executives would receive assuming they work the entire year.²¹⁷ Unlike the data in Table 4.32, the data in Figure 4.3 are thus less liable to variation due to executives leaving part-way through years. The data show that there has been a clear reduction in the proportion of packages under \$140,000 per year and an increase in packages over \$170,000 between 2006-07 and 2009-10.

217 State Services Authority, correspondence received by the Committee, 15 February 2012

Figure 4.3: Executive remuneration packages in salary bands, 2006-07 to 2009-10

Sources: Figure created by the Committee based on data in State Services Authority's *State of the Public Sector in Victoria reports, 2006-07 to 2009-10*

The Committee sought explanations for the increases in executive remuneration in those departments with the largest increases in remuneration per executive.²¹⁸ The departments cited many executives' remuneration increasing by 3 per cent as part of the annual review process, but also indicated that significant numbers of executives received increased remuneration through contract renewals or new contracts, through promotions and through remuneration reviews. In some cases, the effects of these factors were significant:

- the Department of Business and Innovation cited two executives who received 10-15 per cent increases due to new contracts or contract renewals in 2010-11;²¹⁹
- the Department of Education and Early Childhood Development identified two executives receiving increases of between 10 and 15 per cent and three receiving more than 15 per cent extra due to promotions, job changes and increased work value;²²⁰ and
- the Department of Human Services explained that six executives received increases of between 5 and 10 per cent due to four promotions and 2 remuneration reviews.²²¹

The Committee recognises that increased remuneration is appropriate for promotions and increased work value and that it may be appropriate to provide higher remuneration as part of reviews. However, from the increase in expenditure on executive remuneration in aggregate (see Table 4.32) and the movement to higher salary bands identified in the State Services

218 See responses to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two for the Department of Business and Innovation, Department of Education and Early Childhood Development, Department of Human Services and Department of Sustainability and Environment.

219 Department of Business and Innovation, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 23 December 2011, p.7

220 Department of Education and Early Childhood Development, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 6 January 2012, p.13

221 Department of Human Services, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 19 January 2012, p.8

Authority's data (see Figure 4.3), it appears to the Committee that these increases are not being fully offset by factors that might reduce the overall cost, such as executives in the higher salary bands leaving and new executives commencing in the lower salary bands.

The Committee considers that if this trend continues, it will place increasing pressure on employee expenses. Therefore the Committee considers that an investigation into why this trend is occurring, and whether the increase in executive remuneration is being matched by increased value, may be useful for ensuring that the Government receives value-for-money from its expenditure.

The Committee also considers that departments should report trend data with respect to executive remuneration, and explain variations over time, as this will assist the Parliament and community to understand the trend. Currently, Financial Reporting Direction 21A (Responsible Person and Executive Officer Disclosures in the Financial Report) provides some instructions about ensuring that executive officer disclosures are meaningful, which may involve explaining trends, but the Financial Reporting Direction does not concretely identify that significant trends should be explained.²²² The Model Report indicates that only two years' data should be provided.²²³

FINDING

There has been an increase in executive remuneration from \$101.7 million to \$118.5 million (17 per cent) between 2008-09 and 2010-11. This is a result of increased numbers of executives and increased salaries received by executives. Current guidance does not explicitly require departments to explain trends in executive remuneration.

RECOMMENDATION 15:

The State Services Authority investigate and report publicly on the reasons for the increase in executives' remuneration packages and identify whether the increased packages are matched by increased work value.

RECOMMENDATION 16:

The Department of Treasury and Finance amend Financial Reporting Direction 21A to require departments to provide at least three years of data about their total expenditure on executive remuneration and to explain any significant variations from one year to the next.

4.5.3 Contractors

In addition to examining employee expense, it is also important to note the expense on contractors, as reductions in employee expenses might be offset by the increased use of contractors. A contractor is distinct from a consultant in that a contractor is:²²⁴

222 Financial Reporting Direction 21A (Responsible Person and Executive Officer Disclosures in the Financial Report), November 2005, p.2

223 Department of Treasury and Finance, *2010-11 Model Report for Victorian Government Departments*, March 2011, p.268

224 Financial Reporting Direction 22B (Standard Disclosures in the Report of Operations), June 2007, p.4

an individual or organisation engaged to:

- *provide goods, works or services which implement a decision; or*
- *perform all or part of a new or existing ongoing function to assist an agency carry out its defined activities and operational functions; or*
- *perform a function involving skills or perspectives which would normally be expected to reside within the agency but which the agency has determined to outsource.*

This is distinct from a consultancy, which is:²²⁵

... an arrangement where an individual or organisation is engaged to provide expert analysis to facilitate decision-making and perform a specific one-off task that involves skills or perspectives which would not normally be expected to reside within the agency.

As the Victorian Government Purchasing Board clarifies, ‘*To be classified as a consultancy, an arrangement should meet all of the criteria for a consultancy.*’²²⁶ Consultants are discussed further in Section 4.6.2 below.

The Committee notes that, though consultancies over \$100,000 are required to be disclosed in annual reports (see further Section 4.6.2), there is no requirement to disclose contractors as defined above. Contracts over \$10 million are required to be disclosed by Financial Reporting Direction 12A (Disclosure of Major Contracts), but this is unlikely to cover these contractors as defined above. In its *Review of the 2009-10 and 2010-11 Annual Reports*,²²⁷ the Committee recommended that the guidance be changed to provide this disclosure. The Liberal Party and Nationals committed to increasing transparency around the disclosure of contractors before the 2010 State election.²²⁸ However, as noted by the Committee in that report, the Government to date has not changed the guidance to require additional reporting in this area.

For the present inquiry, the Committee sought details of expenditure on contractors from departments in its financial and performance outcomes questionnaire (see Table 4.34).

Table 4.34: Expenditure on contractors, 2008-09 to 2010-11

2008-09	2009-10	2010-11	Change, 2008-09 to 2010-11
\$696,600,000	\$715,644,909	\$627,262,712	-10.0%

Sources: *departmental responses to the Committee’s 2008-09 Financial and Performance Outcomes Questionnaire — Part One and the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One*

225 *ibid.*

226 Department of Treasury and Finance, *Victorian Government Purchasing Board: All Procurement Policies*, November 2011, p.101

227 Public Accounts and Estimates Committee, *Review of the 2009-10 and 2010-11 Annual Reports*, February 2012, p.32

228 Liberal Victoria and the Nationals, *The Victorian Liberal Nationals Coalition Plan For Better Financial Management*, 2010, p.9

The Committee notes a significant degree of variability in this figure from one year to the next. This variability becomes even more striking when considering the trend over the longer term – the total cost in 2007-08 was only \$419.1 million.²²⁹

One reason for this variability may be that departments have difficulty accessing this information, as a number of departments indicated in their responses that these figures were estimations, or that they were unable to disaggregate certain expenses that should not be included or unable to cost certain expenses that should have been included.

Given the Government’s plans to cap growth or reduce numbers in certain segments of the public service, it will be important to monitor departments’ expenditure on contractors, to ensure that savings in employee expenses are not offset by increased expenditure on contractors. In addition, a disaggregation of contractor expenses and associated relevant data may help a department to ensure that its employment decisions are providing value-for-money and efficiencies.

The Committee notes that the Government has indicated that reductions in the number of contractors will be a part of its ‘Maintain a sustainable public service’ savings initiative (which begins in 2011-12).²³⁰ Responses to the Committee’s questionnaire received from departments have also suggested that a reduction in expenditure on contractors was a part of the ‘Government election commitment savings’ initiative (see Section 4.6.2).

These factors make it important for all departments to have in place systems which accurately capture expenditure on contractors and allow for the analysis of expenditure on contractors over time. The Committee considers that this information should be made public to ensure transparency around the Government’s savings initiatives and any secondary effects. The Committee has recommended in its *Review of the 2009-10 and 2010-11 Annual Reports* that the Financial Reporting Directions be amended to disclose details of contractors.²³¹

FINDING

Departments indicated that they spent \$715.6 million on contractors in 2009-10 and \$627.3 million in 2010-11. However, some departments indicated that they were only able to approximate the cost of contractors, as their systems do not allow them to identify contractor costs precisely.

RECOMMENDATION 17:

The Government ensure that all departments have systems in place that allow them to accurately and completely monitor their expenditure on contractors.

4.6 Savings and efficiencies

Successive budgets in recent years have released savings or efficiency targets which departments have been expected to realise in 2009-10 and 2010-11. The cumulative effect of these initiatives is \$370.6 million of savings planned to be realised in 2009-10 and \$624.0 million of savings to be realised in 2010-11 (see Table 4.35).

229 departmental responses to the Committee’s 2008-09 Financial and Performance Outcomes Questionnaire — Part One

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

231 Public Accounts and Estimates Committee, *Review of the 2009-10 and 2010-11 Annual Reports*, February 2012, Recommendation 11, p.32

Table 4.35: Savings and efficiency initiatives to be realised in 2009-10 and 2010-11

Budget in which initiatives were released	Savings/efficiencies to be realised in 2009-10 (\$ million)	Savings/efficiencies to be realised in 2010-11 (\$ million)
2006-07 Budget	-	-
2007-08 Budget	-159.3	-191.3
2008-09 Budget	-124.8	-124.8
2009-10 Budget	-86.5	-144.2
2010-11 Budget	-	-
2010-11 Pre-Election Budget Update	-	-
2011-12 Budget	-	-163.7
Total	-370.6	-624.0

Sources: *Budget Paper No.3, Service Delivery, 2006-07 to 2011-12 and Department of Treasury and Finance, Victorian Pre-Election Budget Update, November 2010*

The Committee asked departments to quantify their components of the savings and efficiency targets from the previous budgets. In many cases, the targets provided by departments did not reconcile with the figures in the budget papers. This situation is a result of two factors identified by the former Committee:²³²

- savings initiatives are updated following the budget papers, without information about the update being made public; and
- additional savings targets are set for departments which are not included in budget papers.

The Department of Health provided an example of the latter in its response to the Committee's questionnaire.²³³

In December 2009 the Secretary of the Department of Treasury and Finance wrote to the Department indicating a further savings allocation requirement from the 2009-10 Budget of \$55m in 2010-11, \$108m in 2011-12 and \$161m in 2012-13 would be levied. These savings were not separately disclosed in the 2009-10 or 2010-11 State Budget papers against the Health portfolio.

As details of these changes are not made public, departments' updated savings targets cannot be determined by the Parliament or the community. Similarly, the amount of savings that the general government sector as a whole is expected to achieve cannot be known. In addition, there is currently no mechanism by which departments report their actual achievements compared to their targets. The Committee considers that these factors lead to a serious lack of transparency around savings initiatives.

232 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2010, pp.83-5

233 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.66

In its *Report on the 2011-12 Budget Estimates*, the Committee recommended that there be enhanced disclosure of savings in the budget papers, the annual Financial Report for the State and departmental annual reports.²³⁴ The Government in its response has supported these recommendations.²³⁵ The Committee anticipates examining future budget papers, annual financial reports and departmental annual reports to ensure that this increased transparency is sufficient.

As the cumulative effect of these initiatives is a substantial amount of saving, the Committee asked departments how much of their savings they had actually realised in these years. All departments indicated that they had fully met their updated targets. The Committee sought further details about the achievements in terms of the 'Government election commitment savings' initiative, which was released in the 2011-12 Budget (see Section 4.6.1).

FINDING

Budget papers between 2007-08 and 2011-12 set savings and efficiency targets for the departments totalling \$370.6 million in 2009-10 and \$624.0 million in 2010-11. However, alterations have occurred to departments' targets since the release of the budget papers which have not been made public. All departments have indicated to the Committee that they have met their updated targets, although details are not publicly reported. The Committee has previously recommended that increased reporting take place in this area, and the Government has supported this recommendation.

4.6.1 Government election commitment savings

The 'Government election commitment savings' initiative identified savings to be made in 11 different areas of expenditure (see Table 4.36). Departments were expected to save \$163.6 million in these areas in 2010-11, with an additional \$1,405.1 million to be saved in these areas between 2011-12 and 2014-15.²³⁶ Due to the substantial nature of the total expenditure target over the five years of the initiative, the Committee was particularly interested to see how departments were progressing with these savings.

The Committee was also particularly interested in these savings areas because it had identified an issue with the targets in the *Report on the 2011-12 Budget Estimates*.²³⁷ Data supplied to the Committee at that time about past expenditure in some of the savings areas suggested that some of the targets may be unrealistic.

The Committee therefore sought information from departments about their expenditure in the 11 areas for the last three years, their savings targets for each area and their actual savings achieved in 2010-11. All departments indicated that they had met their total targets for the year. Only three departments, however, were able to break down their savings targets into all 11 areas identified by the Government. Several departments explained that they did not detail the savings targets according to the 11 areas because the actual areas in which the savings

234 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, Recommendations 3-4, p.21;

235 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part One, tabled 24 November 2011, pp.3-4

236 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.92

237 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, pp.87-9

were achieved did not align with the 11 areas targeted by the Government. The Department of Human Services (DHS) explained that the reason for this lack of alignment was that:²³⁸

In some cases savings targets set against particular categories were either not achievable because DHS had no expenditure historically against those items or savings related to statutory requirements. For these reasons, DHS identified alternate savings strategies to deliver the savings target by targeting non direct service areas.

The Department of Justice and Department of Primary Industries also identified areas in which they had historically had no expenditure but in which they had been set savings targets.²³⁹

The Committee views these facts with some concern for two reasons:

- the fact that three departments were set savings targets in areas for which they historically have no expenditure indicates that the savings targets, as broken down by the Government in the budget papers, were not practicable; and
- because the areas in which the savings were actually achieved did not align with the targets, it appears that departments are making savings in ways other than what the Government publicly declared to be its intention.

The last point becomes even more concerning given that there are currently no reporting mechanisms that make this information publicly available. The Committee considers this situation to be a serious failure of transparency.

FINDING

The 'Government election commitment savings' initiative identified \$1.6 billion of savings to be made over five years by departments in 11 specific areas. However, departments have indicated that not all targets have been practicable. In some instances, departments were set savings targets for areas in which they historically had no expenditure.

These concerns were further intensified when the Committee examined the data on actual expenditure in the 11 areas targeted by the Government over the last three years (see Table 4.36). In examining the data, the Committee hoped to identify what savings had been made in the first year of the savings initiatives. However, the data clearly indicate that, in seven of the 11 targeted areas of expenditure, there was actually an increase in expenditure in 2010-11 compared to 2009-10 rather than a reduction. Overall, expenditure in these areas (excluding shared services, where the Government's savings target is savings from shared services rather than reducing the expenditure on shared services²⁴⁰) increased by \$619.5 million between 2009-10 and 2010-11. In only one area (consultants) did the expenditure between 2009-10 and 2010-11 reduce by the savings target. On the surface,

238 Department of Human Services, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 12 January 2012, pp.36-7

239 Department of Justice, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 12 January 2012, p.46;
Department of Primary Industries, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 12 December 2011, p.31

240 Liberal Victoria and the Nationals, *The Victorian Liberal Nationals Coalition Plan For Better Financial Management*, 2010, p.17

subject to the explanations detailed below, it appears that most savings targets were not achieved.

Table 4.36: Actual expenditure in the areas targeted by the Government for savings in the ‘Government election commitment savings’ initiative

Area of expenditure	Actual expenditure ^(a)			Change 2009-10 to 2010-11	Savings target
	2008-09	2009-10 ^(b)	2010-11		
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Ministerial staff	24.3	25.6	28.1	2.4	-3.5
Media and marketing positions	22.5	25.9	34.9	9.0	-9.0
Consultants	251.0	201.6	180.7	-20.9	-19.3
Government advertising	57.9	59.9	52.9	-7.0	-26.7
Political opinion polling	0.5	0.4	0.2	-0.3	-0.1
External legal advice	71.7	80.4	84.2	3.8	-7.3
Senior public service travel	6.1	6.3	6.9	0.7	-0.3
Government office floor space	139.1	136.6	137.8	1.2	0.0
Supplies and consumables	3,521.1	3,963.4	4,433.7	470.3	-74.1
Shared services (savings from) ^(c)	n/a	n/a	n/a	n/a	-9.5
Head office staff	757.0	759.6	919.9	160.3	-13.8
Total	4,851.3	5,259.7	5,879.3	619.5	-163.6

Notes:

- (a) not all departments were able to supply data for all areas of expenditure, especially ‘senior public service travel’ and ‘head office staff’
- (b) not including the Department of Health, who were unable to supply figures
- (c) data provided by departments indicated expenditure in this area, rather than savings from shared services; the data indicated that there has been a substantial growth in the use of shared services between 2009-10 and 2010-11

Sources: departments’ responses to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One; Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.92

The Committee notes that some departments were not able to provide data for all areas of expenditure, especially ‘senior public service travel’ and ‘head office staff’. The actual expenditure for some areas may therefore differ from the figures provided above. Due to the machinery-of-government changes in 2009-10, the Department of Health is also unable to supply data about its expenditure in 2009-10, though it has supplied details of its expenditure for 2010-11. As its expenditure in 2010-11 in these areas amounted to \$308.6 million, the increase in expenditure between 2009-10 and 2010-11 may be partly explained by the inclusion of data for this department for only the second year. However, even removing this amount from the total, there remains an increase in expenditure of \$310.9 in these areas and only one additional area (‘senior public service travel’) shows a decrease from 2009-10 to 2010-11.

The Committee notes that, as the Department of Justice explained, an increase in costs does not necessarily mean that savings were not achieved:²⁴¹

It is important to note that the costs detailed above will vary between years for many reasons including the allocation of new funding, price escalation, the ceasing of previously funded programs and any impacts due to government directed savings strategies. This means that there is not always a direct correlation between the movement in costs between years and the relevant savings targets.

In other words, the savings targets which have been published do not represent the amount by which expenditure in an area is expected to reduce compared to the prior year with all factors considered. Instead, the savings targets appear to have been developed without factoring in other changes. As the impact of these other changes in these savings areas is not publicly detailed, this presents a problem from the perspective of transparency. That is, even if a department's expenditure in an area is known, that is not sufficient information to ascertain whether or not the department has hit its savings target.

In order to provide transparency around savings initiatives, the Committee considers that future savings targets need to be published in a way that will enable stakeholders to readily determine whether or not the targets have been met. Publishing the targets for net reductions or increases compared to the prior year with all other factors considered would be one way to achieve this. A simpler way might be to provide the estimated expenditure in the target areas in future years, factoring in the savings initiative and any other factors.

FINDING

Although all departments indicated that they had met their components of the \$163.6 million savings target for the 'Government election commitment savings' initiative, data supplied by departments indicated that the actual expenditure in these areas increased by \$619.5 million between 2009-10 and 2010-11. One department indicated that this was because the savings targets did not factor in other changes. This leads to a significant lack of transparency around savings initiatives.

RECOMMENDATION 18:

Targets for future savings initiatives in budget papers be set in such a way that it is possible for the Parliament and community to ascertain whether or not the targets are achieved. For example, targets could detail expenditure in certain areas (factoring in the savings initiatives and other factors), rather than the amount of savings.

The Committee was also interested to understand if there had been any impacts on the Department's service delivery from the way that these savings measures were applied. All departments except one indicated that there had been no impact on service delivery. The Department of Premier and Cabinet, however, advised the Committee that:²⁴²

241 Department of Justice, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 12 January 2012, p.46

242 Department of Premier and Cabinet, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, p.27

DPC [Department of Premier and Cabinet] met its contribution to the Government's election commitment savings through a range of measures to reduce departmental expenses by consolidating activities and minimising duplication and waste in administration, corporate and management functions.

Specific impacts of election commitment savings on DPC's service delivery include:

- Arts Victoria capping indexation to 1.8% per annum for grants provided to recurrent multi-year organisations and major performing arts organisations;*
- Museum Victoria has extended the timelines for the full registration and digitisation of its collection (currently only 37% of the State collection is registered and digitised); and*
- Australian Centre for the Moving Image has accommodated savings through a reduction in exhibition programs across their two Galleries.*

The Committee has previously recommended that departments' annual reports disclose any impacts on service delivery of savings measures.²⁴³ The Committee considers that it is important that the impacts of savings measures be detailed, as well as how savings were achieved. This information enables a proper understanding of what is involved in the Government's savings initiatives. This is particularly important in the situation, as detailed above, where targets have been set for particular areas but departments are not able to make savings in those specific areas.

The Government has responded to this recommendation by saying that the impact of savings initiatives '*are reflected in the changes to the services to be delivered or in changes to performance measures and targets ... disclosed within Budget Paper No.3*' and that no further action will be taken.²⁴⁴ However, as noted by the Government in its response, these changes also reflect the impact of several other factors and it is not possible from the details in Budget Paper No.3 to understand the impact specifically of savings initiatives. The Committee remains of the view that this is a significant gap in transparency.

FINDING

All departments except the Department of Premier and Cabinet indicated to the Committee that the 'Government election commitment savings' initiative has had no impact on service delivery. The Department of Premier and Cabinet has indicated three areas of service delivery that have been affected by this savings initiative. These impacts are not clearly disclosed under existing reporting arrangements.

243 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 20, p.91

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

4.6.2 Consultants

As part of examining the ‘Government election commitment savings’ initiative, the Committee sought details of departments’ expenditure on consultants in 2010-11 through its 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire. The figures provided in response to that questionnaire differ significantly from the estimates provided to the Committee for the same time period in response to the Committee’s 2011-12 Budget Estimates Questionnaire. In the budget estimates questionnaire, which was returned in May 2011, it was estimated that the expenditure on consultants in 2010-11 would only amount to \$33.7 million for all departments. This contrasts considerably with the figure provided in the latest questionnaire of \$180.7 million for 2010-11. Both of these figures also contrast considerably with the figures for consultancies provided in departments’ annual reports (totalling \$2.4 million). The three sets of figures are provided in Table 4.37.

Table 4.37: Expenditure on consultants by department, 2010-11

Department	Expenditure on consultants in 2010-11 (\$ million)		
	(as advised in response to the 2011-12 Budget Estimates Questionnaire)	(as advised in response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire)	(as disclosed in annual reports)
Business and Innovation	2.7	2.1	0.0 ^(a)
Education and Early Childhood Development	15.3	116.6	0.1 ^(a)
Health	1.4	2.4	0.6 ^(a)
Human Services	0.4	0.3	0.0 ^(a)
Justice	6.4	0.7	0.2
Planning and Community Development	0.1	0.0	0.0
Premier and Cabinet	1.5	2.0	0.9
Primary Industries	1.6	0.5	0.4 ^(a)
Sustainability and Environment	0.0	3.0	0.0
Transport	1.7	52.9	0.0
Treasury and Finance	2.6	0.2	0.2
Total	33.7	180.7	2.4

Note: (a) Department’s annual report only includes details of consultancies with total project costs in excess of \$100,000.

Sources: departments’ response to the Committee’s 2011-12 Budget Estimates Questionnaire — Part B; departments’ response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One (question 29); departments’ 2010-11 annual reports (FRD 22B disclosure)

The Committee sought explanations from the two departments with the largest variations about why these figures differed so greatly. The Department of Education and Early Childhood Development explained that:²⁴⁵

245 Department of Education and Early Childhood Development, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 2 March 2012, p.3

The \$116.64 million for 2010-11 includes payments to contractors as well as expenditure on consultants and agency fees in line with the categories provided in the PAEC questionnaire.

The \$112,200 figure for consultants provided in the Department's 2010-11 annual report only reflects payments of \$100,000 or more to external third party consultancies. The total expenditure on consultancies in 2010-11 was \$259,345. This is based on the definition as defined under the Financial Management Act 1994.

The \$15.3 million budget in the 2011-12 PAEC questionnaire included budgeted agency employed staff wages in addition to budget for consultancies.

The Department of Transport explained that:

In Question 29, the \$52.9 million represents a consolidation of contractors and consultants for DOT, VicRoads and Linking Melbourne Authority (LMA). The figure of \$1.7 million provided on 30 August 2011 represents consultants only. It should be noted that the Department's annual report's financial statements do not include financial activity of VicRoads or LMA. Under the definition of consultancy as per the Financial Reporting Directions FRD 22B, which is used for preparation of the annual report, DOT had no expenditure on consultants in 2010-11. Expenditure on consultants by entity in 2010-11 was: DOT – nil; VicRoads – \$70,000; LMA – \$1.597 million.

The Committee notes that the differences seem to stem from two aspects:

- differing bases of consolidation, with some figures including portfolio agencies and some excluding them; and
- differing definitions of consultant, with some figures including contractors, agency fees or agency employed staff.

It appears to the Committee that there is some significant variation in terms of what can be understood as a consultant, and that the figures provided in departments' annual reports seems to be based on the narrowest of definitions. From the point of view of transparency, this is far from ideal and the definition of 'external consultants' ought to be clarified.

The Committee noted in its *Review of the 2009-10 and 2010-11 Annual Reports*²⁴⁶ that, prior to the 2010 election, the Liberal Party and Nationals committed to providing increased transparency around expenditure on consultants, including reducing the extent to which details of some workers are not disclosed due to them being classified as contractors.²⁴⁷ To date, however, the Government has not modified the requirements pertaining to annual reporting in this area. The Committee recommended in that report that the Government modify the guidance to require this information to be reported.

246 Public Accounts and Estimates Committee, *Review of the 2009-10 and 2010-11 Annual Reports*, February 2012, p.32

247 Liberal Victoria and the Nationals, *The Victorian Liberal Nationals Coalition Plan For Better Financial Management*, 2010, p.9

The Committee also considers that, given how low the figures provided in annual reports are, and the substantial difference between those figures and the figures provided to the Committee, it would be appropriate for the Auditor-General to investigate whether the figures that departments have disclosed in their annual reports have been correctly determined.

FINDING

According to departments' disclosure in their annual reports, the total departmental expenditure on consultants in 2010-11 was \$2.4 million. However, figures provided to the Committee by departments, determined on different bases of consolidation and with different definitions of consultants, indicated a total expenditure of \$180.7 million in 2010-11.

RECOMMENDATION 19:

The Auditor-General consider conducting an audit of departments to identify whether their disclosure of expenditure on consultants in annual reports is being made in accordance with government guidance.

As can also be seen from Table 4.37, five departments did not provide details of their expenditure on consultancies with a total project cost under \$100,000 in 2010-11. The Committee notes that Financial Reporting Direction 22B (Standard Disclosures in the Report of Operations), which contains the requirement for the disclosure of consultancies, does not require costs within a year for these consultancies to be disclosed. As with the disclosure of contractors, the Government prior to its election in 2010 indicated that it would require the disclosure of details of consultancies with a total value under \$100,000 in annual reports.²⁴⁸ Financial Reporting Direction 22B has not yet been modified. This was also raised by the Committee in its *Review of the 2009-10 and 2010-11 Annual Reports*.²⁴⁹

Another issue arises from the information supplied by the Department of Education and Early Childhood Development and the Department of Transport. The larger figures provided by these departments, which included contractors, were provided in response to the Committee's question about the 'consultants' line item in the 'Government election commitment savings' initiative. This indicates to the Committee that departments understand this saving initiative as being targeted at contractors as well as consultants.

As discussed in Section 4.5.3, the Government's definition of the difference between a contractor and a consultant rests to a large extent on whether the work being undertaken is the regular work of the department, which would normally be undertaken by an employee of the agency (in which case a person is a contractor), or whether it is a one-off task requiring skills not normally within the department and associated with decision-making rather than implementation (in which case a person is a consultant).

As a result of this difference, reducing expenditure on contractors may reduce the workforce undertaking the regular work of a department. Reducing expenditure on consultants, in contrast, would only apply to one-off tasks associated with decision-making. The Committee considers this to be a fundamental difference and believes that the Government should clearly indicate whether its savings target for consultants is intended to also reduce expenditure on contractors.

248 *ibid.*, p.9

249 Public Accounts and Estimates Committee, *Review of the 2009-10 and 2010-11 Annual Reports*, February 2012, p.32

FINDING

The 'Government election commitment savings' initiative has a line item of 'consultants' against which savings targets have been set. Some departments have interpreted this line item as also applying to contractors.

RECOMMENDATION 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.

4.6.3 Shared services

The Government has also identified the increased use of shared services as a means of achieving efficiencies. As part of the 'Government election commitment savings' initiative, the Government set a savings target of \$50.2 million over five years through shared services.²⁵⁰

The Committee sought details of departments' expenditure on shared services in its questionnaire. For those departments which supplied information, the data indicate a substantial increase in the use of shared services, from \$69.2 million in 2009-10 to \$141.0 million in 2010-11 (or \$109.3 million if the Department of Health's data for 2010-11 are excluded).

One of the most significant current shared services initiatives is CenITex, which provides IT services to Government entities. The number of entities supported by CenITex has grown from six departments in 2008-09 to 10 departments and two agencies in 2010-11.²⁵¹ The Department of Treasury and Finance indicated that efficiency gains achieved through CenITex between March 2009 and June 2011 included initiatives that:²⁵²

- *reduced annual running cost by \$11.8 million (Savings due to in-sourcing of the Unisys contract, contractor to VPS conversions etc.)*
- *avoided annual cost increases of \$15.6 million (Savings due to improved procurement outcomes - storage, servers etc.)*
- *avoided one-off spending of \$18.1 million (Savings due to increased sharing of infrastructure e.g. enterprise SQL and Web hosting platforms etc.)*

The Committee also asked some of the departments which joined CenITex during 2010-11 what efficiencies had been gained. The departments had some difficulty quantifying their savings. The Department of Human Services and Department of Justice indicated that they

250 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.92

251 CenITex, *Annual Report 2008-09*, p.10; *Annual Report 2010-11*, p.10

252 Department of Treasury and Finance, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 24 January 2012, p.3

had not achieved efficiencies yet, but expected to do so in the future.²⁵³ The Department of Health, however, indicated that there were some problems in this area:²⁵⁴

To date, the department is unable to identify efficiency and service effectiveness gains as a result of centralisation of IT services through the use of CenITex. The department has raised its concerns with the new CEO of CenITex, particularly in the areas of continuous improvement and the transition to the Whole of Victorian Government service catalogue and agreed service levels. The department has also requested CenITex for greater visibility of decisions and/or actions that might affect it.

The Department of Treasury and Finance also indicated that efficiency savings had been achieved through the Shared Services Provider (SSP) which provides library, vehicle fleet and accommodation facilities management services:

The SSP has created efficiencies and service effectiveness gains through various activities including: reducing the total number of full time employees (FTE) performing SSP functions (compared to when they were embedded in departments) thereby enabling departments to reassign staff to other functions; avoiding costs by renegotiating leases resulting in more favourable terms; creating economies of scale and procurement efficiencies; ensuring that individual government agencies do not compete against each other for contracts, procurement and leased accommodation; avoiding costs by reducing floor space required; and centralising and rationalising the whole of Victorian Government vehicle pool and Victorian Government library service.

However, the Department did not quantify the value of these efficiencies.

The Committee notes departments' difficulties in quantifying savings in both cases. Given that the Government has set a quantified target for savings from the use of shared services, the Committee considers it important that some processes be set up to identify and monitor these savings. Quantifying such services is also important for ensuring that departments are getting value for money by using shared services.

FINDING

The Government has set a target of \$50.2 million to be saved through the use of shared services. Data received by the Committee indicated increased use of shared services. However, some departments indicated that they had difficulties quantifying the savings resulting from their use of shared services.

253 Department of Human Services, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 19 January 2012, p.4; Department of Justice, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 18 January 2012, p.8

254 Department of Health, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 19 January 2012

RECOMMENDATION 21:

All departments which transition to shared services ensure that they set up appropriate mechanisms to capture and report the savings that result from the transition.

CHAPTER 5: GENERAL GOVERNMENT SECTOR OUTPUT DELIVERY IN 2009-10 AND 2010-11

5.1 Introduction

One of the principal aims of government departments is to provide services to the Government and the community. In order to achieve a level of objective accountability, service activities for each department are divided into output groups, and further divided into specific outputs, each of which is described in the Service Delivery budget paper at the start of each financial year.

A range of performance measures are defined for each output. These measures describe and quantify departmental activity that supports the output, and each has a target set for each year. The measures assigned to departments cover both the departments' direct activities and the activities of their portfolio agencies.

The Committee examined departments' results on these performance measures for 2009-10 and 2010-11. In terms of managing performance to within 10 per cent of targets, the Committee found that overall performance was similar in both years, with around 70 per cent of targets met to within 10 per cent. This was an improvement on 2008-09, when 64 per cent of results were within 10 per cent of target.

The Committee also found that a lower proportion of performance measures significantly exceeded their targets and a higher proportion of performance measures fell significantly short of targets in 2010-11 compared to 2009-10.

For cost performance measures, the Committee found that overall expenditure in excess of budget fell from 2.7 per cent in 2009-10 to 1.6 per cent for 2010-11.

As part of this investigation, the Committee identified a number of issues with the way that performance measures and targets are set. The Committee also examined departments' explanations for cases where the targets were not met and has identified areas for improvement.

Throughout this chapter, the Committee has noted a number of issues particularly regarding the Department of Business and Innovation (formerly the Department of Innovation, Industry and Regional Development) concerning the choice of performance measures, the setting of targets and the performance against these targets. On a number of matters, this department stands out as under-performing.

It should be noted that performance measures do not generally monitor the progress of asset investment (infrastructure) projects. These projects are discussed in more detail in Chapter 6 of this report. However, departments are not prevented from creating output performance measures that report their activities in areas of asset investment. The Department of Transport and the Department of Health have created a number of such measures, which are discussed along with the others.

Background

Each output includes one cost performance measure and a varying number of non-cost performance measures.

The cost performance measure reports the department's total cost in delivering each output.

Non-cost performance measures are divided into three types: quantity, quality and timeliness. There is no set number of non-cost performance measures for each output, and this number varies from one (for example in the Department of Education and Early Childhood Development's *Policy and Regulation* output) to 39 (in the case of the Department of Transport's *Public Transport Infrastructure Development* output).

The Committee does not consider that a higher number of non-cost performance measures necessarily better describes an output, although it does consider that a low number of non-cost performance measures leads to the possibility that the department's activities in providing the output are not comprehensively measured. The Committee identified a number of outputs for which it considered that additional measures may be warranted as part of its Inquiry into the 2011-12 Budget Estimates.²⁵⁵ The Committee anticipates examining the appropriateness of performance measures for outputs again as part of its report on the 2012-13 budget estimates.

All performance measures have targets, which are set as part of the budget process and listed in the budget papers. These targets are set in May, prior to the start of the financial year to which the measures will apply. Departments are required to report the results of their performance against these targets in departmental annual reports at the end of the financial year, including explanations for significant or material variances from the set targets.

The analysis in this chapter is based on results of performance measures and a calculation of variances between their targets and actual results. Results are aggregated into groups, relating to significantly (i.e. greater than 10 per cent) above targets, near (i.e. within 10 per cent of) target and significantly (i.e. greater than 10 per cent) below target. When aggregating cost measures alone, the Committee discusses overall variations in terms of proportions of targets.

The examination of departments' performance relative to their measures provides an indicator of their ability to meet the standards set for them by the Government. However, variation from the target may also indicate that the targets set were either too challenging or not challenging enough. The Committee has identified some apparent instances of both of these situations in Section 5.4.3 of this chapter.

The Committee also notes that some targets for performance measures have been adjusted over time, challenging departments to perform at a higher level. A department that shows consistent (or gradually increasing) management skill may move from significantly above target to near or below target if the target has been made more challenging. For this reason, examination of results against targets alone cannot comprehensively portray departmental achievements in an absolute sense, but only relative to the Government's expected standards.

With a small number of exceptions, the results of performance measures are expressed as an objective ordinal, usually a number or a date. Higher numeric results or earlier dates generally correspond to better departmental performance for non-cost performance measures, but there are some targets for which exceeding the target indicates poorer performance of the department (for example, the Department of Health's performance measure 'Average working days between screening of client and commencement of community-based drug treatment'²⁵⁶). Because of the existence of these measures, in the analysis that follows, departments that have a larger number of measures in the group that significantly exceeded targets should not necessarily be seen as the higher performing departments.

255 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates – Part Two*, June 2011, p.21

256 Department of Health, *Annual Report 2010-11*, p.203

The Committee also notes that there are some measures for which it is not immediately clear from the budget papers whether exceeding, coming under or exactly achieving the target is ideal. Some examples have been included in Table 5.1.

Table 5.1: Performance measures where it is not clear whether it is preferable for the actual result to be greater than, less than or equal to the target

Department	Performance measure	2010-11 target
Health	Ratio of emergency to general courses of dental care	53:47
Sustainability and Environment	Increase in EPA [Environmental Protection Agency] notices issued for illegal dumping of waste	15 per cent
Treasury and Finance	Workspace ratio	15.5 square metres per FTE

Source: *Budget Paper No.3, 2010-11 Service Delivery, May 2010*

There are a number of other measures similar to the Department of Sustainability and Environment's measure cited in Table 5.1, where the department is responsible for both preventing a particular outcome and responding to it. The Department of Health, for example, has several measures related to the number of patients treated. As the Department is responsible for both preventative health and health treatment, it is not clear whether successful service delivery would be reflected by there being more or fewer patients than the target. Similarly, the Department of Justice has measures of the numbers of matters disposed in court and the numbers of prisoners, although the Department is responsible for crime prevention as well as the court system and prisons.

The Committee considers that the addition of an indicator to non-cost performance measures that indicated whether a higher result, lower result or result the same as the target is preferable would allow a more reliable overview assessment of a department from its performance measures.

FINDING

Although for most non-cost performance measures exceeding the target is a good outcome, in some cases the reverse is true. It is not always possible from the budget papers to discern whether the Government's intention is for results to be more than, less than or equal to the performance measure target.

RECOMMENDATION 22:

The Department of Treasury and Finance indicate in budget papers whether exceeding, coming under or precisely achieving the target is preferable for each performance measure.

5.2 Departmental performance in 2009-10 and 2010-11

The Committee found that performance for all departments over both 2009-10 and 2010-11, was similar in terms of returning a measure within 10 per cent of the set target. In 2009-10, 70.2 per cent of measures had results within 10 per cent of target. In 2010-11, 69.8 per cent of measures had results within 10 per cent of target levels. The Committee notes that both results are higher than that for 2008-09 (64 per cent).

5.2.1 Trend analysis, all performance measures, 2008-09 to 2010-11

Table 5.2 shows the proportion of all (cost and non-cost) performance measures over the past three years that have returned results within 10 per cent of target. The Government has indicated that an actual result that differs from the target by more than 10 per cent is significant or material.²⁵⁷

Table 5.2: Proportion of performance measures (cost and non-cost) close to targets, 2008-09 to 2010-11^(a)

Department	2008-09 (per cent)	2009-10 (per cent)	2010-11 (per cent)
Business and Innovation / Innovation, Industry and Regional Development	50.5	52.4	54.3
Education and Early Childhood Development	67.4	69.1	75.0
Health ^(b)	n/a	79.4	78.2
Human Services	76.7	70.5	75.7
Justice	36.1	74.3	73.5
Planning and Community Development	74.7	67.2	66.7
Premier and Cabinet	71.4	71.6	66.1
Primary Industries	60.0	65.2	59.1
Sustainability and Environment	68.2	69.0	73.6
Transport	46.1	69.4	66.8
Treasury and Finance	71.4	73.2	62.9
Parliament	68.6	80.4	81.0
All departments	63.7	70.2	69.8

Notes:

(a) Measures that were not reported have been included in the total but not included as close to targets (see Tables 5.3 and 5.4 for details of these measures).

(b) Department of Health was created on 12 August 2009

Source: Budget Paper No.3, Service Delivery 2008-09 to 2010-11; Departmental annual reports; Parliament of Victoria, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 2 December 2011, pp.2-3

The performance of individual departments in terms of achieving results close to target of performance measures has fluctuated significantly. Only one department, the Department of Human Services, and the Parliament have returned higher-than-average performance in each year.

Over the past two years, only the Department of Education and Early Childhood Development, the Department of Business and Innovation, Department of Sustainability and Environment and the Parliament have had consistently improving performance.

While there are examples of good performance and improving performance, the Committee considers that there is little consistent progress towards overall performance improvement.

²⁵⁷ Department of Treasury and Finance, 2010-11 Model Report for Victorian Government Departments, March 2011, p.18

The Committee notes that targets for many performance measures have been adjusted over time. Therefore, the small decrease in proportion of measures close to target in 2010-11 does not necessarily indicate a lower level of service delivery. However, as noted above, the proportion of performance measures close to targets does provide an indicator of the departments' capacity to meet the standards set by the Government.

FINDING

In both 2009-10 and 2010-11, actual results were close to target for approximately 70 per cent of performance measures, having improved from 64 per cent in 2008-09.

FINDING

For most departments, the proportions of performance measures with results close to target have fluctuated such that no clear trend of improvement is apparent.

As this review concerns only 2009-10 and 2010-11, the Committee does not intend to comment on the low values for 2008-09 for the Department of Transport and the Department of Justice, apart from noting that subsequent results have been far more satisfactory. The improvement for these two departments in 2009-10 largely underpinned the improvement of the overall result.

The Department of Business and Innovation (and its predecessor, the Department of Innovation, Industry and Regional Development) had the lowest proportion of performance measure results within 10 per cent of targets for both 2009-10 and 2010-11. In addition, this department had the highest proportion of results significantly exceeding target levels in both 2009-10 and 2010-11 (36 per cent and 29 per cent respectively). As noted in Section 5.4.3 of this chapter, in at least some cases, the exceeding of targets appears to be a result of inappropriate target setting.

In its *Report on the 2008-09 Financial and Performance Outcomes*, the Committee noted that the proportion of performance measures where the Department of Innovation, Industry and Regional Development (DIIRD) significantly exceeded targets was the highest of all departments in both 2007-08 (with 44 per cent) and 2008-09 (with 35 per cent).²⁵⁸ The Committee recommended that:²⁵⁹

The Department of Innovation, Industry and Regional Development continue revising its performance targets to ensure that its targets in future years are sufficiently robust.

The former Government accepted the Committee's recommendation, noting that: '*DIIRD will continue to undertake an annual review of all targets*', and that no further action was planned.²⁶⁰

258 Public Accounts and Estimates Committee, *Report on the 2008-09 Financial and Performance Outcomes*, May 2010, p.226

259 Public Accounts and Estimates Committee, *Report on the 2008-09 Financial and Performance Outcomes*, May 2010, Recommendation 23, p.226

260 Victorian Government, Government Responses to the Committee's 94th Report on the 2008-09 Financial and Performance Outcomes, tabled 6 October 2010, p.12

The Committee accepts that the proportion of performance measures that significantly exceed targets for the Department has shown a decreasing trend over the past four years. However, the Committee also considers that, as the second highest figure for the proportion of performance measures that significantly exceed targets has remained static at around 25 per cent for the past three years, there is still potential for improvement.

FINDING

In both 2009-10 and 2010-11, the Department of Business and Innovation had the smallest proportion of performance measures with results within 10 per cent of target and the highest proportion of exceeded targets. This continues a trend noted by the Committee as going back at least to 2007-08.

RECOMMENDATION 23:

The Department of Business and Innovation seek advice from a suitably qualified source to explore ways of improving the Department's performance with respect to meeting performance measure targets.

The Committee notes that the Parliament and the Department of Health have recorded the highest proportions of performance measures where results were within 10 per cent of target levels in both 2009-10 and 2010-11.

The Department of Education and Early Childhood Development had the smallest proportion of performance measures with results significantly below targets in both years, and larger proportions of performance measures with results significantly above targets. As there is a strong relationship between exceeding targets and a positive outcome for the Department of Education and Early Childhood Development, the Committee considers that this is a good result.

5.2.2 Cost performance measures, all departments, 2009-10 and 2010-11

Tables 5.3 and 5.4 show the variation between actual results and targets for departments' cost measures. Overall, there was an over-expenditure for both years, falling from 2.7 per cent of total budget for 2009-10 to 1.6 per cent of budget in 2010-11.

For 2010-11 the Committee also examined the actual expenditure on outputs to 31 December 2010, in order to compare performance between the 56th and 57th Parliaments. This comparison showed little variance for all departments apart from the Department of Premier and Cabinet (see further below).

Table 5.3: Aggregated cost targets and actual expenditure, all outputs for each department, 2009-10

Department	2009-10 target (\$ million)	2009-10 actual (\$ million)	Variation (per cent)
Education and Early Childhood Development	8,374.0	8,215.0	-1.9
Health	11,314.4	11,766.0	4.0
Human Services	3,293.5	3,555.6	8.0
Innovation, Industry and Regional Development	2,506.0	2,691.9	7.4
Justice	3,906.6	3,835.0	-1.8
Planning and Community Development	455.6	450.7	-1.1
Premier and Cabinet	597.3	634.1	6.2
Primary Industries	601.2	568.2	-5.5
Sustainability and Environment	1,387.6	1,440.3	3.8
Transport	4,768.7	5,084.5	6.6
Treasury and Finance	296.1	288.0	-2.7
Parliament	160.5	158.3	-1.4
Total	37,661.5	38,687.6	2.7

Sources: *Budget Paper No.3, 2009-10 Service Delivery; Departmental annual reports; Parliament of Victoria, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 2 December 2011, p.2*

In 2009-10, the Department of Human Services showed the highest excess of actual costs over targets. The Department also showed the highest under-expenditure in relation to targets for 2010-11. Major machinery-of-government changes affected the Department during 2009-10, removing responsibility for health-related portfolios to the newly formed Department of Health. While these changes removed entire outputs from the Department rather than splitting outputs, they may have been contributing factors in the imbalances in expenditure. The effects of these changes on the estimates for income and expenditure on the Department of Health and the Department of Human Services appear to have been substantial, as discussed in Sections 4.3.3-4.3.4 of this report.

The Department of Business and Innovation recorded the highest over-expenditure in terms of the proportion of its aggregated target in 2010-11. The Department of Innovation, Industry and Regional Development also showed the second-highest over-expenditure for the previous year.

The Department of Planning and Community Development had the second-highest variation for 2010-11 with 15 per cent. This was mainly a result of '*funding for the Regional Infrastructure Development Fund (RDIF) approved post-budget*'.²⁶¹

261 Department of Planning and Community Development, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 31 January 2012, p.4

Table 5.4: Aggregated cost targets and actual expenditure, all outputs for each department, 2010-11

Department	2010-11 target (\$ million)	Actual to 31 Dec 2010 (\$ million)	Whole 2010-11 actual (\$ million)	Variation (per cent)
Business and Innovation	514.2	329.6	614.8	19.6
Education and Early Childhood Development	10,649.2	5,249.6	10,931.1	2.6
Health	12,341.4	6,279.5	12,545.5	1.7
Human Services	3,298.1	1,534.9	3,150.0	-4.5
Justice	4,212.5	2,053.2	4,167.3	-1.1
Planning and Community Development	462.1	249.0 ^(a)	532.6	15.3
Premier and Cabinet	611.0	259.7	652.7	6.8
Primary Industries	510.9	234.0	542.4	6.2
Sustainability and Environment	1,346.0	697.0	1,368.3	1.7
Transport	5,529.4	2,674.1	5,599.5	1.3
Treasury and Finance	236.6	124.5	238.7	0.9
Parliament	166.1	81.5	160.1	-3.6
Total	39,877.5	19,766.6	40,503.0	1.6

Note: (a) Due to machinery-of-government changes, information from the Department of Planning and Community Development includes some expenditure that was within the Department of Business and Innovation's responsibilities at the 31 December 2010.

Sources: Budget Paper No.3, 2009-10 Service Delivery; Departmental annual reports; Parliament of Victoria, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 2 December 2011, pp.2-4

For 2010-11, the Committee obtained expenditure results for both halves of the year separately. In general, departments spent similar amounts over the two halves, apart from the Department of Premier and Cabinet, which spent only 40 per cent of its annual budget in the first half of 2010-11. The Committee contacted the Department for further information, and the Department responded that the bulk of the imbalance was spent in the *Arts Portfolio Agencies* output, which expended \$95.1 million between 1 July 2010 and 31 December 2010 and \$241.7 million between 1 January 2011 and 30 June 2011. The variance was because:²⁶²

... arts agency own-earned and depreciation equivalent revenue is only calculated with certainty, and therefore included as part of the portfolio's output costs, at the end of a financial year.

Mitigating this imbalance, the Committee notes that the Department's output *Government Information Services and Support* expended \$34.8 million between 1 July 2010 and 31 December 2010 and \$9.9 million between 1 January 2011 and 30 June 2011. The

262 Department of Premier and Cabinet, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, p.4

Department explained this imbalance by pointing to ‘*one-off payments resulting from the change in Government*’.²⁶³

Over the two years, the Department of Justice was between 1 and 2 per cent below budget for both years. The Committee considers that a consistent small amount of expenditure under budget may indicate a good result in terms of both planning and management, although the Committee notes larger variations to the Department’s individual output costs in order to achieve this (see below).

FINDING

Cost over-runs for output delivery fell overall from 2.7 per cent of the total budget estimate in 2009-10 to 1.6 per cent in 2010-11.

FINDING

Expenditure on outputs in the first half of 2010-11 was similar to that of the second half of the year for all departments except for the Department of Premier and Cabinet, where overall expenditure was greater in the second half of the year.

There was relatively little variation between the aggregated output cost targets and the actual cost for most departments. However, there were some substantial variations between target and actual costs for individual outputs.

Figure 5.1 below shows, for each of the last three years, the proportionally largest positive and negative variations between targets and actual outputs costs for each department.

The Committee notes that the Department of Business and Innovation (formerly the Department of Innovation, Industry and Regional Development) clearly has the highest upward variations in cost performance measures in each of the three years, as well as the highest or second highest downward variation in each year.

Examining the underlying data for 2009-10 and 2010-11, the Committee notes that the overruns for the Department have been in the *Major Projects* and *Industrial Relations* outputs, although outputs that have had under-expenditures have varied over time.

Explanations for variances for Major Projects have nominated specific projects that have required additional funding. These projects not only include new projects for the unit, but also existing projects, such as the Princes Pier Restoration project and the Kew Residential Redevelopment project, for which the unit has had responsibility for some time.

The Department of Innovation, Industry and Regional Development’s *Annual Report 2009-10* explains that the Major Projects total output cost was exceeded by almost 400 per cent in part because of ‘*project management costs not reflected in Budget Paper 3*’.²⁶⁴ The Committee approached the department for additional details and reasons why these costs were not reflected in Budget Paper No.3. The Department responded that:²⁶⁵

263 *ibid.*, p.3

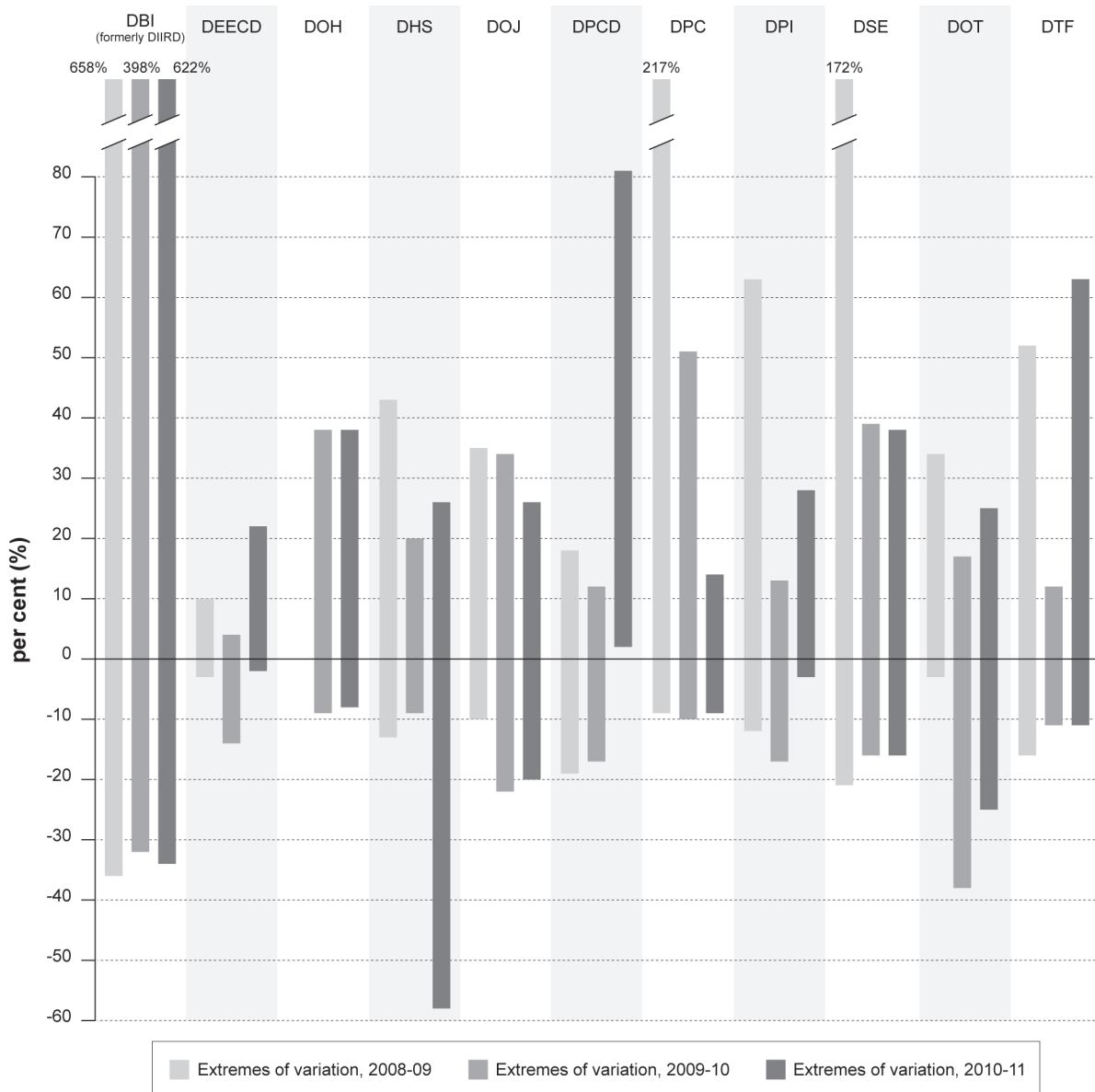
264 Department of Innovation, Industry and Regional Development, *Annual Report 2009-10*, p.208

265 Department of Business and Innovation, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 23 December 2011, p.2

The additional costs relate to the unbudgeted cost of goods sold for the land held for redevelopment for the Kew Residential Development. The costs were not reflected in the Budget Papers as they were sourced from external parties and the information could not be obtained within the Budget Paper timeframes. The amount of the cost of goods sold for 2009-10 was \$35.2 million.

The Department also noted that ‘the Budget for this output has been amended to reflect this activity from the 2011-12 financial year which will ensure consistency in future reporting’.²⁶⁶

Figure 5.1: Range of variation, cost performance measures, 2008-09 to 2010-11



Source: Budget Paper No.3, Service Delivery, 2008-09 to 2010-11; Departmental annual reports; Parliament of Victoria, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 2 December 2011, pp.2-3

The Department of Sustainability and Environment and the Department of Premier and Cabinet also displayed significant over-expenditures in 2008-09. In both cases, the departments moderated their variations in subsequent years.

Output results for the Department of Planning and Community Development only displayed upward revisions in 2010-11. That is, no output cost for the Department was less than target.

Variances for the Department of Justice have been consistent over the three years, between 25 and 35 per cent above budget for the highest upward variations and between 10 and 20 per cent below budget for the largest downward variations. The Committee notes that this is in contrast to the consistent aggregate small under-expenditure displayed overall for the Department (see Tables 5.3 and 5.4).

The single output that has caused under-expenditure for the Department of Justice for each of the three years has been *Infringement and Orders Management*. For 2008-09 and 2009-10 the output showing the highest cost over-expenditure was *Supporting the Judicial Process*, while the *Legal Policy, Advice and Law Reform* output was responsible for the highest cost over-expenditure for 2010-11. The Committee contacted the Department for more detailed information about the under-expenditure in the *Supporting the Judicial Process* output. The Department responded that for 2010-11 the under-expenditure was related to delays in an IT development project, but for 2009-10 the result: ²⁶⁷

... reflects the reallocation of funding to address service demand pressures in other program areas including Responsible Alcohol Victoria. In addition, funding was also transferred to capital for road safety related asset purchases and to Victoria Police for Traffic Camera Office operations.

The Committee notes that, as the Responsible Alcohol Victoria program comes under the *Promoting and Protecting Consumer Interests* output, this means that funding has been moved between outputs. The Committee notes that, while this transfer was not mentioned in the budget papers for 2010-11, it was noted in the Department's *Annual Report 2009-10*.²⁶⁸ The Committee acknowledges that this has been adequately disclosed to stakeholders.

FINDING

When looking at individual cost targets, there are some substantial variations between targets and actual costs for most departments. The Department of Business and Innovation has consistently had the largest variations (in terms of proportion) over the last three years. The Department of Justice has managed to keep within its overall budget by reallocating funding between its outputs. The Department has disclosed this reallocation in its annual reports.

5.3 Output performance in 2009-10 and 2010-11

One way of understanding the Government's performance is to look at the proportion of outputs in which the performance measures were predominantly met. To establish this, the Committee has analysed all outputs using two indicators:

267 Department of Justice, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 22 December 2011, p.2

268 Department of Justice, *Annual Report 2009-10*, p.51

- whether or not most non-cost performance measures were met;²⁶⁹ and
- whether or not the total cost target for the output was met.²⁷⁰

A detailed breakdown of the Committee’s analysis using these indicators is included in Appendix 1. A summary of this information is provided in Tables 5.5 and 5.6.

This analysis provides a rough guide to understanding the number of outputs in which the Government’s expectations were predominantly met. Where these expectations were not met, this does not necessarily indicate poor performance. For example, both cost and non-cost targets may be exceeded due to funding for an additional program being provided after the budget papers. In other cases, non-cost performance measures may be met while costs come under estimates if efficiencies are made. In some cases, exceeding measures may indicate better performance than being within 10 per cent of the target.

Nonetheless, the Committee considers that those outputs where neither of the Committee’s indicators is met warrant further attention, as they may indicate areas with problems.

For both 2009-10 and 2010-11, the Committee found that, for the majority of outputs, most of the non-cost performance measures have been close to target and the cost measure has been close to budget. The remainder of this section explores the outputs where, in contrast, neither indicator was met.

Output performance in 2009-10

Table 5.5: Output performance, 2009-10

		Most non-cost performance measures			Total
		>10% below target	within ±10% of target	>10% above target	
Cost performance measures	>10% below budget	1	12	5	18
	within 10% of budget	0	88	7	95
	>10% above budget	0	25	1	26
Total		1	125	13	139

Note: One output, ‘Home ownership and renovation assistance’ from the Department of Human Services was internally funded and no cost measure was reported in the Annual Report 2009-10. The output was discontinued in 2010-11.

Source: Departmental annual reports; Parliament of Victoria, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 2 December 2012, p.2

For 2009-10, there were 140 outputs, of which 139 had cost measures. The Committee notes that the Department of Human Services funded the output *Home Ownership and Renovation Assistance* internally and did not report actual costs in the *Annual Report 2009-10*.²⁷¹ The

269 Non-cost performance measures were considered to be met if they were within ±10 per cent of the target. Outputs were divided according to whether more measures were significantly below target, within 10 per cent of target or significantly above target. Where the two categories were equal, outputs were grouped to the middle (that is, close to target) category.

270 Cost measures were considered to be met if they were within ±10 per cent of the budget estimate.

271 Department of Human Services, *Annual Report 2009-10*, p.33

output was subsequently discontinued in 2010-11. This output has not been included in the analysis in Table 5.5

Of the 139 outputs with cost measures, there were 125 outputs where the non-cost performance targets were predominantly met. There were 95 outputs with actual costs within 10 per cent of budget levels.

There were 88 outputs (63 per cent of all outputs) where most of the non-cost performance measures had results within 10 per cent of target levels while simultaneously costing within 10 per cent of budget.

FINDING

In 2009-10, 88 outputs (63 per cent) had most performance measure results within 10 per cent of target levels while costing within 10 per cent of budget.

One output had costs significantly below the target and most non-cost performance measures with results significantly below target levels.

- The Department of Transport's *Road Safety and Regulation* output included three out of its five non-cost performance measures returning results significantly under target levels. The cost of the output was also significantly under budget. Reasons given in the *Annual Report 2009-10* were mainly that projects for the year were rescheduled, delaying their construction until 2010-11.²⁷²

Five outputs for the year returned costs significantly lower than the target while having most non-cost performance measures with results significantly over target levels.

- The Department of Treasury and Finance's *Government Services* output for 2009-10 had six of its 11 non-cost performance measures with results significantly greater than target levels.²⁷³
- The balance of the outputs with costs significantly below targets and most non-cost performance measures over target were all in the Department of Innovation, Industry and Regional Development. These outputs were; *Small Business*; *Regional Infrastructure Development*; *Sector Development*; and *Regional Economic Development, Investment and Promotion*.²⁷⁴

Together, these four outputs included 14 out of 25 non-cost measures that were significantly exceeded. For 2009-10 the Department did not provide reasons for variances of non-cost measures in annual reports, and so the Committee is not able to draw any conclusions.

However, the Committee has identified in Section 5.2.2 of this chapter that the Department has a large number of indicators that it exceeds each year. The Committee therefore considers that target levels for the Department of Innovation, Industry and Regional Development's non-cost performance measures may have

272 Department of Transport, *Annual Report 2009-10*, p.154

273 Department of Treasury and Finance, *Annual Report 2009-10*, pp.24-5

274 Department of Innovation, Industry and Regional Development, *Annual Report 2009-10*, pp.204-8

not been set at a level which was suitably challenging for the Department, given that they could be achieved with significantly less expenditure than budgeted.

Finally, one output had costs significantly above target with most non-cost performance measures with results significantly greater than targets.

- For the Department of Innovation, Industry and Regional Development’s output *Investment Attraction and Facilitation*, three of its five non-cost performance measures significantly exceeded their targets, while the cost of the output also significantly exceeded its budget. The explanation given in the *Annual Report 2009-10* for the over-expenditure related mainly to a Treasurer’s advance for a number of funds and projects.²⁷⁵

FINDING

For 2009-10, there were seven outputs that had both cost measures and most non-cost measures significantly varying from target. Five of these were within the Department of Innovation, Industry and Regional Development.

Output performance in 2010-11

Table 5.6: Output performance, 2010-11

		Most non-cost performance measures			Total
		>10% below target	within ±10% of target	>10% above target	
Cost performance measures	>10% below budget	1	16	2	19
	within 10% of budget	4	86	4	94
	>10% above budget	0	25	2	27
Total		5	127	8	140

Source: Departmental annual reports; Parliament of Victoria, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 2 December 2011, pp.2-3

For 2010-11 the total number of outputs for departments was 140. Of these, there were 127 where non-cost performance targets were predominantly met. Of all outputs, 94 returned actual costs within 10 per cent of budget levels.

These overall results were very similar to 2009-10.

There were 86 outputs, or 61 per cent of all outputs reported by departments, that had most of their non-cost performance measures with results within 10 per cent of targets while simultaneously costing within 10 per cent of budget.

FINDING

In 2010-11, 86 outputs (61 per cent) had performance measure results within 10 per cent of target levels while costing within 10 per cent of budget.

275 *ibid.*, pp.205-8

One output was significantly under budget for 2010-11, while simultaneously having most of its non-cost performance measures also significantly under target.

- As in the previous year, the Department of Transport's *Road Safety and Regulation* output cost significantly less than budgeted. At the same time, the results of most of its non-cost performance measures were also significantly less than target levels. As in 2009-10, reasons given in the *Annual Report 2010-11* pointed to delays and rescheduling in projects in the program.²⁷⁶

Two departmental outputs have cost significantly more than budgeted, while also having significantly higher-than-target results for most of their non-cost performance measures.

- The *Regional Infrastructure Development* output, administered by the Department of Planning and Community Development, exceeded its cost target for 2010-11, while also exceeding targets for five of its eight non-cost performance measures. The Department's *Annual Report 2010-11* notes that: '*the variance to the published budget reflects funding for the Regional Infrastructure Development Fund approved post-budget*'.²⁷⁷
- The Department of Education and Early Childhood Development's *Adult, Community and Further Education* output has exceeded budget amounts, while four of its eight non-cost performance measures have significantly exceeded targets. The Department refers to '*enhanced entitlement to government-funded training places*' for each of these four variances.²⁷⁸

Two outputs cost significantly less than their targets, while also having significantly higher-than-target results in the majority of their non-cost performance measures.

- The Department of Justice's *Infringement and Orders Management* output has most of its non-cost performance indicators exceeding target levels, while the cost measure is significantly under budget. The Committee has noted in Section 5.2.2 above that this particular output has run significantly under budget in each of the past three years, and the Committee considers this may be the result of a management decision by the Department.
- The Department of Business and Innovation's *Investment Attraction and Facilitation* output has significantly under-expended while significantly exceeding target levels in three of its five non-cost performance measures. The explanation for the variance in the cost measure in the *Annual Report 2010-11* states:²⁷⁹

The under spend in the Investment Attraction and Facilitation Output, primarily relates to the Investment Support Program and the Transition to a Global Future Program. The under spend has been carried forward into 2011-12.

276 Department of Transport, *Annual Report 2010-11*, p.113

277 Department of Planning and Community Development, *Annual Report 2010-11*, p.28

278 Department of Education and Early Childhood Development, *Annual Report 2010-11*, p.53

279 Department of Business and Innovation, *Annual Report 2010-11*, addendum, p.165

The Committee notes that for this particular output, while there is a significant (34 per cent) under-expenditure against budget, there are no non-cost performance measures that returned an actual result under target levels.

The Committee also notes that the other output in the output group, *Exports*, has also expended a less-than-budgeted amount, while having all non-cost performance measures returning results equal to or greater than targets. This output had similar results in 2009-10.

The two cost performance measures for the *Investment Attraction and Facilitation* and *Exports* outputs suggest that the Department of Business and Innovation was working *below* expected levels, having not expended the expected amount. However, an assessment based on the 11 non-cost performance measures (six of which are significantly exceeded, two of which are slightly over, and three of which are on target levels) would indicate that Department was working *above* expected levels in these areas.

That is, the cost and non-cost performance measures for this section of the Department of Business and Innovation are conveying conflicting messages.

The Committee considers that there may be a number of different explanations for this situation,²⁸⁰ although no such explanations have been provided in the Department's *Annual Report 2010-11*. However, this situation suggests to the Committee that the performance measures are not providing comprehensive information about these outputs.

FINDING

In 2010-11, there were five outputs that had both cost measures and most non-cost measures significantly varying from target. Of these five outputs, three (*Road Safety and Regulation*, *Investment Attraction and Facilitation* and *Regional Infrastructure Development*) had identical variances in 2009-10.

FINDING

The Department of Justice's output *Infringement and Orders Management* has run significantly under budget for three years, yet still exceeded most of its non-cost performance measures in 2010-11.

RECOMMENDATION 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.

280 Such as poor setting of cost targets for the year, or the planned production of other goods or services within the output that are not included in existing non-cost performance measures.

FINDING

Two outputs have been identified in the Department of Business and Innovation where actual costs were significantly below targets but results for all non-cost measures were at or above targets. This suggests a disconnect between the non-cost performance measures and the goods and services that are being funded.

RECOMMENDATION 25:

The Department of Business and Innovation review the *Investment Attraction and Facilitation* and *Exports* outputs to ensure that the non-cost performance measures provide a comprehensive overview of what is being provided with the funding.

5.4 Issues with performance measures

5.4.1 The use of performance measures

The Committee considers that the proper use of performance measures can assist departments and agencies to accurately and objectively monitor their own activities, as well as the effects these activities have on the wider community. Such knowledge can assist in enabling improvements in performance as well as objectively demonstrating such improvements.

The Committee approached departments for information on how much past results of performance measures influenced departmental plans for subsequent years. Departments responded showing a range of uses. The following are some examples:

- the Department of Health utilises results of performance measures extensively, as part of quarterly Executive Performance Reporting, examining measures and carrying out remedial actions at divisional and departmental levels where appropriate – for example, the output groups *Mental Health* and *Drug Services* are ‘utilised routinely in performance monitoring [and] performance management’;²⁸¹
- the Department of Human Services uses performance measures to assess demand in different service provision areas;²⁸²
- the Department of Justice identified a number of measures where the result had a specific effect on departmental planning;²⁸³
- the Department of Premier and Cabinet commented that, ‘*Performance measures results did not materially impact the Department’s high level plans but were influential in shaping individual branch and team plans*’;²⁸⁴ and

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

282 *ibid.*, pp.3-4

283 Department of Justice, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 22 December 2011, pp.5-6

284 Department of Premier and Cabinet, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, p.3

- other departments reported that performance measures were only one of a range of factors influencing departmental plans.

The Committee also notes the use of performance measures by the Parliament and the community as a way of understanding the outcomes achieved by departments within a year. The many uses of performance measures underscore the importance of developing effective, meaningful measures.

5.4.2 Issues with the performance measures themselves

As part of this review, the Committee examined all performance measures. The Committee considered that the majority of these measures were objective and rational, communicating results which are informative to departments and stakeholders.

The Committee considered that a small number of performance measures had the potential for improvement. These measures tended to fall into several groups, and examples of these are given in the following sections.

Performance measures with a range as a target

Targets are sometimes given as ranges, either as minimums and maximums, or as either a minimum or a maximum. The Committee considers that such measures lack precision. Departments are required to explain significant or material variances from target in their annual reports.²⁸⁵ However it is unclear under what circumstances a variation from a range constitutes a significant variation. That is, it is unclear whether every result outside the range is significant, or only results 10 per cent above or below the range extremes.

- The Department of Planning and Community Development's output performance measure 'Major events facilitated', had a target for 2010-11 of 10-12.²⁸⁶ The result for this measure was 13. No explanation was included, suggesting the Department did not consider there had been a significant variation.
- The Department of Sustainability and Environment's performance measure 'Bay assets rated in average to excellent condition' which had a target of 65-70 per cent, had a result of 64 per cent in 2010-11.²⁸⁷ This is short of the target range, but no explanation for the variance was given.
- Another measure for the Department of Planning and Community Development, 'International teams/sports: sports visits facilitated', has a target range of 100-200.²⁸⁸ The Committee consider that this is a very wide target range.

The Committee considers that setting a range as a target in situations where such an action is not clearly explained decreases the level of accountability of the responsible department. The Committee therefore considers that setting a single number as a target is generally aligned with better practice.

285 Department of Treasury and Finance, *Model Report of Operations for Victorian Government Departments*, March 2011, p.18

286 Department of Planning and Community Development, *Annual Report 2010-11*, p.35

287 Department of Sustainability and Environment, *Annual Report 2010-11*, p.66

288 Department of Planning and Community Development, *Annual Report 2010-11*, p.35

The Committee also considers that setting a range as a target for a performance measure limits the utility of the measure in that it is more difficult to assess the performance of the department.

The Committee accepts that, under some circumstances, setting a range as a target can be appropriate. However, as this is not a common occurrence, such circumstances should be explained in the budget papers, along with a rationale for the width of the range. The Committee considers that setting a range as a target defines the range of acceptable results, and therefore results outside this range must be considered significant and explained in annual reports.

FINDING

A number of performance measures have ranges as targets. In such cases it is not clear what constitutes a significant variance.

RECOMMENDATION 26:

When a target for a performance measure is a range and not a single number, the Department of Treasury and Finance explain the reasons for which a range was set, as well as the rationale for the range given, in the budget papers.

RECOMMENDATION 27:

The Department of Treasury and Finance change the Model Report to specify that, where a performance measure has a range for a target, any result falling outside that range constitutes a significant variation requiring explanation in annual reports.

Performance measures with imprecise results

Related to this type is the performance measure with a range or an estimate given as a result in annual reports. The Committee considers that accuracy in measurement is one of the criteria for good performance measures,²⁸⁹ and reporting a range does not indicate this.

- The Department of Planning and Community Development has an output performance measure 'Increase in client service contacts for members of the Stolen Generations with Connecting Home Limited'. This measure had a target for 2010-11 of 5 per cent. The actual result for the year was given as >5 per cent.²⁹⁰
- The Department of Education and Early Childhood Development has reported results for two performance measures as a range. The target for 'Percentage of Indigenous students meeting the national minimum standard for reading in Year 9 (NAPLAN testing)' was 80 per cent, the result for 2010-11 was given as between 72.8 and 80.4. In this case, the Department reported its results as a range because the results were based on an extrapolation from a sample. As the Department commented in the *Annual Report 2010-11*:²⁹¹

289 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates – Part Two*, June 2011, p.7

290 Department of Planning and Community Development, *Annual Report 2010-11*, p.32

291 Department of Education and Early Childhood Development, *Annual Report 2010-11*, p.43

The 2010 result of 76.6% has a 95% confidence interval of $\pm 3.8\%$. This means that there is a 95% chance that the true result lies somewhere between 72.8% and 80.4%.

The second measure, 'Percentage of Indigenous students meeting the national minimum standard for numeracy in Year 3 (NAPLAN testing)' was similar, with the result for 2010-11 reported as between 84.1 and 88.9, with a target of 88 per cent, and having a similar comment.²⁹²

The Committee welcomes the disclosure of the confidence interval for the results. However, the Committee notes that results for other performance measures that were based on surveys and therefore had confidence intervals were not expressed as ranges, though the confidence interval was generally noted in the comments column of the table. In these cases, only the mid-point of the range was published as the result.

In the case of the 'Percentage of Indigenous students meeting the national minimum standard for reading in Year 9 (NAPLAN testing)' performance measure, though, the Committee notes that the Department concluded that, because the 95 per cent confidence interval spanned from 72.8 to 80.4 per cent, *'consequently, the target of 80% is within the confidence interval range of the result and the target can be deemed to have been met.'*²⁹³

The Committee considers that such a result should be interpreted to mean that there is a high probability that the target of 80 per cent has not been met and that therefore the Department has not met its target. The Committee does not consider the Department's interpretation that the target had been met to be well founded. The Committee also does not consider it appropriate to only cite results as a range when they have the potential to make an unfavourable result look favourable.

- The Department of Human Services has a number of performance measures that have estimates as results published in annual reports. For example, the result of 'Households assisted with housing establishment assistance during year' was 36,000 against a target of 36,000.²⁹⁴ The annual report noted that the published result was an estimate, with actual data due at the end of the year.

The Committee approached the Department to find what the end-of-year result for six such measures were. The Department responded that the eventual results for five of the six measures exactly matched estimates in the annual report, with one having been revised upward.²⁹⁵

292 *ibid.*, p.40

293 *ibid.*, p.43

294 Department of Human Services, *Annual Report 2009-10*, p.32

295 Department of Human Services, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 19 January 2012, p.3

FINDING

Actual results for a number of performance measures have been reported as ranges rather than single figures. In the case of the Department of Education and Early Childhood Development, where results have a confidence interval, ranges have only been provided where the mid-point of the range is below target and the confidence interval means that there is some chance that the result may have been above target.

RECOMMENDATION 28:

Where the Department of Education and Early Childhood Development bases results for performance measures on a survey result, the department report the mid-point of the range as the performance measure result, and disclose the confidence interval in the comments.

RECOMMENDATION 29:

For all measures where results are extrapolated from a sample, departments report confidence limits for each result.

Performance measures with moving targets

The Committee encountered a number of performance measures that do not have precisely defined targets. That is, criteria for success have been renegotiated subsequent to the start of specific projects. The Committee considers such measures to be poor examples of accountability, as a project that is under-performing may be considered to be a success if criteria for success are adjusted.

- The Department of Planning and Community Development has a performance measure ‘Central Activities District projects delivered against agreed project implementation plans’ which had a target for 2010-11 of 80 per cent, and a result for the year of 81.67 per cent.²⁹⁶ In explaining this measure to the Committee, the Department noted ‘*Some milestones for some projects were amended during project delivery, depending on progress, scope changes etc.*’²⁹⁷
- Major Projects Victoria has a performance measure ‘Delivery of nominated Major Projects Victoria projects complies with agreed plans’. This measure is reported in the annual report of the Department of Business and Innovation. Targets for this measure have been set at 100 per cent over the last four years, and Major Projects Victoria has succeeded in meeting this target in each year.

The Committee contacted the Department of Business and Innovation and found that changes to agreed cost and duration may be made to a project after its commencement and that this performance measure assesses compliance with these modified costs and timeframes. The Committee comments further on this issue in Chapter 6.

296 Department of Planning and Community Development, *Annual Report 2010-11*, p.23

297 Department of Planning and Community Development, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 31 January 2012, p.4

The Committee notes that, in contrast to these two measures, the Department of Primary Industries has not renegotiated milestones for projects supporting one of its performance measures. The Department has experienced continuing problems in the HRL Integrated Drying and Gasification Combined Cycle project.²⁹⁸ The consequence for the Department is that results for its performance measure, ‘Facilitate delivery of milestones in line with grant agreements for Energy Technology Innovation Strategy large-scale demonstration projects’ have fallen well short of target in both 2009-10 and 2010-11.²⁹⁹ The Department has disclosed and explained this fact in its annual reports. The Committee regards this disclosure to be a much stricter level of accountability.

FINDING

Some performance measures are based on achieving certain project milestones. In some cases, performance is measured against original milestones but in others it is measured against milestones as adjusted over the life of the projects.

RECOMMENDATION 30:

Where departments have performance measures that are based on project milestones, they calculate results based on the original milestones for the project, and not milestones that have been subsequently altered to reflect changes.

Performance measures that are legal requirements

The Committee notes a range of performance measures that describe whether or not an output is in accordance with a certain standard. While standards can make an appropriate quality measure, the Committee considers that it is not generally a sufficiently challenging quality measure if the standard is merely compliance with the law, as in these measures.

- The Department of Justice’s performance measure ‘Issuing of Working with Children Check assessments in accordance with the *Working with Children Act 2005*’ is a quality measure in addition to the quantity measure ‘Number of Working with Children checks processed’.³⁰⁰ It has a target of 100 per cent, which has been met every year since the measure was introduced.
- The Department of Justice also has a performance measure ‘Challenges to VEC [Victorian Electoral Commission] conduct upheld in court’.³⁰¹ The target for this measure is zero, which has always been met since the measure was introduced.

All departments should be complying with legislation as a matter of course. Performance measures that simply identify whether or not a department has complied with legislation do not provide sufficient information for the Parliament or community to understand whether or not the department is providing quality services. The Committee considers that performance

298 Department of Primary Industries, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 21 December 2011, pp.4-5

299 Department of Primary Industries, *Annual Report 2009-10*, p.92; Department of Primary Industries, *Annual Report 2010-11*, p.112

300 Department of Justice, *Annual Report 2010-11*, p.64

301 *ibid.*, p.60

measures based on providing services at a level beyond what is mandated in legislation are more informative.

FINDING

Some quality performance measures are based on compliance with a minimum standard of performance. For some measures, the standards are only what is set out in legislation, whereas other measures are based on service levels beyond what is mandated.

RECOMMENDATION 31:

Departments review quality performance measures that are solely based on compliance with legislation, to identify whether more challenging service levels might be set as targets.

Performance indicators with project completion dates as targets

Many performance indicators have completion dates as targets. The Committee considers that, as the reporting of a date alone does not indicate the total length of the project, the significance of any reported delay is ambiguous. That is, a three-month delay in a five-year project may not be considered significant, but in a six-month project this delay may be highly significant. If the performance measure relates to the date of a report publication, significance determination may have little to do with the length of time between reports and more to do with the use to which the reports are put. The Committee notes that no specific guidance to departments as to what length of delay is significant or material is given in the relevant section in the Model Report.³⁰²

When discussing variances for a project that is significantly delayed, the Committee considers that a department must provide enough information to stakeholders to show the degree of significance. That is, the start date for the project should be reported along with the original scheduled date of completion, as well as any revised date of completion. As with all variances, the discussion should also identify root causes for the delay as well as remedial action by the department.

- The Department of Transport has a performance measure ‘SmartBus: Yellow Orbital Stage 2 – Ringwood to Melbourne Airport: completion of bus stop upgrade works’ with a target of ‘qtr 2’ and a result of ‘n/a’.³⁰³ A footnote reports that the project is expected to be complete in the second quarter of next year – a 12 month delay.
- The Department of Treasury and Finance has four target dates for its output performance measure ‘Quarterly Financial Reports’. The report scheduled for 15 November 2010 was delivered on 21 December 2011, as a result of the scheduling of the election.³⁰⁴

302 Department of Treasury and Finance, *2010-11 Model Report of Operations for Victorian Government Departments*, March 2011, p.18

303 Department of Transport, *Annual Report 2010-11*, p.126

304 Department of Treasury and Finance, *Annual Report 2010-11*, p.15

FINDING

Some performance measures have dates as targets. No guidance is given in the Model Report to indicate how to determine whether a delay in a completion date is to be considered significant or material.

RECOMMENDATION 32:

The Department of Treasury and Finance provide guidance in the Model Report to help departments determine whether a delay in a performance measure with a date as a target is significant or material.

Performance measures that describe a distribution of data

In a number of cases, performance measures report on times of response or 'queue length'. Queues are typically skewed distributions, and are not able to be comprehensively described by reporting an average. In many cases, especially in regard to medical or other emergency situations, an understanding of the greatest length of wait is critical. In this case, the Committee consider that reporting the response time at the 50th and 90th percentiles to be more comprehensive than a simple average.

- Timeliness measures for Ambulance Victoria changed in 2007-08. Prior to this year, the agency reported response times at the 50th and 90th percentile. That is, two response times were reported: the time in which half of all incidents were responded to; and the time in which 90 per cent of incidents were responded to. Since 2008-09, the performance measures reported have been the proportion of incidents responded to within 15 minutes.³⁰⁵

The Committee notes that the Auditor-General has recommended reporting response times at the 50th and 90th percentile.³⁰⁶ The Committee consider that this practice would be appropriate in a number of other measures as well.

FINDING

There are instances of performance measures where the result was previously given in terms of 50th and 90th percentiles and is now given as a single result, which reduces the ability for stakeholders to fully understand the performance of departments. Other performance measures would also be made more meaningful through reporting results at the 50th and 90th percentiles.

RECOMMENDATION 33:

Departments review their performance measures to determine whether providing results at the 50th and 90th percentiles would convey a more comprehensive understanding of departmental performance to stakeholders.

305 Ambulance Victoria, *2010-11 Annual Report*, p.27

306 Victorian Auditor-General's Office, *Access to Ambulance Services*, October 2010, p.56

Non-granular performance measures

The Committee encountered a number of performance measures where the results were in terms of achievement or non-achievement of a goal. The Committee considers that the performance of departments could be better communicated through other types of measures, such as appropriately structured target dates or quality assessments. Such measures would still communicate whether or not the tasks were performed but would also provide additional information.

- The performance measure ‘Development of the Growing Victoria Together outcomes report within required timeframe’ for the Department of Premier and Cabinet had a target for 2010-11 of ‘yes’, and an actual result of ‘no’.³⁰⁷ The Committee has no comment about the result of the measure, but it considers that the structure of the measure itself is imprecise as discussed above. The Committee also notes the measure has been discontinued for future years.
- The Department of Treasury and Finance has a performance measure ‘Annual review of whole of government compliance framework’. For 2010-11, the target was one, and the result was one.³⁰⁸ The Committee considers that this performance measure does not provide sufficiently meaningful information for users to adequately assess actual performance. The Committee also considers that a different measure, such as ‘proportion of whole of government compliance framework reviewed’ would convey more useful information.
- The Department of Treasury and Finance’s performance measure ‘Daily management of the Public Account bank account and set off pool balances’ has a target of ‘daily’, and an outcome of ‘daily’.³⁰⁹

It is unclear to the Committee how poor performance in this measure might be expressed, or how a variance might be calculated. The Committee considers that this measure does not provide sufficient meaningful information and that users are not able to adequately assess actual performance. The Committee considers that a measure ‘Number of days the Public Account bank account was not managed’, with a target of zero would be more precise.

- The Department of Transport has provided a performance measure covering its Regional Rail Link project, simply called ‘Regional Rail Link’. The target for 2010-11 for this measure was 12 per cent, and the actual outcome was 6 per cent.³¹⁰ The Committee considers this measure to be of limited value as it does not specify what the proportion relates to. The Committee considers this measure to be the least communicative of all the measures it has examined.

307 Department of Premier and Cabinet, *2010-11 Annual Report*, p.130

308 Department of Treasury and Finance, *Annual Report 2010-11*, p.13

309 *ibid.*, p.15

310 Department of Transport, *Annual Report 2010-11*, p.124

FINDING

A number of performance measures relate to whether or not a task was completed. However, measures of when the task was completed or how well the task was completed would convey more information about departmental performance.

RECOMMENDATION 34:

Departments review those performance measures which solely indicate whether or not a task was performed and, where meaningful, replace them with measures of the timeliness or quality of the task's performance.

FINDING

The Department of Transport's 'Regional Rail Link' output performance measure provides no sufficiently meaningful information and its results are ambiguous.

RECOMMENDATION 35:

The Department of Transport revise its performance measure 'Regional Rail Link' to more clearly define the measure.

5.4.3 Issues with setting targets for performance measures

The Committee has reported on the number of variances in performance measures in Section 5.2 of this chapter. Significant variances (above or below target levels by 10 per cent or more) made up 30 per cent of all cost and non-cost performance measures for both 2009-10 and 2010-11.

The Committee considers that one possible reason for the high number of significant variances in performance measures is that targets set for these measures are not realistic. Some targets may be set too low and are therefore exceeded by regular service delivery. Some may be set too high and the required increase in performance by the department is unattainable.

The Committee has observed two distinct causes of inappropriate target setting for performance measures: inaccurate production of expected outcomes figures at the time of the budget; and faulty processes in setting the target.

Production of expected outcomes figures

The expected outcome for the current year is one of the inputs into the process of setting the target for the next year. An accurate forecast of the year's outcome provides information about what might constitute a realistic result for the next year.

The expected outcomes which contribute to targets for the next year are published in the budget papers. These expected outcomes are published in May of the financial year to which the estimates relate.

In comparing the expected outcomes for 2010-11 with the actual outcomes, the Committee observed a large number of instances where there was a significant difference between the expected outcome and the eventual actual outcome for the performance measure. In these cases, where the expected outcome was not an accurate forecast of the eventual outcome, the

target for the next year may not have been set on a sound basis. The Committee considers this to be a serious problem with the target-setting process.

There were 1,233 cost and non-cost performance measures for 2010-11. Of these, the expected outcome for some 203 performance measures (as listed in the budget papers) was not within 10 per cent of the target.

In contrast, the number of actual results that were not within 10 per cent of the target was 360. That is, in at least 150 cases, no significant variance was expected in May, but a significant variance had occurred by the end of June. This number is higher for each case where there was an expected variance in May that did not eventuate by the end of June.

FINDING

When preparing targets for performance measures for the next year, expected outcomes for the current year are calculated. These are included in the budget papers. In 2010-11, the expected outcomes suggested that 203 measures would vary significantly from target. The actual results, however, were that 360 measures had significant variances.

In order to gather more details about performance measures where the expected outcome figure varied greatly from the eventual actual outcome, the Committee approached a number of departments for information about how the expected outcome for specific measures was determined.

The Committee notes a range of responses, and some examples are provided below.

In some cases, expected outcomes were based on relevant data that were inappropriately used to produce the expected outcome or incorrectly calculated. In other cases, data that the Committee expects were available appear not to have been used.

- For the Department of Sustainability and Environment's performance measure 'Personnel with accreditation in a fire role', the expected outcome was 1,500. The actual result was 2,068. The Department communicated to the Committee that '*the expected outcome was based on the December 2010 actual of 1517*'.³¹¹ The Committee notes that the December 2010 actual result had already exceeded the level expected for the whole financial year that was provided in May.
- The expected outcome for the Department of Business and Innovation's 'Trade fairs and missions supported' performance measure was 29. The figure for the end of June was 42. The Department stated that the reason for the actual result being higher than the expected outcome was '*increased trade missions due to special trade mission focusing on India*'.³¹² The Committee notes that budgets are allocated well in advance, and trade missions take significant time to plan and arrange. Therefore the Committee considers that the Department should have been aware in May 2010 of most, in not all, of the 42 fairs and missions to take place before 30 June 2010.

311 Department of Sustainability and Environment, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 21 December 2011, p.10

312 Department of Business and Innovation, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 23 December 2011, p.13

- The Department of Sustainability and Environment incorrectly identified an expected outcome of 300 for its output measure ‘personnel accredited to serve in a senior capacity (level 2 or 3) in a fire role’. According to the Department, ‘*The original target of 230 was exceeded, however due to a calculation error the expected outcome for June 2011 was overstated by 70 to 300 personnel*’.³¹³

FINDING

Some inaccurate expected outcomes for performance measures have come about through inappropriately using data, failing to use data and through miscalculations.

Setting the performance measure target

There are several cases where the Committee observed very large variations between the target and the actual result. In some cases, the Committee considers that these variations are a result of poor target setting. These include cases where the Committee considers the target may have been set too low, and cases where the target has not been changed when a change may have been appropriate. In one case, the Committee was informed that the target has been set according to criteria in addition to past performance or operational priorities.

The Committee considers that where actual results differ significantly and consistently with their targets for a number of years, then poor targets have been set. The Committee has identified a substantial number of instances where such consistent variations have been recorded, and has included four examples below.

The Department of Treasury and Finance, in its Budget and Financial Management Guidances, states that ‘*performance measures help establish the building blocks of an accountability system that provides the drive for continuous improvement*’,³¹⁴ and that ‘*Performance targets set the quantity, quality, timeliness and cost levels which departments aim to achieve for delivery of outputs*’.³¹⁵ The Committee considers that, in order for the performance measure to produce continuous improvements in departmental performance, not only should the target set a level of challenge to the department, but the target should be evaluated in the light of past performance.

The following is an example of what the Committee considers to be an appropriate adjustment to a target. The target set for the ‘Calls to food safety hotlines’ performance measure for the Department of Health was revised downwards for 2011-12 as shown in Table 5.7 below. The adjustment was carried out after a determination that consumers’ reliance on websites has increased, lessening the demand for telephone hotlines.³¹⁶ In this case, past performance data have been used to create a more realistic target.

313 Department of Sustainability and Environment, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 21 December 2011, p.10

314 Department of Treasury and Finance, *Budget and Financial Management Guidances, BFMG-09*, October 2007, p.115

315 *ibid.*

316 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.209

Table 5.7: 'Calls to food safety hotlines', actual results, expected outcomes and targets

	2009-10 (number)	2010-11 (number)	2011-12 (number)
Target	5,000	5,000	4,500
Expected outcome	4,400	4,500	-
Actual	4,409	4,268	-

Source: *Budget Paper No.3, Service Delivery, 2007-08 to 2011-12; Department of Health, Annual Report 2010-11, p.199*

The following are examples where the Committee considers that target-setting has been inappropriate. The Committee identified a substantial number of similar instances to these in its investigation and intends to report more thoroughly on this matter as part of its Inquiry into the 2012-13 Budget Estimates.

The actual result for the Department of Planning and Community Development's performance measure 'Victorian Institute of Sport scholarship holders on national teams/squads' has been well above target over the last three years. The Committee notes that the calculation of the expected outcomes for this performance measure has been of a higher accuracy, and considers that the process failure is with the setting of the target itself.

Table 5.8: 'Victorian Institute of Sport scholarship holders on national teams/squads', actual results, expected outcomes and targets

	2007-08 (per cent)	2008-09 (per cent)	2009-10 (per cent)	2010-11 (per cent)
Target	>55	>55	>55	>55
Expected outcome	56	65	65	64
Actual	56	65	64	70

Source: *Budget Paper No.3, Service Delivery, 2008-09 to 2011-12; Department of Planning and Community Development, Annual Report 2010-11, p.35*

Actual results for the Department of Premier and Cabinet's performance measure 'International markets accessed' have also been significantly above target levels for the last three years. In this case neither the next year's targets nor the expected outcomes have reflected the significant and sustained increase in the results of the measure.

Table 5.9: 'International markets accessed', actual results, expected outcomes and targets

	2007-08 (number)	2008-09 (number)	2009-10 (number)	2010-11 (number)
Target	20	20	20	20
Expected outcome	20	20	20	20
Actual	20	24	24	25

Source: *Budget Paper No.3, Service Delivery, 2008-09 to 2011-12; Department of Premier and Cabinet, Annual Report 2010-11, p.135*

For one particular performance measure, the Department of Business and Innovation's 'New Investments Facilitated', the Committee sought detailed explanations for why the targets did not appear to reflect past performance. This is detailed in the case study below.

FINDING

Although many performance measures' targets are adjusted in line with historic results, there are some measures where historic results appear not to have been taken into account.

Finally, the Committee notes that there is at least one example of targets being set according to criteria that are not related to either past performance or expected future performance. Family violence incidents are a substantial component of the Department of Justice's performance measure 'Reduction in crimes against the person'. However, the performance target for this measure was 2 per cent (that is, a 2 per cent reduction). Victoria Police's *Annual Report 2010-11* notes that family violence is '*one of the areas where increases in crime statistics are considered a positive. Increased reporting signifies that community members have increasing confidence to report family violence to police*'.³¹⁷ The Committee approached Victoria Police to determine how the target for the performance measure was set. Victoria Police responded that:³¹⁸

Targets are not determined solely on the basis of the performance trend over time, or the impact of Victoria Police operational priorities. They are also influenced by broader portfolio and government priorities, including a reduction in crime.

The Committee does not consider that it is appropriate for the target level for a performance measure to be set according to criteria other than past or expected future performance.

FINDING

Victoria Police has indicated that the target for the 'Reduction in crimes against the person' performance measure has been set with regard to criteria in addition to past or expected future performance.

RECOMMENDATION 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.

Case study: New Investments Facilitated

The actual results for the Department of Business and Innovation's 'New Investments Facilitated' performance measure have significantly exceeded target levels for several years. Despite this, the target has remained unchanged (see Table 5.10). The Committee also notes that the expected outcome has been well below the actual result for the past four years, and has been the same as the target for three of those years.

317 Victoria Police, *Annual Report 2010-11*, p.19

318 Victoria Police, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 18 January 2012, p.9

The Committee notes that there are a number of other performance measures for the Department of Business and Innovation that have not had an adjustment in target for several years where an adjustment may be warranted.

Table 5.10: ‘New investments facilitated’ performance measure, actual results, expected outcomes and targets

	2007-08	2008-09	2009-10	2010-11
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Target	1,600	1,600	1,600	1,600
Expected outcome	1,600	2,500	1,600	1,600
Actual	3,254	3,070	2,113	2,790

Source: *Budget Paper No.3, Service Delivery, 2005-06 to 2011-12; Department of Business and Innovation, Annual Report 2010-11, p.161*

The former Committee commented on this performance measure in previous reports, most recently in its *Report on the 2008-09 Financial and Performance Outcomes*. After noting the significant excess of the measure’s result over its target, the Committee recommended that:³¹⁹

The Department of Innovation, Industry and Regional Development [now the Department of Business and Innovation] continue revising its performance targets to ensure that its targets in future years are sufficiently robust.

The previous Government accepted the recommendation in October 2010, commenting that ‘DIIRD will continue to undertake an annual review of all targets’.³²⁰

The Committee notes that in May 2011 the target for this performance measure set by the Department of Business and Innovation and the Department of Treasury and Finance for 2011-12 was unchanged at \$1,600 million.

The Committee approached the Department for information as to how the expected outcome for the measure was determined. The Department responded that ‘the measure is based on average historical outcome data’.³²¹ Following this, the Committee performed its own calculations based on four-year rolling averages of historical outcome data (see Table 5.11).

319 Public Accounts and Estimates Committee, *Report on the 2008-09 Financial and Performance Outcomes*, May 2010, Recommendation 23, p.226

320 Victorian Government, Government Responses to the Committee’s 94th Report on the 2008-09 Financial and Performance Outcomes, tabled 6 October 2010, p.12

321 Department of Business and Innovation, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 23 December 2011, p.13

Table 5.11: 'New investments facilitated' performance measure, four-year averages of actual results (\$ million)

	2007-08 (\$ million)	2008-09 (\$ million)	2009-10 (\$ million)	2010-11 (\$ million)
Four year average of prior actual results	2,849	3,087	2,995	2,807
Expected outcome	1,600	2,500	1,600	1,600

Source: Budget Paper No.3, Service Delivery, 2004-05 to 2010-11

When questioned further about how the Department had calculated its expected results, the Department responded:³²²

The targets are informed by historical outcomes data, the forward pipeline of investment and the global economic environment.

The 2010-11 expected outcomes were determined on the basis of achieving the targets, in the absence of any definitive impact of significant movement in the forward pipeline of investment or the global economic environment.

The Department also provided additional information about the setting of the target at 1,600.³²³

The performance target was set at \$1600 million in 2004-05. It was established as a rolling four year target in 2007-08. The 2007-08 Budget Paper Number Three footnote to this measure notes, 'DIIRD's preference is to maintain a rolling target over a four year period for the number of new investments facilitated at an average of \$1.6 billion per annum' and cites 'volatility in the foreign investment attraction market' as the rationale.

It is acknowledged that this target has consistently been exceeded, however, as explained in previous budget paper footnotes, it is subject to long lead times and volatility in the investment attraction and facilitation market and is therefore difficult to forecast.

As the actual results have significantly exceeded targets and expected outcomes for several years, the Committee considers that the current procedures are not providing realistic expected outcome or target figures for this performance measure. The Department did inform the Committee that it is reviewing the target as part of the 2012-13 budget process.³²⁴

The Committee will be continuing its interest in this performance measure and in other performance measures for the Department.

322 Department of Business and Innovation, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 8 March 2012, p.4

323 *ibid.*

324 *ibid.*

FINDING

The Department of Business and Innovation has significantly exceeded target levels for its 'New Investments Facilitated' performance measure for several years. Current procedures are not providing realistic expected outcome or target figures for this performance measure.

RECOMMENDATION 37:

The Department of Business and Innovation develop new procedures to calculate expected outcomes and targets for performance measures.

The role of the Department of Treasury and Finance in setting targets

The Department of Treasury and Finance (DTF) has a formal role in both establishing expected outcomes and setting targets. The Committee considers that failures have occurred in both of these processes.

Business Rule 8 of BFMG-09 (Output Specification and Performance Measures) states that '*Departments and DTF should regularly review information collection systems and processes to ensure that data sets are useful and relevant for both internal and external needs*'.³²⁵ The Committee therefore considers that the Department of Treasury and Finance has a role in ensuring that departments have appropriate systems in place to provide realistic expected outcomes.

The setting of the target for a performance measure is a joint process between the department concerned and the Department of Treasury and Finance. Business Rule 9 of BFMG-09 (Output Specification and Performance Measures) states that '*Departments and DTF should jointly review departmental outputs, and the performance measures used to evaluate service delivery, annually for their continuing relevance and robustness*'.³²⁶ That is, the Department of Treasury and Finance has a role in negotiating and setting targets for performance measures prior to the budget each year.

For the examples above where the expected outcomes for performance measures have not been accurate, including those where an arithmetic or other error was involved, the Committee considers that the Department of Treasury and Finance ought to have detected the inaccuracy as part of its quality oversight, and taken remedial action.

For those examples where the target eventually set for the performance measure was inappropriate, the Committee considers that the Department of Treasury and Finance ought to have set a more appropriate target to ensure robustness.

FINDING

There are examples where the Department of Treasury and Finance appears not to be fulfilling its role (as set out in the Budget and Financial Management Guidances) of reviewing departmental performance measures for their relevance and robustness.

325 Department of Treasury and Finance, *Budget and Financial Management Guidances, BFMG-09*, October 2007, p.112

326 *ibid.*

RECOMMENDATION 38:

The Department of Treasury and Finance ensure that it has systems in place to identify errors in the calculation of expected outcomes for performance measures.

RECOMMENDATION 39:

The Department of Treasury and Finance ensure that it has systems in place to assess whether targets as suggested by departments are appropriately realistic and robust.

The Committee notes that one of the outputs defined for the Department of Treasury and Finance, *Budget and Financial Policy Advice*, provides:³²⁷

... analysis and advice to Ministers, Cabinet and Cabinet Sub-Committees on resource allocation, departmental financial, output and asset delivery performance to support the Government in making decisions on the allocation of the State's fiscal resources.

The Committee considers that improving the accuracy of expected outcomes in budget papers is aligned with this output. Such an improvement would also have the consequence of making the measures more relevant and challenging for departments, encouraging the departments to improve their own performance.

The Committee believes that a performance measure which monitors how accurate the expected outcomes in the budget papers are would reflect the accountability that the Department has in its *Budget and Financial Policy Advice* output.

The Committee notes that there is currently a similar performance measure for the Department of Treasury and Finance, 'Accuracy of estimating State taxation revenue'.

FINDING

The Department of Treasury and Finance has a role in providing accurate information to the Government to assist in decision-making about resource allocation. As part of this, the Department should ensure that the expected outcomes in the budget papers are accurate.

RECOMMENDATION 40:

The Department of Treasury and Finance develop a new quality performance measure for itself that measures the accuracy of the expected outcomes published in the budget papers.

5.4.4 Issues with the explanations for variances in annual reports

As part of its review of performance measures, the Committee has examined a large number of explanations for variances from target given by departments, both in annual reports and in information sent to the Committee. The Committee considers that a large number of poor explanations for variances have been given in annual reports.

327 Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.355

The Department of Treasury and Finance's Model Report states that performance reporting in annual reports should include.³²⁸

... appropriate commentary to explain the cause of significant or material variances between the BP3 targets and actual results. The commentary provided should be sufficient to assist the reader in understanding variances between actual and targeted results

The Committee considers that in order to assist the reader in understanding variances, explanations must:

- be clear and comprehensive;
- identify the root cause of the variance;
- identify whether the cause of the variance was an internal or external factor;
- definitively explain how the identified cause affected the result of the measure; and
- identify any remedial action planned.

The following sections provide examples of explanations that the Committee considers do not meet these standards.

Unclear or incomplete reasons

The Committee considers that explanations provided by departments should be sufficiently clear to give the reader an understanding of how the variance occurred. In addition, the explanation should be sufficiently comprehensive so that readers are not required to make assumptions for this understanding.

- The Department of Planning and Community Development's performance measure 'Projects funded through the Victorian Community Support Grants program for the purpose of planning, community strengthening and infrastructure' had a target for 2010-11 of between 90 and 100 projects, whereas the actual result was 58 projects.³²⁹ The explanation for the variance was that:³³⁰

This program was fully committed in the second quarter of the year, due to a higher than expected number of applications in October 2010 and less funding being available in 2010-11 compared to previous years.

The Committee is aware of several ways in which a fully committed program could result in a low number of projects funded. However, the explanation given does not allow the reader to understand how this has come about.

328 Department of Treasury and Finance, *2010-11 Model Report of Operations for Victorian Government Departments*, March 2011, p.18

329 Department of Planning and Community Development, *Annual Report 2010-11*, p.39

330 *ibid.*

Failure to identify the root cause

The Committee considers that it is impossible for a reader to gain an understanding of a variance in a performance measure if the underlying cause of the variance has not been identified by the department.

- The Department of Business and Innovation reports a result for its performance measure ‘Average number of monthly visits to Victoria Online’ in 2010-11 of 427,546 against a target of 270,000.³³¹ The explanation for the variance is a breakdown of the overall result, with no further analysis.³³²
- The Department of Treasury and Finance comments in its *Annual Report 2010-11*: ‘*The target for Significant projects delivered within agreed timelines was exceeded due to the completion of work ahead of schedule*’.³³³ The Committee considers that the cause identified by the Department is not the root cause. That is, the explanation should identify why work was completed ahead of schedule.

Restatement that there was a variance

Closely related to the failure to identify a root cause was the tendency for many explanations to repeat that there had been a variation without identifying the cause.

- The result of the Department of Transport’s performance measure ‘Vigilance Control and Event Recording System (VICERS): commence installation on Xtrapolis fleet’ was ‘*qtr 4*’, two quarters later than the target of ‘*qtr 2*’. The explanation for the delay was that ‘*The VICERS installation on the 29 X’Trapolis trains commenced the fourth quarter of 2010-11*’.³³⁴
- The Department of Human Services’ output performance measure ‘FReeZA: event attendance’ had a target of 130,000 for 2010-11, and a result of 140,000.³³⁵ The explanation given was that ‘*A higher than expected number of young people participated in larger sized events and community festivals*’.³³⁶

Failure to identify whether factors are internal or external

Causes for variance may be internal (a factor within the control of the department) or external (a factor outside the control of the department). Knowledge of the origin of the variation is critical in understanding the department’s performance in the year and in managing the performance measure in future years.

- The result for the Department of Health’s output performance measure ‘Time on hospital bypass’ was 1.9 per cent for a target of 3.0 per cent. The commentary for the variation was that ‘*below target is a positive result*’.³³⁷

331 Department of Business and Innovation, *Annual Report 2010-11*, p.160

332 *ibid.*, p.164

333 Department of Treasury and Finance, *Annual Report 2010-11*, p.19

334 Department of Transport, *Annual Report 2010-11*, p.126

335 Department of Human Services, *Annual Report 2010-11*, p.55

336 *ibid.*, p.57

337 Department of Health, *Annual Report 2010-11*, pp.187-8

The Committee considers that this is an example of when the explanation does not communicate the root cause. However, the Committee also considers that this is an example of where knowledge of whether the cause was internal to the department or external is critical to future management of the measure.

Speculative reasons

The Committee considers that in order to give the reader an understanding of variances, explanations provided should be definitive. That is, departments should not speculate on the reasons but provide an authoritative explanation.

- The Department of Education and Early Childhood Development reports a series of variances in performance measures in the *Later Years and Youth Transitions* output for 2010-11.³³⁸ The explanation ‘*The high 2010–11 actual compared to the 2010–11 target may be due to the impact of successful Youth Transitions initiatives implemented by the Department*’ is used several times.³³⁹

FINDING

Departments are required to provide explanations for significant or material variances between targets and actual results in their annual reports. However, many explanations provided were unsatisfactory, due to providing unclear or incomplete reasons, failing to identify the root cause, being simply a restatement that there was a variance, failing to identify whether the factors were internal or external or providing speculative reasons.

RECOMMENDATION 41:

The Department of Treasury and Finance provide more guidance to departments on required standards of explanations for variances for performance measures.

Lack of explanations for variances in annual reports

The Model Report requires explanations for the cause of ‘*significant or material variances in output performance reporting*’.³⁴⁰ An explanation is required not only for a variance of 10 per cent from the target level, but also for:

- *a variance that arises from the implementation of new policy or existing policy, government decisions or actions;*
- *a variance that arises from other third party influences (i.e. Commonwealth, consumer trends, etc.); and*
- *a variance that may be of public interest.*

338 Department of Education and Early Childhood Development, *Annual Report 2010-11*, p.45

339 *ibid.*

340 Department of Treasury and Finance, *2010-11 Model Report of Operations for Victorian Government Departments*, March 2011, p.18

The Committee considers that an identified trend in a performance measure over time, particularly either a rapid trend or one in an unfavourable direction, is likely to be of public interest. This therefore would require an explanation, even though results may be within 10 per cent of the set target.

- Over the three-year life of the Department of Justice’s performance measure ‘Customer satisfaction rating: Community education/training programs, services and events delivered by the VEOHRC [Victorian Equal Opportunity and Human Rights Commission]’, the result of this measure has declined from 100 per cent to 86 per cent. The Committee notes that the target for this measure has remained at 85 per cent, hence the results are still above target. However, the Committee also considers that the results constitute a trend over time, and despite being within 1 per cent of target for 2010-11, this is an example of a variance that may be in the public interest.

FINDING

There are examples of variances that are significant or material that do not have explanations given in annual reports.

5.4.5 Reporting estimates as actual results

The Committee identified one instance in which a department presented an estimate in its annual report as an actual result without identifying that it was an estimate.

- Results for the Department of Justice’s performance measure ‘Quality of court registry services’ between 2007-08 and 2009-10 have consistently been above 95 per cent.³⁴¹ However, the reported figure for 2010-11 declined to 85 per cent.³⁴² The Committee approached the Department for information about the sudden and significant decline in service quality. The Department responded that.³⁴³

The figure published in the annual report (85 per cent) was an estimate of performance at that time of reporting. The actual result for 2010-11 has now been confirmed at 95 per cent. The department has introduced changes to ensure the actual result can be reported sooner rather than rely on an estimate.

The Committee considers that presenting an estimate in the departmental annual report can be appropriate under some circumstances, such as when actual results are not available at the time of compiling the annual report. However, the Committee also considers that in presenting an estimate in the annual report without disclosing that it is an estimate, the Department of Justice has omitted critical information for stakeholders.

The Committee considers that this additional information is especially relevant given the significant variation between the estimate included in the annual report and the actual result communicated subsequently to the Committee.

341 Department of Justice, *Annual Report 2007-08*, p.108; Department of Justice, *Annual Report 2008-09*, p.116; Department of Justice, *Annual Report 2009-10*, p.49

342 Department of Justice, *Annual Report 2010-11*, p.61

343 Department of Justice, response to Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 18 January 2012, p.11

FINDING

There is at least one instance in 2010-11 where an actual result included in an annual report has been an estimate without this being disclosed in the annual report.

RECOMMENDATION 42:

The Department of Treasury and Finance amend the Model Report to instruct departments to identify any figures reported as actual results in annual reports which are estimates.

CHAPTER 6: GENERAL GOVERNMENT SECTOR ASSET INVESTMENT IN 2009-10 AND 2010-11

6.1 Introduction

This chapter looks at asset investment by the departments in 2009-10 and 2010-11. Asset investment consists primarily of funding for infrastructure projects, such as schools, hospitals and roads. The chapter focuses on projects listed for departments in the Public Sector Asset Investment Program budget information paper (now the State Capital Program budget paper). Projects delivered by the public non-financial corporations sector are beyond the scope of this inquiry.

To assess departments' performance at delivering these projects, the Committee has focused on three aspects of project delivery:

- the total estimated investment (TEI) over the life of projects and how this has changed;
- the actual expenditure in 2009-10 and 2010-11 and how this compares with the budget estimates; and
- the latest estimated completion dates of projects and how these compare with the dates originally planned.

The Committee found that, for all projects listed in the 2009-10 budget papers that continued in 2010-11, the overall TEI rose by \$243.9 million. Similarly, for projects listed in the 2010-11 budget papers that continued in 2011-12, the total TEI rose by \$299.3 million.

For projects where there was a significant (that is, greater than 10 per cent) variance between the budgeted and actual expenditure for the year, there was a \$785.5 million under-spend for 2009-10, and a \$679.3 million under-spend for 2010-11.

Of the 126 projects for which changes to completion dates were supplied by departments, three projects (2.4 per cent) had completion dates brought forward by more than three months, and 92 (73.0 per cent) had completion dates delayed by more than three months. For the significantly changed projects, on average, projects were delayed by 11.6 months.

The Committee notes that, in both years, changes to TEI figures resulted in a net overall increase, yearly expenditure was less than budgeted, and average project lengths increased.

Three categories of projects have been identified by the Committee for additional attention. These projects are those which have been identified by the Government as 'high value, high risk', those identified as having major cost pressures, and those where Major Projects Victoria is providing project management advice. Projects procured through public private partnership arrangements have not been included in this analysis, as they would need to be assessed by different measures. The Committee may examine these in more detail in future years.

In its *Review of the 2009-10 and 2010-11 Annual Reports*,³⁴⁴ the Committee suggested that a 54-bed expansion project at Dhurringile Prison had been delayed from 2009-10 until a date during 2012. This was because the Department of Justice provided details in both its 2009-10 and 2010-11 annual reports of a 54-bed expansion at Dhurringile Prison and the Committee assumed that this was the same project. Information subsequently provided by the Department indicated that, in fact, there were two separate 54-bed expansion at Dhurringile Prison, the first of which was delivered on time during 2009-10, and the second of which is due during 2012.

6.1.1 Background

As discussed in Chapter 3 of this report, one of the Government's key fiscal objectives is improving the delivery of major asset projects with respect to timeliness and adherence to budget. With this in mind, the Committee has investigated timeliness and adherence to budget for asset investment projects in 2009-10 and 2010-11.

For 2009-10, the expenditure on asset projects by the general government sector was \$5,897.8 million. Of this, \$4,661.2 million was spent by departments and their portfolio agencies, while \$1,236.6 million was invested in 'financial assets for policy purposes' (which is mostly investments in public non-financial corporations).³⁴⁵ This category of investment is discussed further in Section 6.2 below.

For 2010-11, the expenditure on asset projects was \$6,823.8 million. Of this, \$4,886.3 million was expenditure by departments and \$1,937.5 million was 'net cash flows to investments in financial assets for policy purposes'.³⁴⁶

FINDING

For the general government sector, asset investment totalled \$5.9 billion in 2009-10 and \$6.8 billion in 2010-11, an increase from \$4.3 billion for 2008-09.

Budget Paper No.4 (State Capital Program) (formerly Budget Information Paper No.1) sets out estimates of expenditure for each asset project for the year ahead at the start of the financial year. After the end of the financial year, the actual amounts of asset investment are reported in aggregate for the general government sector in the Financial Report for the State of Victoria. However, actual expenditure for individual projects is not reported.

As in previous years, the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire included requests for information on asset investment projects. The questionnaire sought details of areas where the Committee had identified a lack of specific information about asset investment outcomes in the regular reporting mechanisms. The Committee made efforts to keep the requests for information to a minimum.

This process revealed a number of shortcomings in the existing reporting mechanisms, as described later in this chapter.

344 Public Accounts and Estimates Committee, *Review of the 2009-10 and 2010-11 Annual Reports*, February 2012, p.68

345 Department of Treasury and Finance, *Financial Report for the State of Victoria 2010-11*, October 2011, p.28

346 *ibid.*

The Committee recommends later in this chapter that a detailed and comprehensive set of information be made publicly available in a spreadsheet. Such disclosure would greatly enhance accountability in the area of asset investment.

6.2 'Investment in financial assets for policy purposes'

As noted above, the general government sector invested \$1.2 billion in 2009-10 and \$1.9 billion in 2010-11 in 'investments in financial assets for policy purposes'. The Committee has identified previously that there is no plain definition of this term.³⁴⁷ The Australian Accounting Standards Board states that:³⁴⁸

Acquisition of financial assets for policy purposes is motivated by government policies such as encouraging the development of certain industries or assisting citizens affected by natural disaster.

The Committee is unaware of any post-investment reporting of the specific destinations of these investments. Further, the Committee is unaware of any reports showing what the outcomes of these investments were, or whether the outcomes were in accordance with the policies under which the investments were made.

The Committee considers that the principle of transparency would be aided by the provision of a plain English definition of this item, including the presentation of illustrative examples, along with details of where these investments are reported, both prior to the investment and after the project's completion.

FINDING

Over \$1.2 billion in 2009-10 and \$1.9 billion in 2010-11 was invested in 'investments in financial assets for policy purposes'. However, there is no clear definition of this category nor explicit post-project reporting of these investments, either in terms of investment outcome or the achievement of policy aims.

RECOMMENDATION 43:

The Department of Treasury and Finance provide a plain English definition of 'investments in financial assets for policy purposes' as well as a report detailing the investments that were funded under this item and the outcomes of these investments.

347 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2010, p.102. The definition provided in the annual Financial Report for the State (p.203 in 2010-11) is not sufficient for a reader to fully understand what is actually being achieved with this expenditure.

348 Australian Accounting Standards Board, *Compiled AASB Standard AASB 1049: Whole of Government and General Government Sector Financial Reporting*, August 2009, p.102

6.3 Investigation of asset projects

For 2009-10, there were 564 asset projects listed under departments in the budget papers. These had an aggregate TEI of \$15.5 billion and a budgeted expenditure during 2009-10 of \$4.7 billion.³⁴⁹

For 2010-11, there were 465 asset projects listed under departments in the budget papers. These had an aggregate TEI of \$16.5 billion and a budgeted expenditure during 2010-11 of \$4.6 billion.³⁵⁰

In addition, the general government sector had a commitment of \$27.4 billion as at 30 June 2011 for asset projects to be delivered through public private partnerships.³⁵¹ Analysis and discussion of these projects is beyond the scope of this inquiry, but the Committee may look at this in future inquiries.

As part of its investigation of asset investment for the general government sector, the Committee developed three metrics for understanding the performance of asset projects. These were:

- changes to the TEI of projects;
- variations between actual expenditure and what was budgeted for a year; and
- changes to the expected dates of project completion.

To assess projects based on these criteria, the Committee approached departments for information about asset investment projects. This included:

- latest TEIs and explanations for projects where TEIs reported in budget papers had altered from previous years;
- actual expenditure where this had varied by more than 10 per cent during the year from budget estimates; and
- expected dates of project completion where these had been revised.

Information that the Committee received from departments enabled a more comprehensive analysis of asset projects than would have been the case with published information. The Committee considers that current reporting arrangements for asset investment projects are inadequate for such a comprehensive analysis.

349 Budget Information Paper No.1, *2010-11 Public Sector Asset Investment Program*, May 2010. Differences between these totals and the totals provided in Section 6.1.1 are due to threshold criteria for budget papers and balancing items in the net purchase of non-financial assets figure in the Financial Report.

350 Budget Paper No.4, *2011-12 State Capital Program*, May 2011. Differences between these totals and the totals provided in Section 6.1.1 are due to threshold criteria for budget papers and balancing items in the net purchase of non-financial assets figure in the Financial Report.

351 Department of Treasury and Finance, *Financial Report for the State of Victoria*, October 2011, p.152

6.3.1 *Projects where the TEI has changed*

The TEI for a project may change under several circumstances. For example, changing community requirements or a variation in Government aims can alter the scope for a project. Physical or planning problems might be discovered during construction, which may also change the scope of the project, or require new cost estimates. Alternatively, cost estimates might be updated during tendering processes.

The Committee found that, for all projects that were included in the 2009-10 budget papers that continued in 2010-11,³⁵² the TEI had risen by \$243.9 million. The majority of this increase was made up of the *Primary Schools for the 21st Century* program administered by the Department of Education and Early Childhood Development.

For all projects included in the 2010-11 budget papers that continued in 2011-12, the increase in TEI was higher, at \$299.3 million. This increase was mainly caused by increases in TEI figures for two projects administered by the Department of Health.

All projects for departments that were reported in sequential budget papers were examined, allocating them to three groups: projects that decreased in terms of TEI by more than 10 per cent; those that increased in terms of TEI by more than 10 per cent and those that had no significant change in TEI.

It should be noted that projects that were not included in subsequent budget papers could not be examined in the analysis. Generally the reason for non-inclusion was that the project had been completed but it may also have been because the remainder of the project had fallen below the reporting threshold for the budget papers or the project was expected to be completed within the financial year at the time of the budget estimates but subsequently delayed.

It should also be noted that the scope of this analysis only covers projects assigned to departments, and not public non-financial corporations. This therefore excludes projects such as the Regional Rail Link project, myki, Melbourne and Olympic Park redevelopment, the Melbourne Sports and Aquatic Centre upgrade project and the reinstatement of the visitor centre at Lake Mountain. However, some of these projects have been included in the special categories discussed in Section 6.3.4 of this chapter.

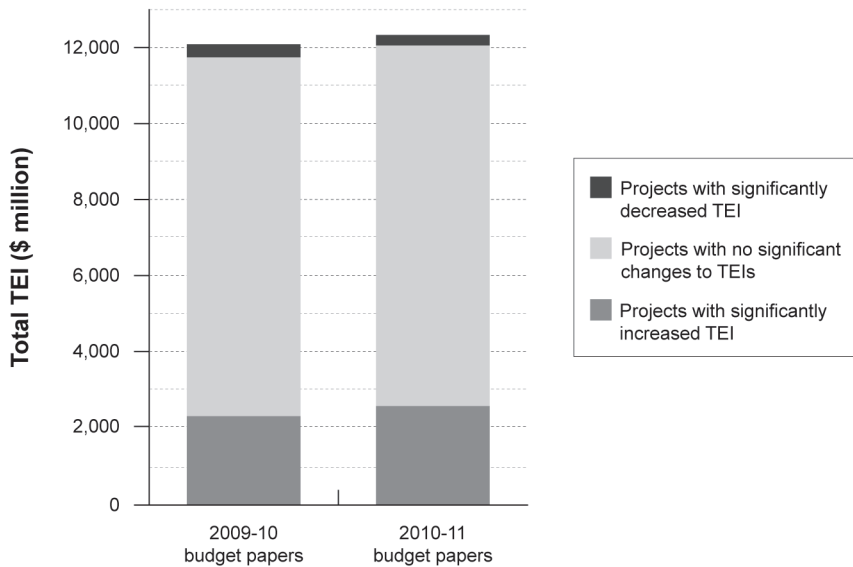
Projects from 2009-10

Figure 6.1 shows asset projects reported in both 2009-10 and 2010-11 budget papers, divided into those that had increased TEIs, those with decreased TEIs, and those where the TEIs did not significantly change between the 2009-10 and 2010-11 budget papers.

Of the 564 projects that were included in the 2009-10 budget papers, 297 were included again in the 2010-11 budget papers. This group had a total TEI of \$12,049.8 million in the 2009-10 budget papers. The total TEI of the group of projects was revised in the 2010-11 budget papers to \$12,293.7 million, an increase of \$243.9 million (see Table 6.1).

352 This does not include projects that were continued in 2010-11 but not listed in the 2010-11 budget papers, as data for these are not available.

Figure 6.1: TEI, asset projects reported in both 2009-10 and 2010-11 budget papers



Sources: *Budget Information Paper No.1, 2009-10 Public Sector Asset Investment Program, October 2009;*
Budget Information Paper No.1, 2010-11 Public Sector Asset Investment Program, May 2010

The overall increase of \$243.9 million in TEI represents an additional unbudgeted requirement on the part of the state in order to obtain the planned infrastructure. The Committee considers that, when the TEI of an asset project changes for any reason, the associated department must plan for the consequent flow-on effects this change will have on other departmental activities. These are significant events in departments’ activities for the year but are not currently reported in departments’ annual reports. However, the Committee notes that the Government is committed to increasing transparency and oversight for major projects, and is considering changes to the Model Report, as discussed in Section 6.4.

FINDING

There were 297 departmental asset investment projects in the 2009-10 budget papers that continued in 2010-11. These projects had an aggregate TEI in the 2009-10 budget papers of \$12,049.8 million, which was revised to \$12,293.7 million in the 2010-11 budget papers, an increase of \$243.9 million. These changes are not currently discussed in departments’ annual reports.

Of the group of projects from 2009-10 that had their TEI significantly revised upwards, the average size of the project was \$109.3 million. The average size of the projects that had their TEI significantly revised downwards was \$20.9 million. The Committee considers the disparity in size between the two groups to be noteworthy, as factors such as weather, scope changes, or tender outcomes should have been independent of project size. The Committee is uncertain why projects that are revised upwards tend to be large projects. The Committee is currently undertaking an Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects which may explore such matters further.

FINDING

Projects that have their TEI figures significantly revised upwards are more likely to be large projects. Projects that have their TEI figures significantly revised downwards are more likely to be small projects.

Table 6.1 below shows information aggregated by department for projects that were included in the 2009-10 budget papers and subsequently also included in the 2010-11 budget papers. The table does not include projects that were not included in the 2010-11 budget papers for any reason, as data from both budget papers are required.

Table 6.1: All departmental projects reported in both 2009-10 and 2010-11 budget papers

Department	Number of projects	Aggregate TEI (2009-10 budget) (\$ million)	Significantly increased		Significantly decreased		Aggregate TEI (2010-11 budget) (\$ million)
			(number)	Aggregate TEI growth (\$ million)	(number)	Aggregate TEI decrease (\$ million)	
Education and Early Childhood Development	100	2,843.8	12	239.6	8	6.5	3,076.5
Health	52	1,179.2	4	7.6	1	2.0	1,187.0
Human Services	4	43.8	0	0.0	0	0.0	43.8
Innovation, Industry and Regional Development	25	588.7	1	10.2	0	0.0	598.9
Justice	27	657.2	1	0.5	3	8.5	646.1
Planning and Community Development	12	220.6	1	5.3	0	0.0	225.9
Premier and Cabinet	3	157.0	0	0.0	0	0.0	157.0
Primary Industries	3	17.9	0	0.0	1	0.5	17.4
Sustainability and Environment	18	941.9	0	0.0	2	3.2	948.9
Transport	51	5,360.5	2	31.0	1	38.4	5,353.1
Treasury and Finance	2	39.2	0	0.0	0	0.0	39.2
Total	297	12,049.8	21	294.2	16	59.1	12,293.7

Note: The Committee considers a significant increase or decrease to be one in excess of 10 per cent.

Sources: Budget Information Paper No.1, 2009-10 Public Sector Asset Investment Program, October 2009; Budget Information Paper No.1, 2010-11 Public Sector Asset Investment Program, May 2010

For the 297 asset projects included in the budget papers in 2009-10 and again in 2010-11, 21 projects (7 per cent) had significantly increased TEIs in 2010-11.

There were 16 projects (5 per cent) in the 2009-10 budget papers that had their TEIs revised significantly downwards between 2009-10 and 2010-11.

The impact of the increases was that an additional \$294.2 million was required. The impact of the decreases was approximately one fifth of that amount, reducing the amount of funding required by only \$59.1 million.

The Department of Education and Early Childhood Development had a larger number of projects with changed TEIs (both increased and decreased) than any other department in 2009-10. This was mainly a result of the high number of projects administered by the Department, although the Department also had the highest proportion of projects with increased TEIs. The majority of changes in TEI were a result of changes in project scope or of cost adjustments following tender outcomes.³⁵³

In monetary terms, the Department of Education and Early Childhood Development had the largest increase in aggregate TEIs, with the significantly increased projects requiring an additional \$239.6 million, primarily for the *Primary Schools for the 21st Century* program. This program is a suite of smaller projects, and had an increase of \$215.7 million in its TEI figure. According to the Department, the change was ‘*due to variations approved between the Australian Government and the Department of Education and Early Childhood Development*’.³⁵⁴

FINDING

The Department of Education and Early Childhood Development contributed the majority of the upward revisions in TEI for projects between 2009-10 and 2010-11.

The greatest decrease in TEI was for a single project administered by the Department of Transport, the Goulburn Valley Nagambie Bypass. The TEI for this project decreased by \$38.4 million. This saving was in the Commonwealth funded component of the project.³⁵⁵

FINDING

The greatest downward variation in TEI was from the Commonwealth-funded component of one project administered by the Department of Transport.

Projects from 2010-11

Figure 6.2 shows aggregated TEIs for asset projects included in the 2010-11 budget paper that continued into 2011-12. These are divided into groups that significantly increased, decreased, and did not significantly change their TEIs between the 2009-10 and 2010-11 budget papers.

Of the 465 projects that were included in the 2010-11 budget papers, 251 were included again in the 2011-12 budget papers. The aggregate TEI of this group of projects was \$12,288.8 million in the 2010-11 budget papers, and this figure had increased to \$12,588.1 million in the 2011-12 budget papers (see Table 6.2). This overall increase, \$299.3 million, was greater than the previous year.

353 Department of Education and Early Childhood Development, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 6 January 2012, pp.6-10

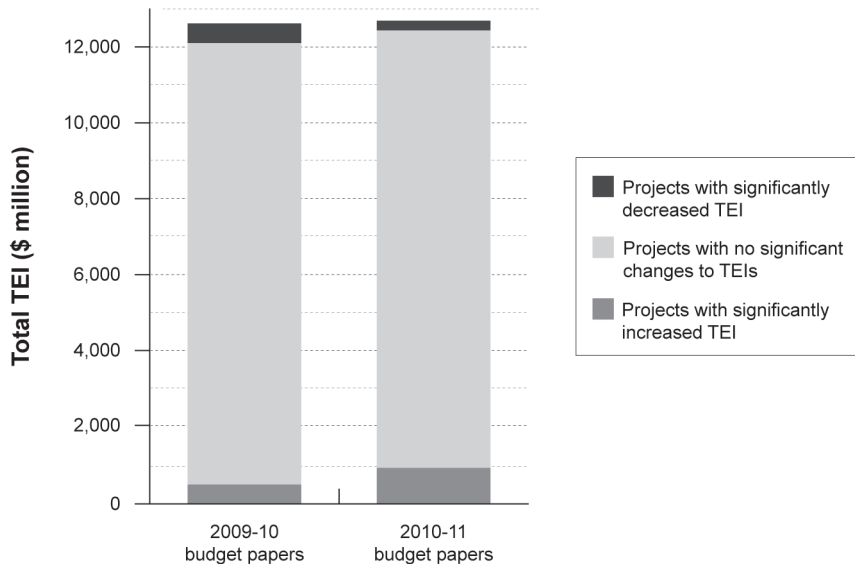
354 *ibid.*, p.8

355 Department of Transport, response to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 11 January 2012, p.9

FINDING

There were 251 projects that were included in the 2010-11 budget papers and again in the 2011-12 budget papers. These projects had an aggregate TEI in the 2010-11 budget papers of \$12,288.8 million, which was increased to \$12,588.1 million in the 2011-12 budget papers, a growth of \$299.3 million.

Figure 6.2: TEI, asset projects from 2010-11 budget papers reported in 2011-12 budget papers



Sources: *Budget Information Paper No.1, 2010-11 Public Sector Asset Investment Program, May 2010*; *Budget Paper No.4, 2011-12 State Capital Program, May 2011*

Of the projects from 2010-11 that had their TEI figures revised significantly upwards, the average size of the project was \$65.6 million, and the projects that had their TEI figures significantly revised downwards had an average size of \$19.4 million. This is a more balanced result than for the previous year, with the number of revisions in projects being lower, and the average sizes of the groups being less disparate. However, the Committee notes that the Government has identified the TEIs of some specific (generally large) projects as likely to increase, though it has yet to publish revised TEIs.³⁵⁶ A more detailed discussion of these cost pressure projects is included in a later section of this chapter.

FINDING

As in 2009-10, in 2010-11 projects that had their TEIs significantly revised upwards were more likely to be large projects. Additional changes to large projects foreshadowed by the Government but not yet quantified are expected to reinforce this relationship.

Table 6.2 below shows departmental aggregates for projects that were included in the 2010-11 budget papers that were also included in the 2011-12 budget papers. As before, the group of projects does not include projects that were not included in the 2011-12 budget papers for any reason, as information from both years is required to calculate differences.

356 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.6

Table 6.2: All departmental projects reported in both 2010-11 and 2011-12 budget papers

Department	Number of projects	Aggregate TEI (2010-11 budget) (\$ million)	Significantly increased		Significantly decreased		Aggregate TEI 2011-12 budget (\$ million)
			(number)	Aggregate TEI growth (\$ million)	(number)	Aggregate TEI decrease (\$ million)	
Business and Innovation ^(a)	5	122.4	1	5.6	0	0.0	128.0
Education and Early Childhood Development	91	3,163.7	3	45.9	3	7.1	3,197.6
Health	36	2,817.8	2	261.5	1	7.0	3,114.1
Human Services	4	39.9	0	0.0	0	0.0	39.9
Justice ^(b)	29	441.5	1	0.1	1	2.0	439.6
Planning and Community Development	11	255.6	0	0.0	1	19.5	236.1
Premier and Cabinet	6	170.7	0	0.0	0	0.0	170.7
Primary Industries	4	24.3	0	0.0	0	0.0	24.3
Sustainability and Environment	13	1,047.6	0	0.0	2	6.6	1,001.6
Transport	49	4,156.8	3	35.5	2	8.0	4,187.8
Treasury and Finance	3	48.5	0	0.0	0	0.0	48.5
Total	251	12,288.8	10	348.6	10	50.3	12,588.1

Notes:

- (a) Excludes Melbourne Wholesale Markets redevelopment where TEI levels were not reported in 2011-12 budget papers.
- (b) Excludes Ararat Prison which was listed as an asset investment in 2010-11 but not 2011-12 as it had become a PPP.

Sources: Budget Information Paper No.1, 2010-11 Public Sector Asset Investment Program, May 2010; Budget Paper No.4, 2011-12 State Capital Program, May 2011

For the 251 asset projects reported in the 2010-11 budget papers that were included in the 2011-12 budget papers, 10 projects (4 per cent) were reported in the 2011-12 budget papers with a TEI which had increased by more than 10 per cent. The growth in TEI for these projects was \$348.6 million.

For the asset projects reported in the 2010-11 budget papers, 10 projects (4 per cent) were reported in the 2011-12 budget papers with a TEI which had decreased by more than 10 per cent. The aggregate decrease in TEI for these projects was \$50.3 million.

Overall, fewer projects (both in terms of number and proportion of all projects) were significantly revised between 2010-11 and 2011-12 than between 2009-10 and 2010-11. The Committee again notes, though, that the Government has identified a group of projects that are expected to have TEI increases but for which new TEIs have not yet been published.³⁵⁷

The Department of Health contributed the majority of the increase in TEIs between 2010-11 and 2011-12. This contribution consists of two projects, the Bendigo Hospital redevelopment project and the HealthSMART project, which had increases of \$102.0 million and \$159.5 million respectively (see Section 6.4.1 for further discussion of HealthSMART, for which the TEI increase appears to be due to changes in reporting rather than additional expenditure). The total increased TEI of these projects made up 9.3 per cent of the TEI of all projects being delivered by the Department in 2010-11 that continued into 2011-12.

FINDING

The largest upward variation in TEI between 2010-11 and 2011-12 was for the Department of Health. This was due to increases in TEI for the Bendigo Hospital Redevelopment project and the HealthSMART project. The increased TEI of HealthSMART seems to be a change of reporting rather than additional funding.

The Department of Planning and Community Development contributed more than any other department to decreased TEIs between 2010-11 and 2011-12. This is entirely a result of a \$19.5 million decrease in the TEI of the Ringwood Activities Area (Stage 1- Upgrade Works) project. The Department explained in the budget papers that, '*the decrease in TEI from 2010-11 reflects a return of unallocated funding to the consolidated fund*'.³⁵⁸ The Committee considers that this is a description of an effect of the change, and not a cause for the change.

FINDING

Of the projects whose TEIs were reduced downwards between 2010-11 and 2011-12, the largest revision was in the Department of Planning and Community Development. The Department did not disclose the root cause for the change in the budget papers.

The impact of the increases was that an additional \$348.6 million was required. The result of the decreases was approximately one seventh of that amount, reducing the amount of additional funding required by only \$50.3 million.

Observations from 2009-10 and 2010-11

As detailed above, the aggregate TEI figures of projects in both years rose when reported in the following year's budget papers. For both years, the proportion of projects adjusted was substantially larger than the corresponding proportion of TEI adjusted. That is, there was a large number of small adjustments to projects.

357 These have not been counted in the total of revised projects, as it is not yet clear whether the revisions will be significant or not.

358 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.39

Between the two years, the proportion of continuing projects that had a significant TEI adjustment in the following year, fell from 12 per cent to 8 per cent. However, where significant adjustments were made, the average adjustment to projects' TEIs rose substantially, from \$9.5 million to \$19.9 million.

The Committee notes that only three departments, the Department of Human Services, the Department of Premier and Cabinet and the Department of Treasury and Finance avoided making any significant adjustments to TEI levels in both years. The Committee notes the small number of projects administered by these departments.

The Committee has recommended in previous reports that changes to TEI be reported and explained in departments' annual reports. Further discussion is included in Section 6.4 of this chapter.

6.3.2 Projects where expenditure for the year was less than budgeted

The Committee examined projects where departments reported a significant variance between the actual expenditure and what was budgeted for the year. The Committee found that, in 2009-10, the total expenditure for projects where a variance was reported was \$785.5 million below the original budgeted figure for those projects. For 2010-11, the total expenditure for projects where a variance was reported was \$679.3 million below the original budgeted figure for those projects.

The Committee notes that, in both years, in the group of projects where expenditure significantly exceeded budgeted levels, it was the Department of Business and Innovation (formerly the Department of Innovation, Industry and Regional Development) that had the highest proportion of budget over-spent.

The Committee approached departments for information on all projects where the actual expenditure for 2009-10 and 2010-11 differed significantly (that is, by more than 10 per cent) from expenditure estimated in budget papers for those years. Where there had been no significant variation, no response was required from departments.

Based on these data, projects were aggregated into two groups: those where actual expenditure was significantly above budget levels and those where actual expenditure was significantly below budget levels.

Departments were then assessed against two criteria:

- the proportion of projects where variations occurred; and
- the amount of variation as a proportion of the total budgeted expenditure.

Some departments responsible for projects have been affected by machinery-of-government changes. To align the analysis with departments' annual reports, projects are associated with the responsible department as at the end of the financial year. The principal effects of this are that:

- results for 2009-10 for the Department of Human Services do not include projects that were transferred to the Department of Health during 2009-10; and

- the Department of Industry, Innovation and Rural Development appears in 2009-10, but was renamed the Department of Business and Innovation in 2010-11 and had a number of its projects distributed to the Department of Education and Early Childhood Development.

Projects in 2009-10

Table 6.3 provides details of variations between actual expenditure and the budget estimates for departments' projects listed in the 2009-10 budget papers.

Table 6.3: Projects with a significant difference between budget and actual expenditure, 2009-10

Department	All reported projects, budget expenditure 2009-10		Projects with significant under-spends ^(a)		Projects with significant over-spends ^(a)		Projects with zero expenditure
	(number)	(\$ million)	(number)	Under-spend (\$ million)	(number)	Over-spend (\$ million)	(number)
Education and Early Childhood Development	210	1,816.5	33	412.0	32	34.7	4
Health	99	431.4	39	81.3	21	55.5	8
Human Services	5	8.4	1	0.3	1	1.7	0
Innovation, Industry and Regional Development	62	365.5	22	180.2	6	22.0	3
Justice	55	261.7	12	56.1	4	8.9	1
Planning and Community Development	12	51.1	7	8.7	3	1.8	1
Premier and Cabinet	7	32.5	2	7.1	1	0.5	0
Primary Industries	4	5.4	1	0.4	1	0.2	0
Sustainability and Environment	33	281.5	5	19.6	2	3.5	7
Transport	73	1,424.1	26	243.8	19	106.6	13
Treasury and Finance	4	27.1	1	11.5	0	0.0	1
Total	564	4,705.1	149	1,020.9	90	235.4	38

Notes: (a) Over-spends and under-spends are classified as significant if they exceed 10 per cent of the budget estimate.

Source: Budget Information Paper No.1, 2009-10 Public Sector Asset Investment Program, October 2009
Departmental responses to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One

In total, the budgeted asset expenditure for 2009-10 from the 564 projects was \$4,705.1 million. Of these projects, 149 had expenditure significantly less than budgeted for the year, consuming \$1,020.9 million less than budget. Offsetting this, 90 asset projects had expenditure significantly higher than the budget estimate for the year, the additional expenditure totalling \$235.4 million. The net effect of these variances was an under-spend for the year of \$785.5 million.

FINDING

In 2009-10, the actual expenditure on 239 projects varied significantly from the budget estimate. The net effect of these variations was an under-expenditure of \$785.5 million.

The largest under-spending department for the year was the Department of Education and Early Childhood Development, which expended significantly less than budgeted levels for 33 of its 210 projects for the year. The total amount expended under budget was \$412.0 million. The primary reason for this under-expenditure was the *Primary Schools for the 21st Century* project, where an actual expenditure of \$780.9 million was recorded against a budget of \$1,074.3 million. That is, for the year the project expended \$293.4 million less than expected. The Committee has been unable to locate any discussion about this variance in annual reports from the Department of Education and Early Childhood Development.

The Committee has recommended in previous reports that:³⁵⁹

For the information needs of Parliament and the community, departments should provide in their annual reports, details of the progress made on asset investment projects and the outcomes delivered against project objectives.

The Government has supported the recommendation, noting that ‘*the Government will consider options to increase the disclosure requirements for significant asset investment projects in the 2011-12 Model Financial Report for government departments*’.³⁶⁰

The Committee considers that that this is an example where such reporting would contribute considerably to accountability with respect to asset investment.

The Department of Transport was responsible for an under-expenditure of \$243.8 million, making it the second largest contributor to total under-expenditure. The Department was also the highest contributor to over-expenditure, with 19 projects recording significantly higher levels of asset expenditure than budgeted, totalling \$106.6 million of additional expenditure.

Figure 6.3 shows the proportion of projects for each department that were over-spent and under-spent, and for these projects, the average variation as a proportion of the original budgeted expenditure.

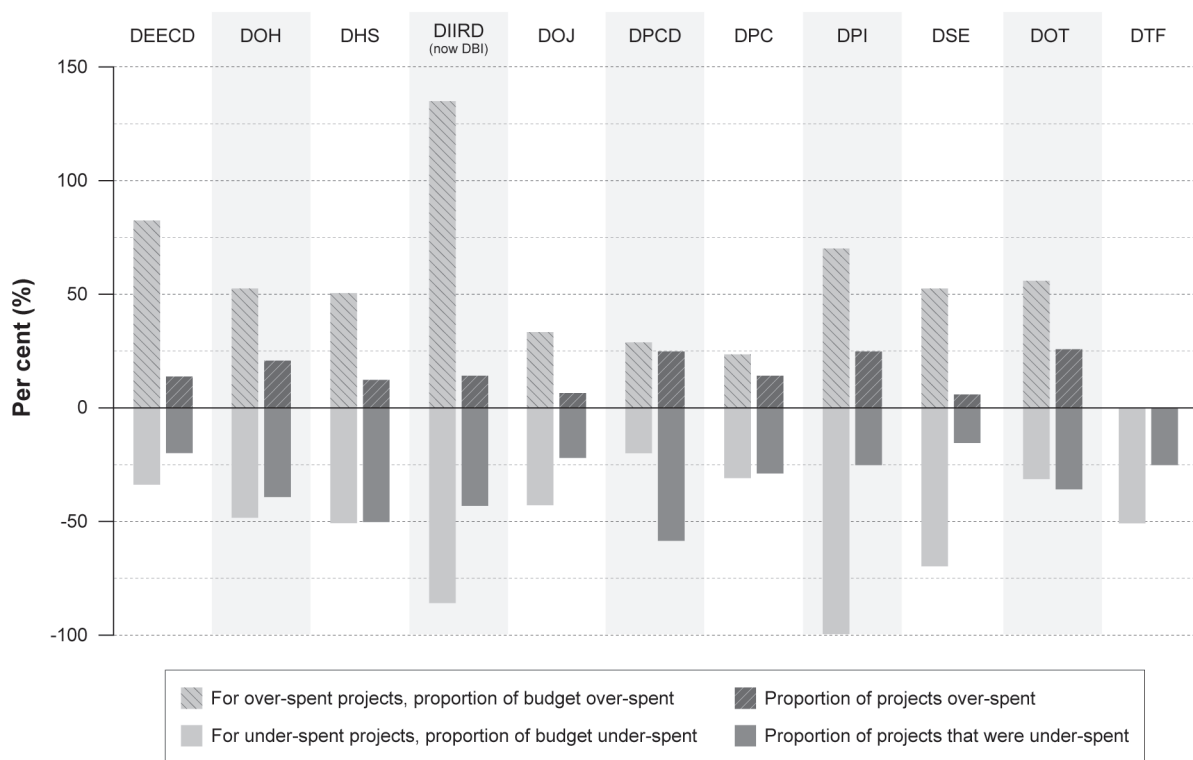
The Department of Industry, Innovation and Rural Development’s over-spend and under-spend projects had the largest variations in percentage terms. However, the proportion of projects over budget was small in relation to other departments, with 10 percent of projects over-spending.

The Department of Planning and Community Development, the Department of Primary Industries and the Department of Transport had the highest proportions of projects with over-spends, with the Department of Transport also administering the largest average project size (see Table 6.3).

359 Public Accounts and Estimates Committee, *Report into the 2010-11 Budget Estimates — Part Three*, September 2010, Recommendation 1, p.56

360 Victorian Government, *Government Responses to the Committee’s 96th Report on the 2010-11 Budget Estimates — Part Three*, tabled 16th March 2011, p.2

Figure 6.3: Expenditure variance range, actual results compared to budget estimates, 2009-10



Source: *Budget Information Paper No.1, 2009-10 Public Sector Asset Investment Program, October 2009; Departmental responses to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One*

The Department of Education and Early Childhood Development and the Department of Primary Industries tended also to over-spend significantly in projects where there was an over-expenditure. However, the average size of projects that were over-spent was small (see Table 6.3).

Reasons given by departments for variances are discussed later in this section.

FINDING

For 2009-10, the greatest expenditure variances from budget estimates were from the Department of Education and Early Childhood Development in terms of dollar amounts, and the Department of Innovation, Industry and Regional Development in proportionate terms.

Projects in 2010-11

Table 6.4 shows budget estimates and variances for departments' projects in the 2010-11 budget papers.

Table 6.4: Projects with a significant difference between budget and actual expenditure, 2010-11

Department	All reported projects, budget expenditure 2010-11		significant under-spends ^(a)		significant over-spends ^(a)		Projects with zero expenditure
	(number)	(\$ million)	(number)	Under-spend (\$ million)	(number)	Over-spend (\$ million)	
Business and Innovation	8	185.0	5	95.7	1	3.4	0
Education and Early Childhood Development	203	2,055.0	44	159.2	43	79.9	6
Human Services	5	21.0	1	0.9	0	0.0	0
Health	72	579.3	30	190.6	18	53.0	2
Justice	49	247.6	17	142.0	7	8.3	0
Transport	69	1,130.8	28	261.4	19	179.8	8
Premier and Cabinet	6	60.5	5	9.6	1	4.0	0
Primary Industries	6	10.4	2	3.6	2	1.5	1
Planning and Community Development	16	78.3	5	45.8	4	6.0	3
Sustainability and Environment	28	301.9	9	107.2	1	5.3	6
Treasury and Finance	3	20.7	2	4.5	0	0.0	0
Totals:	465	4,690.6	148	1,020.5	96	341.2	26

Notes: (a) Over-spends and under-spends are classified as significant if they exceed 10 per cent of the budget estimate

Source: Budget Information Paper No.1, 2010-11 Public Sector Asset Investment Program, May 2010; Departmental responses to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One

The budgeted expenditure for 2010-11 from the 465 asset projects was \$4,690.6 million. Of these projects, 148 consumed significantly less than budgeted for the year, under-spending \$1,020.5 million. Offsetting this, 96 projects consumed significantly more than expected, the additional expenditure for these projects totalling \$341.2 million.

FINDING

During 2010-11, the expenditure on 244 projects varied significantly from their budget estimates. Overall, the effect of these variations was an under-expenditure of \$679.3 million.

The Department of Business and Innovation under-spent in five of its eight projects, and over-spent in one, leaving only two where expenditure was close to budget. For the under-spending projects, the Department spent less than half the amount expected, whereas for the over-spent project, the Department spent nearly two and a half times the expected amount. This is especially significant as, after machinery-of-government changes, the Department had the largest average expenditure per project during 2010-11.

In terms of the aggregate amounts of these variations, the Department of Transport was highest for both under-expenditure (\$261.4 million) and over-expenditure (\$179.8 million) for the year.

FINDING

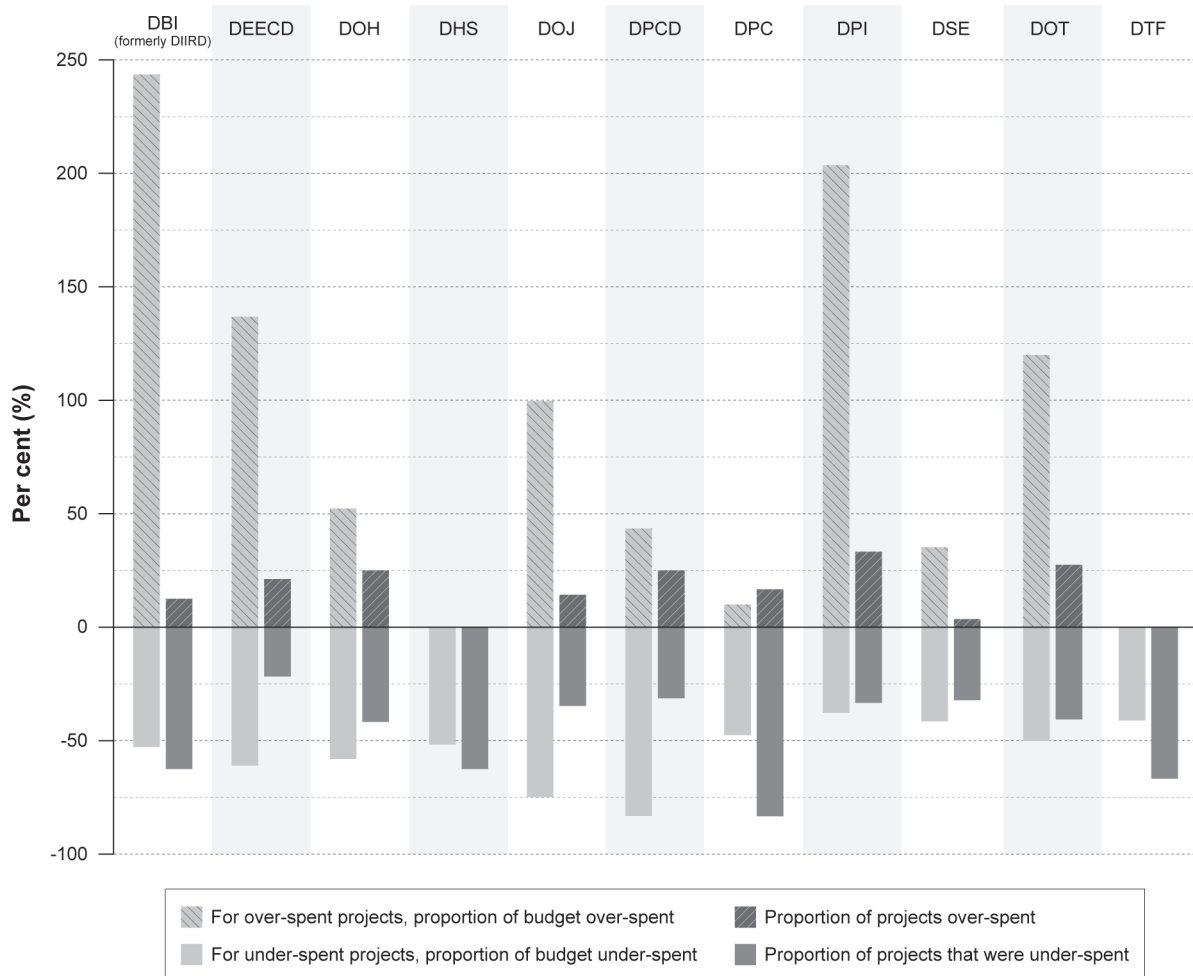
For 2010-11, the Department of Transport had the greatest variances (both upwards and downwards) from budget in terms of dollar amounts.

Five departments had fewer than 25 per cent of their projects with expenditure within 10 per cent of budget. Of these, the Committee noted that the Department of Business and Innovation and Department of Transport have the two highest averages for the expenditure per project, at \$23.1 million and \$16.4 million, respectively. The Department of Premier and Cabinet did not spend close to budget in any of its six projects.

The Department of Education and Early Childhood Development had the largest number of projects under-spent and over-spent. However, as the average expenditure per project of the Department's projects was small in relation to other departments, the amounts under-spent and over-spent were not the highest of the departments.

Figure 6.4 shows the proportion of projects for each department that were over-spent and under-spent, and, for these projects, the average variation as a proportion of the original budgeted expenditure.

Figure 6.4: Expenditure variance range, actual results compared to budget estimates, 2010-11



Source: *Budget Information Paper No.1, 2010-11 Public Sector Asset Investment Program, May 2010; Departmental responses to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One*

Figure 6.4 shows that the Department of Business and Innovation and the Department of Primary Industries both over-spent heavily in projects where an over-expenditure was made, both spending more than double the amounts budgeted for these projects.

Where under-expenditures were made, the Department of Planning and Community Development's projects had the largest proportionate under-spends, followed by the Department of Justice.

FINDING

For projects in 2010-11 where expenditure varied significantly from budget estimates, the Department of Business and Innovation showed the largest upward variation (as a proportion of budget) and the Department of Planning and Community Development showed the largest downward variation.

Observations from 2009-10 and 2010-11

While the number of projects for 2010-11 was significantly less than 2009-10, the Committee notes that the number of projects with variances for 2010-11, both in terms of over-expenditure and under-expenditure was similar to 2009-10. The amount under-spent by those projects with significant under-spends was nearly identical in dollar terms, but the amount over-spent was higher than in 2009-10, both in dollar terms and as a proportion of the total budgeted asset expenditure.

For both years, all departments apart from the Department of Human Services under-spent in terms of dollars more than they over-spent, leaving the departments with unexpended asset funds at the end of each year. Departments reported that these unexpended amounts were carried over to subsequent years. For the budget papers, this will increase budget levels for future years and leads to a trend of apparent underinvestment against budget.

FINDING

For both 2009-10 and 2010-11, expenditure was significantly less than the budget, leading to carryovers for asset projects in subsequent years.

Some 38 projects were reported as having no asset expenditure during 2009-10. In 2010-11 26 projects were reported as having no expenditure for the year. Reasons from departments for this are generally either that the project had been completed with funds remaining unspent, or that, for reasons that were similar to under-expenditure reasons, the project had been on hold during the year and would continue in future years.

While not always the worst overall performer, the Department of Business and Innovation (formerly the Department of Industry, Innovation and Rural Development) performed poorly in relation to other departments in both main metrics the Committee used for comparison: the proportion of projects that had expenditure within 10 per cent of budget; and the size of variance (especially over-spend) where there was a variance.

The Committee finds this of concern, as following the transfer of the relatively smaller Technical and Further Education projects to the Department of Education and Early Childhood Development during 2010-11, the average annual project expenditure for the Department of Business and Innovation became the largest of all departments. The Committee notes that Major Projects Victoria is part of the Department of Business and Innovation, and is set up to provide expert project management services to other departments.

FINDING

For projects where there was a variation between actual expenditure and budget estimates, the Department of Business and Innovation (formerly the Department of Innovation, Industry and Regional Development) had the highest upward variations in percentage terms for both 2009-10 and 2010-11 compared to all other departments.

RECOMMENDATION 44:

The Department of Business and Innovation investigate ways of decreasing variances between budget estimates of yearly expenditure and actual asset expenditure in a year.

The most common causes of variation indicated by departments were either delays or accelerations in the project's physical works. Departments indicated that these were expected to have no significant effect on the overall outcome or expenditure. For 2010-11 in particular, weather-related reasons were cited as causes for delay. However, in many cases the departments did not identify the root causes of the adjustments, and simply reported that there had been an adjustment.

The Department of Business and Innovation had a large number of variations between budget and actual asset expenditure. Re-phasing of projects was a recurring theme for the Department, causing a number of carry-overs from one year to the next. The over-spent project for 2009-10, the Princes Pier Restoration project, had a budget of zero, with the Department stating that '*Estimated expenditure was not identified*'.³⁶¹

The Department of Transport cites rescheduling of works in several projects, including broad reasons for the rescheduling, such as extended planning or community consultation processes, tendering delays and contractor behaviour. The Committee acknowledges the additional discipline and reporting standard that the Department of Transport has imposed on itself with the outcome indicator 'Transport infrastructure projects delivered on time and budget', on which it reports each year in its annual report.³⁶²

The Department of Transport has reported a number of projects where there has been an over-expenditure in 2009-10 as a result of Commonwealth funds being passed to the State earlier than proposed as part of an economic stimulus package.³⁶³ For these projects in 2010-11, the Commonwealth component of total expenditure is normally lower than budget due to exhaustion of the component during 2009-10.

The Department of Health cited several instances of rescheduling of works, but in most cases the Department did not give details, though it noted that the estimated date of completion of works had not changed.

Nearly half of the amount under-expended for the Department of Health for 2010-11 was a result of the procurement for the Victorian Comprehensive Cancer Centre being changed to a public private partnership, removing the project from the Department's finances.

361 Department of Business and Innovation, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 23 December 2011, p.14

362 Department of Transport, *Annual Report 2010-11*, p.135

363 Department of Transport, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 11 January 2012, pp.24-32

6.3.3 Projects with revised completion dates

The Committee sought information from departments about projects that had significantly revised completion dates (revisions of less than three months were not considered significant). Overall, the Committee found that the average delays to projects in 2009-10 and 2010-11 was 11.6 months.

The Committee encountered some difficulty reconciling projects described in departmental responses with projects described in budget papers. In several cases, departments aggregated numbers of individual projects in a program into one response, such as 'Replacement Schools'. This prevents useful comparison of delays as a proportion of total projects assigned to a department. The Committee recommends at the end of this chapter that all projects should be reported individually in a spreadsheet, including updated completion dates.

In addition, four projects do not have a currently published expected date of completion:

- Broadmeadows Government Services Building - Construction;
- Central Activities Areas and Strategic Sites;
- Regional Arterial Roads and Bridge Links; and
- Regional Rail Link.

Table 6.5: Revised completion dates, departmental projects

Department	Revised projects (number)	Brought forward (per cent)	Delayed (per cent)	Average delay (months)
Business and Innovation	4	0.0	100.0	18.3
Education and Early Childhood Development	27	3.7	96.3	11.9
Human Services	5	0.0	100.0	8.3
Health	25	4.0	96.0	9.6
Justice	6	0.0	100.0	12.0
Transport	20	5.0	95.0	12.9
Premier and Cabinet	2	0.0	100.0	15.7
Primary Industries	2	0.0	100.0	30.0
Planning and Community Development	2	0.0	100.0	9.0
Sustainability and Environment	1	0.0	100.0	12.0
Treasury and Finance	1	0.0	100.0	8.0
Total	95	3.2	96.8	11.6

Note: Project numbers are as advised by departments and are in some cases not provided on the same basis as budget papers (some projects disaggregated in the budget papers have been treated as one and some projects listed under public non-financial corporations have been provided by departments). Where machinery-of-government changes have occurred, projects are listed according to the department that had responsibility for them at the end of 2010-11.

Source: Departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One

This Committee has, in an earlier report, recommended that the Government disclose additional information about revised timeframes in the budget papers.³⁶⁴ This has been supported by the Government.³⁶⁵

The Committee notes that, of the adjustments that have been made to expected project completion dates, the majority have been delays, with only three departments having adjusted any dates of completion earlier.

FINDING

Delays in asset projects in 2009-10 and 2010-11 far outweighed early project completions.

The Department of Primary Industries had the longest average delay, though only two projects were adjusted. This is primarily due to the delay of the Replacement of Fisheries Catch and Effort Data and Information System project, which was a relatively small project with a TEI of \$2.7 million.

The Department of Business and Innovation had an average adjustment of over 18 months' delay. This is made up of four projects, including the Melbourne Wholesale Markets redevelopment project, which has an expected delay of 37 months. Further, the Committee notes that the still-incomplete Princes Pier Restoration project has a reported revised completion date of December 2010. The Committee expects that the delay for this project will therefore exceed the current reported figure.

The Department of Transport, which has the highest asset expenditure budget of all the departments, has brought three projects forward: the South Morang rail extension; part of the Geelong Ring Road; and the Anthony's Cutting project, which is now complete. These three projects have a combined TEI of \$824.1 million. Balancing these are a number of large projects, such as myki, which has a reported delay of 48 months and an undisclosed TEI.

The Department of Planning and Community Development has three projects which have been adjusted in terms of completion date. The largest of these is the Rectangular Sports Stadium, with a TEI of \$211.5 million. This project is now complete, with a project delay reported to the Committee of three months.

Reasons provided by departments for adjustments in project timing have been similar to those seen for explanations in other revisions for projects, such as changes in TEI or expenditure. Most common amongst these explanations are scope changes, weather problems, issues raised during construction (such as asbestos or contamination), heritage issues, problems with contractors and stakeholder negotiations.

For the nine projects that have been brought forward by departments, reasons are mainly concerned with site conditions or with contracts being awarded early.

As noted earlier in this chapter, the Department of Transport's outcome indicator 'Transport infrastructure projects delivered on time and budget' improves the Department's accountability with respect to project timeliness. This indicator goes some way to reporting

364 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 40, p.119

365 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.22

actual project costs and timeliness on the completion of the project. The Department of Business and Innovation has a similar performance measure for Major Projects Victoria – ‘Delivery of nominated Major Projects Victoria projects complies with agreed plans’. However, as discussed in Section 6.3.4 of this chapter, there are some issues with that measure. Some departments also have measures for particular projects. Other than these, the Committee is unaware of any systematic post-project disclosure of total time and expenditure for asset investment projects.

As noted in Section 6.3.2, however, the Government has committed to increasing reporting requirements in this area in the 2011-12 Model Report for departments’ annual reports. The Committee considers that, for this to be comprehensive, it is particularly important for completed projects to be reported on, as details of final completion dates and total expenditure are not available otherwise.

FINDING

Data about final TEIs and completion dates, compared to original TEIs and completion dates, are not generally made available at the completion of projects. Although some information on the progress of asset projects is reported in various documents, no systematic reporting is made of final results.

RECOMMENDATION 45:

In updating the 2011-12 Model Report, the Department of Treasury and Finance require departments to report on all completed asset investment projects. This report should include:

- (a) the total actual investment;**
- (b) the total estimated investment reported at the start of the project;**
- (c) the final completion date;**
- (d) the completion date reported at the start of the project;**
- (e) a description of issues that caused variances in the project; and**
- (f) how the department intends to avoid such issues in future similar projects.**

6.3.4 *Special projects*

The Committee has identified three groups of asset projects for special attention:

- A set of projects experiencing cost pressures was identified in the *Victorian Economic and Financial Statement* of April 2011. These infrastructure projects were selected by the Government due to perceived significant cost pressures, and were to be subject to ‘*higher governance and management processes*’.³⁶⁶

366 Department of Treasury and Finance, *Victorian Economic and Financial Statement, April 2011*, p.5

- A second set of infrastructure projects was identified in the 2011-12 budget papers as having both high value and high risk.³⁶⁷ These projects are to be subject to more rigorous processes of project development, business case development, project implementation and reporting. In addition, the Treasurer is to sign off at key project stages and the process will involve Gateway reviews by the Department of Treasury and Finance.
- A third set of projects consists of those managed with the assistance of Major Projects Victoria. These projects are ones nominated under the *Project Development and Construction Management Act 1994*, and the role of Major Projects Victoria is to provide supporting project planning and management expertise to departments responsible for the nominated projects.

Asset projects falling into any of these three groups are listed in Table 6.6 below. Projects may belong to one or more groups.

The Committee assessed the performance for these projects in comparison to that of all asset projects for each year. In both 2009-10 and 2010-11, where they occurred, under-spends (in percentage terms) for each of these special groups were larger, and over-spends were smaller than for the wider ‘all projects’ group. In terms of project delivery dates, both in absolute terms and as a proportion of project length, delays were longer for the identified groups than for asset projects as a whole.

The Committee also noted an issue of transparency with these projects. Specifically, important information for a number of projects has not been released by the Government.

Three projects in Table 6.6 do not have published TEI figures. These are the Regional Rail Link, myki and the Melbourne Wholesale Market redevelopment. The budget papers for 2010-11 included TEI figures for all these projects.³⁶⁸ However, in April 2011, these were identified as cost pressure projects in the *Victorian Economic and Financial Statement*, indicating that additional expenditure would be required, but without adjusted TEIs being published. No adjusted TEIs have been published subsequently.³⁶⁹

In its *Report on the 2011-12 Budget Estimates — Part Three*, the Committee noted the undisclosed TEI figures for these projects, and recommended that:³⁷⁰

The Department of Treasury and Finance disclose in the 2011–12 Budget Update a complete analysis of any significant cost overruns in the State’s asset projects.

The Government supported the recommendation, noting that, while the information was not published in the 2011-12 Budget Update.³⁷¹

367 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.3

368 Budget Information Paper No.1, *Public Sector Asset Investment Program*, May 2010

369 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.6

370 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 39, p.118

371 Victorian Government, Government responses to the Committee’s 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.22

This information will be incorporated into the 2012-13 budget papers. Where possible, explanations for cost overruns will be provided unless commercial negotiations may be adversely affected by the disclosure at that particular point in time.

Table 6.6: Special projects, 2009-10 and 2010-11

Project ^{(a)(b)(c)}	High value, high risk	Cost Pressure	Major Projects Victoria	Latest TEI (\$ million)
Australian Synchrotron			X	36.7
Bendigo Hospital	X			630.0
Box Hill Hospital redevelopment	X			447.5
Docklands Studios Melbourne			X	10.0
E-Gate			X	2.0
HealthSMART	X	X		186.4
Kew Residential Services Redevelopment			X	82.8
Melbourne Wholesale Markets redevelopment	X	X	X	nfp
myki	X	X		nfp
Olivia Newton-John Cancer and Wellbeing Centre		X		72.0 ^(d)
Parkville Gardens			X	43.5
Princes Pier Restoration			X	34.0 ^(d)
Regional Rail Link	X	X		nfp
Southbank Cultural Precinct Redevelopment			X	128.5
State Sports Facilities Project	X	X	X	66.7
West Gate Bridge rehabilitation	X	X		347.0 ^(d)
Rectangular Sports Stadium – Construction (Olympic Park)			X	211.5
Totals	8	7	10	2,298.6

Notes:

- (a) *Projects being procured through public private partnerships have been excluded.*
- (b) *The LINK project has also been excluded, as the project been suspended pending a review, and 'the asset investment component of the project ceased in the 2007-09 financial year' (Department of Justice, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Further Clarification Points, received 7 March 2012, p.2.*
- (c) *Other projects that had no budgeted expenditure in 2009-10 or 2010-11 have also been excluded.*
- (d) *TEI is an amalgamation of separately listed projects.*

Sources: Department of Treasury and Finance, *Victorian Economic and Financial Statement, April 2011, p.6; Budget Paper No.4, 2011-12 State Capital Program, May 2011, p.3; Major Projects Victoria, 'Our current projects', <www.majorprojects.vic.gov.au/our-projects/our-current-projects>, accessed 19 January 2012; Departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One*

The Committee sought information from departments concerning the expenditure made in 2009-10 and 2010-11 for projects in these categories. Tables 6.7 and 6.8 show, for the groups of projects where expenditure in the year significantly fell short of or exceeded budget levels, the amount of over-spend or under-spend as a proportion of the total budget estimate. For comparison, the data for all asset projects for the year is also included.

Table 6.7: Budget and actual expenditure, special project groups, 2009-10

Group	Projects (number)	Estimated expenditure (2009-10 budget papers) (\$ million)	Projects that fell significantly short of budget expenditure		Projects that significantly exceeded budget expenditure		Projects within ± 10 per cent of budget (per cent)
			(per cent)	The amount of under-spend as a proportion of total budget (per cent)	(per cent)	The amount of over-spend as a proportion of total budget (per cent)	
All asset projects ^(a)	564	4,705.2	26.4	21.7	16.0	5.0	57.6
High value, high risk projects	7	454.3	57.1	47.7	28.6	2.2	14.3
Cost pressure projects	7	447.3	57.1	46.2	28.6	2.2	14.3
Major Projects Victoria projects	5	193.0	100.0	76.6	0.0	0.0	0.0

Note: (a) Only includes projects assigned to departments in budget papers.

Source: Departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One

Table 6.8: Budget and actual expenditure, special project groups, 2010-11

Group	Projects (number)	Estimated expenditure (2010-11 budget papers) (\$ million)	Projects that fell significantly short of budget expenditure		Projects that significantly exceeded budget expenditure		Projects within ± 10 per cent of budget (per cent)
			(per cent)	Deviation from budget as a proportion of total budget (per cent)	(per cent)	Deviation from budget as a proportion of total budget (per cent)	
All asset projects ^(a)	465	4,690.6	31.8	21.8	20.6	7.3	47.5
High value, high risk projects	7	810.4	85.7	55.6	0.0	0.0	14.3
Cost pressure projects	7	778.5	71.4	55.8	14.3	1.1	14.3
Major Projects Victoria projects	8	294.0	75.0	32.3	12.5	1.4	12.5

Note: (a) Only includes projects assigned to departments in budget papers.

Source: Departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One

For these groups, in both years, under-expenditure (for those projects where there was an under-expenditure) was significantly larger in percentage terms than for asset projects as a whole. However, the extent of over-expenditure (for those projects where expenditure exceeded budget) was less than for asset projects as a whole.

Table 6.9 compares the number of projects with revised completion dates in these groups to all projects for which variations in completion dates were provided by departments. The table shows that, where delays occurred in these three groups, they were larger on average compared to delays in asset projects as a whole.

Table 6.9: Revised completion dates, special project groups, 2010-11

Group	Significantly revised completion dates ^(a)	Average delay
	(number)	(months)
All variations reported by departments ^(b)	92	11.6
High value, high risk projects ^{(c)(d)}	4	32.3 ^(f)
Cost pressure projects ^{(c)(d)}	4	32.3 ^(f)
Major Projects Victoria projects	5	15.2

Notes:

- (a) Variations of less than three months are not considered significant
- (b) Project numbers are as advised by departments and are in some cases not provided on the same basis as budget papers (some projects disaggregated in the budget papers have been treated as one and some projects listed under public non-financial corporations have been provided by departments). Where machinery-of-government changes have occurred, projects are listed according to the department that had responsibility for them at the end of 2010-11.
- (c) The four varied projects for the high value, high risk group and the cost pressure groups were the same projects
- (d) Excludes Regional Rail Link, for which the project completion date has been delayed but no revised completion date is available

Source: Departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One; Budget Information Paper No.1, 2009-10 Public Sector Asset Investment Program, October 2009; Budget Information Paper No.1, 2010-11 Public Sector Asset Investment Program, May 2010

Overall, when comparing the performance of the groups of special projects against all projects, the Committee found that special projects had larger budget under-expenditures, smaller budget over-expenditures and longer delays than the wider 'all projects' group.

The Committee notes that, as discussed at the beginning of this section, all three groups now have special management processes in place. The Committee intends to monitor the performance of these projects in future years.

FINDING

Projects identified by the Government as 'high value, high risk', projects identified as having cost pressures and projects assisted by Major Projects Victoria had proportionately larger budget under-expenditures, proportionately smaller budget over-expenditures and longer delays than the wider 'all projects' group.

Major Projects Victoria

The main aim of Major Projects Victoria is to assist departments with the management of significant asset investment projects. The rationale is that gathering project management expertise into a single group will lead to higher performance for significant and high-profile asset projects.

The Committee sought more information from the Department of Business and Innovation about the added value derived from delivering projects through Major Projects Victoria. The Department responded that:³⁷²

372 Department of Business and Innovation, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 23 December 2011, p.4

In 2010 Major Projects Victoria engaged the University of Melbourne to undertake a performance benchmark study that compared the contract delivery performance of large scale capital projects undertaken by the Victorian Government against similar projects undertaken by interstate governments and the private sector.

The Department did not indicate whether or not the report has been completed. As far as the Committee is aware, the study has not been made public.

FINDING

Major Projects Victoria has commissioned a study to compare the Victorian Government's contract delivery performance with large-scale capital projects to projects undertaken by interstate governments and the private sector.

RECOMMENDATION 46:

The benchmark study commissioned by Major Projects Victoria to compare the contract delivery performance of large-scale capital projects undertaken by the Victorian Government with similar projects undertaken by interstate governments and the private sector be made publicly available.

The Committee notes that the Department of Business and Innovation has the performance measure 'Delivery of nominated Major Projects Victoria projects complies with agreed plans' set for it in the budget papers. This measure has been met with a result of 100 per cent each year since 2009-10. This series of results suggests strongly that the performance of Major Projects Victoria is consistently exceptional. The Committee considers that this conclusion is not supported by the figures above, which indicate that:

- for none of the Major Projects Victoria projects assessed by the Committee was expenditure within 10 per cent of the budget estimate in 2009-10 (see Table 6.7);
- only one of eight projects in 2010-11 had an expenditure within 10 per cent of the budget estimate (see Table 6.8); and
- five out of the 10 projects assessed by the Committee had revised completion dates during 2009-10 or 2010-11 (see Table 6.9).

The Committee sought further detail about the process by which the performance measure is calculated, and what level of variation in a project is tolerated before the Department considers that a project has not met this measure. The Department responded:³⁷³

Variations are often made to project time, cost and scope. For a project to be considered to have not met this performance measure, it would have to be of a material nature.

Further, a project would only fail to meet this performance measure:³⁷⁴

373 *ibid.*, p.3

374 *ibid.*

... where the project does not meet the deadline for practical completion, and this failure cannot be accounted for by changes to the project scope at the request of Government, or a reasonable delay claim (such as for unseasonable weather) by the contractor.

In other words, any number of variations may be made during the lifetime of a project, and it is against these varied targets that performance is measured rather than the initial targets. This explains the difference between the Committee's findings and the Department's reported performance. However, the Committee considers that the Department's way of calculating this measure is not transparently disclosed. The Committee also considers that it is poor practice from the perspective of accountability, as it masks the variations identified by the Committee.

In the Committee's *Report on the 2010-11 Budget Estimates — Part Three*, the Committee recommended that: '*Major Projects Victoria should develop suitable measures upon which the progress of major projects can be measured. Performance measures should be reported in future annual reports.*'³⁷⁵ The Government supported the recommendation, but also responded that '*MPV only reports on those projects for which it receives direct funding*'.³⁷⁶ Further, the Government responded that '*DTF will examine, in consultation with MPV, the appropriateness of any new measure for future reporting*'.³⁷⁷

The Committee considers that a key indicator of the performance of this important unit is whether the projects it manages are delivered on time and on budget relative to the initial estimates, and that performance relative to these targets should be reported publicly to enable transparency and accountability.

The Committee notes that the Auditor-General has recently reported on the Melbourne Wholesale Markets redevelopment project. Amongst other findings, the Auditor-General noted shortcomings in Major Projects Victoria's treatment of risk management and procurement procedures, including probity issues and a lack of commitment to transparency.³⁷⁸

FINDING

Although Major Projects Victoria reported an actual result of 100 per cent for its performance measure of projects complying with agreed plans, the Committee's data show that actual expenditure for most of Major Projects Victoria's asset investment projects in 2009-10 and 2010-11 varied significantly from budget estimates and that half of the projects experienced significant delays to their completion dates. With respect to expenditure and timeliness, Major Projects Victoria's projects performed more poorly than the average project for Victoria.

375 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2011, Recommendation 2, p.57

376 Victorian Government, Government Responses to the Committee's 96th Report on the 2010-11 Budget Estimates — Part Three, tabled 16 March 2011, p.2

377 *ibid.*

378 Victorian Auditor-General's Office, *Melbourne Markets Redevelopment*, March 2012, pp.ix, 31-44

RECOMMENDATION 47:

The Department of Business and Innovation develop a set of performance measures for Major Projects Victoria that measures the performance of projects assisted by the unit compared to original targets.

RECOMMENDATION 48:

The Victorian Auditor-General's Office conduct a performance audit of Major Projects Victoria to ensure that it:

- (a) delivers value for money; and**
- (b) has appropriate mechanisms in place to demonstrate that it delivers value for money.**

The Committee also notes that not every project being assisted by Major Projects Victoria counts towards this measure in any year, as '*key milestones, completion dates and final cost are ... used to measure compliance against this performance measure*'³⁷⁹ so only those projects meeting these criteria in a year are counted. The Committee has identified three projects: the E-Gate Redevelopment Planning project; the Australian Synchrotron project; and the Docklands Studios project that all had expenditure in 2009-10 or 2010-11, but which the Department indicated were not included in the performance measure for either year.³⁸⁰ Any poor performance relating to these projects will not have been reflected in the performance measure, lessening accountability. Again, this fact is not clearly indicated in the Department's reporting.

FINDING

The projects contributing to the 'Delivery of nominated Major Projects Victoria projects complies with agreed plans' performance measure change from year to year and do not include all active projects. However, the Department of Business and Innovation does not usually disclose which projects have been included for any year.

RECOMMENDATION 49:

The Department of Business and Innovation include in the Department's annual report a list of projects that contribute to the key performance measure 'Delivery of nominated Major Projects Victoria projects complies with agreed plans' in that year.

The Committee notes that the Auditor General is planning a performance audit into the planning, delivery and benefits realisation of major asset investment for 2013-14.³⁸¹

6.4 Existing reporting mechanisms

Currently, the Government has two different sources available for disclosures on asset investment.

379 Department of Business and Innovation, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 23 December 2011, p.3

380 *ibid.*, pp.3-4

381 Victorian Auditor-General's Office, *Annual Plan 2010-11*, May 2011, p.34

Annual budget papers, which are published shortly before the start of each financial year, contain estimates for upcoming financial years. For asset initiatives, data about new and existing projects are published in Budget Paper No.4, *State Capital Program* (previously Budget Information Paper No.1, *Public Sector Asset Investment Program*) and consist of:

- the TEI for the project;
- the total amount expected to have been expended on the project at the start of the budget year;
- the amount expected to be spent on the project during the budget year; and
- any remaining expenditure expected after the budget year.

In addition, Budget Paper No.3, *Service Delivery* sets out new initiatives released in that year, including descriptions of projects, the funding for the project for each year of the forward estimates period, the projects' aims and what they are to deliver.

The annual Financial Report for the State of Victoria, produced after the financial year, presents actual figures for asset investment aggregated by government purpose classification (note 24) and aggregated for the general government sector and the 'State of Victoria' (that is, the whole public sector). The amount of asset investment for each department compared to budget estimates is available in the 'budget portfolio outcomes' statement in departmental annual reports, although budget portfolio outcomes are not audited.

In addition, annual reports give departments the opportunity to report additional information on asset projects. As noted in the Committee's *Review of 2009-10 and 2010-11 Annual Reports*, departments have taken this opportunity to a varying extent, with the Department of Health³⁸² and the Department Transport³⁸³ achieving this in different ways. As noted above, reporting of actual results on an individual project basis does not generally occur.

There has been a continuing conversation between successive Committees and governments concerning reporting of asset investment.

In the *Report on the 2009-10 Budget Estimates — Part Two*, the Committee recommended that:³⁸⁴

The Government ensure that public sector agencies keep Parliament and the community informed of progress made on asset investment projects through their annual reports in terms of:

- (a) progress towards project completion; and*
- (b) outcomes delivered against departmental and government objectives.*

382 Public Accounts and Estimates Committee, *Review of the 2009-10 and 2010-11 Annual Reports*, February 2012, p.64

383 *ibid.*, p.77

384 Public Accounts and Estimates Committee, *Report on the 2009-10 Budget Estimates — Part Two*, October 2009, Recommendation 6, p.69

The Government response to the recommendation was:³⁸⁵

The annual Public Sector Asset Investment Program — Budget Information Paper No. 1 (BIP 1) is compiled in association with the annual budget papers to inform Parliament and the community about Victoria's asset investment program.

To assist entities in making appropriate disclosures in their Annual Reports, the Department of Treasury and Finance (DTF) has provided best practice guidance through Financial Reporting Directions (FRDs) and the annual Model Financial Report for Victorian Government Departments (available from the DTF website: www.dtf.vic.gov.au). This material is revised regularly to ensure that departments and entities continue to meet modern financial reporting requirements.

In addressing perceived shortcomings in annual reporting requirements, the Committee has recommended that:³⁸⁶

For the information needs of Parliament and the community, departments should provide in their annual reports, details of the progress made on asset investment projects and the outcomes delivered against project objectives.

The Government response to the recommendation was:³⁸⁷

The Government is committed to increasing transparency and oversight of the delivery of major projects by all departments and agencies.

...

The Government will consider options to increase the disclosure requirements for significant asset investment projects in the 2011-12 Model Financial Report for government departments.

With respect to aggregated general government reporting on asset initiatives, the Committee has recommended:³⁸⁸

Any enhancements made to the presentation of budgeted asset information should be matched by equivalent improvements to the presentation of actual asset spending in the annual financial report.

The Government supported the recommendation, responding:³⁸⁹

385 Victorian Government, Government Responses to the Committee's 88th Report on the 2009-10 Budget Estimates — Part Two, tabled 14 April 2010, p.5

386 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2010, Recommendation 1, p.56

387 Victorian Government, Government responses to the Committee's 96th Report on the 2010-11 Budget Estimates — Part Three, tabled 16 March 2011, p.2

388 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, Recommendation 7, p.27

389 Victorian Government, Government responses to the Committee's 102nd Report on the 2011-12 Budget Estimates — Part One, tabled 24 November 2011, p.5

The Government will also investigate improvements for the presentation of asset spending in the annual financial report.

The Committee welcomes this response, and awaits the new Model Report and amended Financial Reports for the State of Victoria.

6.4.1 Problems with the existing system of asset project reporting

The only systematic reporting of details of expenditure and timing of asset projects is currently in the budget papers. As part of the process of reporting on asset programs, the Committee identified a number of issues with the budget papers that prevent stakeholders gaining a comprehensive and accurate understanding of asset investment.

Budget papers are forward-looking documents

Firstly, the Committee notes that budget papers are not primarily designed for reporting the results of initiatives. They are instead details of initiatives the Government intends for future years. The budget papers do provide figures for expenditure to 30 June for the year in which they are provided. However, as they are published in May of that year, the figures for the end of that financial year are by necessity estimates. There is a possibility that variations will occur in the period between the compilation of the budget papers and end of the current financial year, as discussed further below.

Expected expenditure for each year of the forward estimates for each asset initiative is detailed in the Service Delivery budget paper in the year in which the project is released. Over the life of a project, however, the expenditure scheduling or the scope of a project may change. Such changes can alter expenditure in individual years, total expenditure over the life of the project, expected completion dates, physical outputs delivered and so on. Notes concerning changes in TEI are included in the State Capital Program budget paper, but do not normally explicitly detail or explain changes in expenditure scheduling.

FINDING

Budget papers are forward-looking documents and do not provide details of variances between budgeted and actual expenditure in previous years.

Problems with identifying sequential published figures

When considering information published for an asset initiative in comparison to information from previous budget papers, a range of issues can prevent the right information from being located.

Asset initiatives reported as multiple projects in one year's budget papers can be amalgamated into one in subsequent budget papers. Similarly, single projects in one year can be split into several in later years. This leads to difficulty in defining which projects are to be compared across time. For example, the project listed as 'Outer Suburban Arterial Roads Program (Metro Various)' in the budget papers for 2010-11³⁹⁰ has been detailed in the 2011-12 budget papers as two separate projects: 'Cooper Street Road Widening' and 'Palmers Road/Rail Overpass'.³⁹¹

390 Budget Information Paper No.1, *2010-11 Public Sector Asset Investment Program*, May 2010, p.73

391 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.46

FINDING

There are instances where the identification of a project in the following year's budget papers is difficult due to amalgamation of projects or splitting projects.

RECOMMENDATION 50:

Asset investment projects reported in the budget papers should be uniquely identified to allow an unambiguous determination of the project in successive years.

Inaccurate estimated expenditure to 30 June

The Committee found that even when projects can be identified in successive budget papers, details of expenditure to 30 June are not always accurate. As mentioned above, the estimation of the expenditure for the financial year in which the budget papers is released is made by May of that year. This estimate may not be accurate if unexpected issues arise between May and the end of the financial year.

The Committee notes 18 cases where the estimated expenditure to 30 June 2011 (as published in the 2010-11 budget papers) was less than the estimated expenditure to 30 June 2010 (as reported in the 2009-10 budget papers). For example, for the project 'Avenel Primary School - Secure the Future of Small Rural Schools - Replace relocatable buildings with permanent facilities' the total estimated expenditure to 30 June 2010 was \$620,000.³⁹² The following year's budget papers reported that the total estimated expenditure to 30 June 2011 was \$305,000.³⁹³ That is, the estimate for 30 June 2010 was more than \$300,000 out.

The Committee approached the Department of Education and Early Childhood Development in order to confirm these figures. The Department responded that '*a misallocation of expenditure on the project was identified in 2010-11 and an accounting adjustment was made to correct this, resulting in a negative figure*'.³⁹⁴ The Committee acknowledges that this is a legitimate adjustment, although no disclosure is found in the *Annual Report 2010-11*.

For one of its projects where the estimated total expenditure to 30 June 2011 was less than the estimated total expenditure to 30 June 2010, the Department of Health provided the explanation that:³⁹⁵

The negative figure reflects the fact that the decision to delay the project occurred after the preparation of the 2010-11 Budget Papers – the actual expenditure up to 30 June 2010 was less than expected and this flowed on to a reduced expectation for 2010-11

392 Budget Information Paper No.1, *2010-11 Public Sector Asset Investment Program*, May 2010, p.26

393 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.17

394 Department of Education and Early Childhood Development, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 2 March 2012, p.3

395 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.24

The Committee has not systematically investigated the accuracy of the figures provided for the estimated expenditure to 30 June. However, the 18 instances where the figure was revised downwards in the 2011-12 budget papers indicate that there were at least 18 inaccurate estimates in the 2010-11 budget papers. In addition, information provided by departments to the Committee also indicated significant inaccuracies for several other projects (see Table 6.10).

Table 6.10: Comparison of estimated expenditure to 30 June 2011 (as shown in the budget papers) with actual expenditure

Project	Estimated expenditure to 30 June 2011 (\$ million)	Actual expenditure to 30 June 2011 (\$ million)
Bendigo Hospital stage 1 – enabling works	28.2	23.1
TAFE student management system	46.8	38.8
Western Port Secondary College – modernisation	1.1	2.7

Sources: *Budget Paper No.4, 2011-12 State Capital Program, May 2011*; *Departmental responses to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One (based on actual expenditure for 2009-10 and 2010-11 for projects commencing in 2009-10)*

FINDING

The Committee has identified a number of cases in which the estimated expenditure to 30 June in the budget papers has been significantly inaccurate.

Budget papers may contain out-of-date information

The Committee also identified some areas where the budget papers appear to include out-of-date information. For two projects, the Department of Education and Early Childhood Development advised the Committee that the budget papers were reporting TEIs that were no longer accurate.

- The 'New Gisborne Primary School – Modernisation' project had a TEI figure of \$2.873 million in the budget papers for both 2008-09 and 2009-10.³⁹⁶ However, the Department advised the Committee that this figure had been revised to \$2.447 million in October 2007.³⁹⁷
- The 'Craigieburn North P-12 – New School – Stage 1' project had a TEI figure of \$7.850 million in the budget papers for 2009-10.³⁹⁸ The Department indicated that this figure had been changed to \$7.036 million in April 2008.³⁹⁹

396 Budget Information Paper No.1, *Public Sector Asset Investment Program 2008-09*, October 2008, p.30; Budget Information Paper No.1, *Public Sector Asset Investment Program 2009-10*, October 2009, p.37

397 Department of Education and Early Childhood Development, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 2 March 2012, p.2

398 Budget Information Paper No.1, *Public Sector Asset Investment Program 2009-10*, October 2009, p.33

399 Department of Education and Early Childhood Development, response to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 2 March 2012, p.2

FINDING

The Committee has identified two cases where the budget papers are reporting out-of-date information about asset investment projects.

RECOMMENDATION 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.

HealthSMART

The Committee examined the reporting for the HealthSMART projects in greater detail, as the Committee noted some unusual occurrences in reporting on this project. The Committee notes that the Auditor-General inquired into the delivery of the project in April 2008, and the Committee followed-up his report in 2010.

The ‘HealthSMART shared information and communication technology (ICT) Operations’ project was reported in the 2010-11 budget papers as having a TEI of \$26.9 million.⁴⁰⁰ The TEI increased to \$186.4 million in the 2011-12 budget papers.⁴⁰¹ The reasons given were that two additional components had been added to the project, namely \$21.0 million for electronic prescribing in key Victorian hospitals (‘ePrescribing’), and \$138.5 million, which was the original budgeted amount for the first phase of the project (‘Health Information and Communication Technology (ICT) Strategy’), allocated in the 2003-04 budget papers.

The Committee is confused by the addition of these two amounts, as it is the Committee’s understanding that both of these components were completed:

- according to the 2008-09 budget papers, the \$138.5 million component was expected to have been expended by the end of 2008-09;⁴⁰² and
- according to the Department of Health, ‘*ePrescribing money formed part of the overall HealthSMART Clinical budget and has been expended*’.⁴⁰³

The Committee notes that, with the re-introduction of these amounts to the TEI, the estimated expenditure to date also increased by the same amount. This also suggests that these projects have been completed. The Committee is therefore unclear as to why these apparently completed projects have been added back into the budget papers with no additional funding.

Moreover, the Committee notes that the *Economic and Financial Statement* indicates that up to an additional \$80 million is required by the project,⁴⁰⁴ but it is not clear whether or not these funds have been allocated, or through what projects they have been allocated. In fact, the 2011-12 budget papers suggest that there will be no remaining expenditure after 2011-12.

400 Budget Information Paper No.1, *2010-11 Public Sector Asset Investment Program*, May 2010, p.45

401 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.30

402 Budget Information Paper No.1, *2008-09 Public Sector Asset Investment Program*, October 2008, p.41

403 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.46

404 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.8

Overall, the Committee has found that the reporting on this project in the budget papers does not provide a clear picture of what is occurring.

FINDING

The reporting of the HealthSMART project in the budget papers contains some unusual elements and does not clearly communicate what is occurring with that project.

6.4.2 Reporting methods – improvements

As set out in Section 6.4.1, a number of issues make it impossible for stakeholders to monitor projects over time using budget papers, or to receive comprehensive and reliable information on all asset projects administered by departments. While some information on some projects is available, the Committee considers that the system as it currently operates compromises the accountability of departments.

The Committee considers that in order to achieve transparency in departmental activity and accountability for budgets, a comprehensive and definitive source of post financial year actual information is necessary, covering all asset projects, including those which were completed during the reporting year. This source would complete the asset project budget cycle which begins with the budget papers. Information could be provided in a spreadsheet detailing:

- the latest total estimated investment;
- the budgeted expenditure for the completed year;
- the actual expenditure for the completed year;
- a quantification of the variation between the actual expenditure and the original budget for the completed year;
- current expected project completion dates; and
- detailed discussion of any variations or changes to the scope or scheduling of the project, setting out root causes for variations/changes and their impacts.

FINDING

The current system of reporting asset projects does not provide stakeholders with comprehensive and reliable information on the projects.

RECOMMENDATION 52:

To complement the State Capital Program budget paper, actual results for all asset projects should be reported each year in a single source at the end of the financial year. Consideration should be given to including, as a minimum, the information suggested in Section 6.4.2 of this report.

CHAPTER 7: OUTCOMES ACHIEVED IN 2009-10 AND 2010-11

7.1 Introduction

In addition to the ‘outputs’ of government entities, which are the products and services they delivered, the Committee is also interested in the ‘outcomes’ achieved by entities, that is, the impact of those outputs on the community.

This chapter examines the outcomes achieved in 2009-10 and 2010-11. In so doing, the Committee notes the change of government in November 2010. Thus the Committee’s examination of outcomes has been divided into two sections.

Section 7.2 looks at the previous government’s achievements (during the 56th Parliament) compared to its desired outcomes as stated in its *Growing Victoria Together* vision. This vision was established in 2001 with goals for Victoria up to ‘2010 and beyond’.

Section 7.3 examines the outcomes achieved in 2010-11 after the current government came into office. The information in this section is based on responses by departments to the Committee’s 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire. As there was less than eight months between the current government’s election and the end of 2010-11, the Committee notes that it was not possible to properly assess the impact of a number of actions undertaken towards these outcomes in that time. The Committee also notes that a number of the goals supplied by departments were, in fact, outputs rather than outcomes. Nonetheless, the list of departmental achievements which is included in Section 7.3 provides an overview of the Government’s accomplishments during that period. Additional information about what exactly was achieved, with supporting data, has been included in Appendix 2.

7.2 Growing Victoria Together

Growing Victoria Together: A Vision for Victoria to 2010 and Beyond was a vision for Victoria established by the previous government in 2001, with an update in 2005.⁴⁰⁵ It included issues and priorities set ‘to make Victoria a better place in which to live, work and raise a family.’⁴⁰⁶ It consists of five high-level visions, each of which is supported by two goals. Associated with each of those goals is a number of measures. A total of 36 measures were provided across the ten goals.

Each year, the previous government reported on its results for various indicators related to the *Growing Victoria Together* measures. These were published in Appendix B of Budget Paper No.3. As *Growing Victoria Together* was not continued by the Government of the 57th Parliament, the last details of accomplishment of the goals and visions were published in the 2010-11 budget papers (May 2010). As part of its 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire, the Committee approached all departments for information about additional accomplishments between that date and the change of government in November 2010.

405 Budget Paper No.3, *2010-11 Statement of Finances*, May 2010, p.363

406 *ibid.*

The Committee particularly appreciates the significant amounts of additional data provided by the Department of Primary Industries and the Department of Transport. Some of this information has not been included in the tables below, as it accounted for only a small contribution towards the overall measure, but can be seen in the departments' full responses on the Committee's website (www.parliament.vic.gov.au/paec).

Based on this information, the Committee has undertaken an assessment of each of the measures to identify whether or not the measure was achieved prior to the change of government. For some measures, the Committee has also drawn on other data sources, as appropriate.

In some cases, departments indicated that no additional data had been collected subsequent to the 2010-11 Budget. In those cases, the results published in the 2010-11 budget papers have been used.

For seven measures, however, it was not possible for the Committee to identify whether or not the targets had been achieved. In one case, this was because the measure had a target date of 2020. In the other cases, it was because either no data were available for the measure, or no recent data were available. One other measure has two targets, one of which is for 2030. In this case, the Committee was only able to assess part of the measure.

For the outcomes for which data were available, however, the Committee has made an assessment of each as to whether it was met, partially met or not met before the change of government.

The results of the Committee's assessment indicate that, of the 36 *Growing Victoria Together* measures:

- 13 (36 per cent) were met;
- 7 (19 per cent) were partially met;
- 9 (25 per cent) were not met; and
- for 7 (19 per cent) measures, it was not possible to determine whether or not the outcome had been met.

Table 7.1 breaks these numbers down according to the different visions.

Table 7.1: Committee assessment on achievement of Growing Victoria Together Measures

Vision	Met	Partially met	Not met	Unable to determine
Thriving economy	4	1	1	2
Quality health and education	2	2	3	0
Healthy environment	1	2	1	4
Caring Communities	2	2	3	1
Vibrant democracy	4	0	1	0
Total	13	7	9	7

Source: assessment made by the Committee's assessment, based on data provided by departments or in the budget papers (see Tables 7.2-7.11 below)

Sections 7.2.1-7.2.5 provide details of the achievements compared to the measures for each of the goals.

FINDING

The previous government's overall vision, *Growing Victoria Together*, provided five visions, with ten goals and 36 measures associated with them. By the change of government, 20 measures (56 per cent) had been met or partially met, while nine measures (25 per cent) had not been met. For seven measures (19 per cent) it was not possible to tell whether or not the measures had been met, due to data not being available or the targets being set for future years.

Of the nine measures that were not met, in two cases there were trends in the desired direction over the period, but not quite as far as the target. In three other cases, the data indicated little change (though the targets were for increases). In the remaining four cases, data indicated a trend in the opposite direction to the one desired by the Government.

7.2.1 Thriving economy

The 'thriving economy' vision was supported by two goals:

- more quality jobs and thriving, innovative industries across Victoria; and
- growing and linking all of Victoria.

More quality jobs and thriving, innovative industries across Victoria

Three of the four measures under this goal have been met. One measure (a greater share of national business investment will be in Victoria) was not met. Table 7.2 provides further details.

Table 7.2: 'More quality jobs and thriving, innovative industries across Victoria' achievements

Measure	Department	Outcomes achieved to November 2010	Committee comments
There will be more and better jobs across Victoria	Business and Innovation	Between 2001-02 and 2010-11, Victorian employment increased by 624,300 workers. The 2010-11 budget papers also indicate that, in the ten years to 2009, employment in regional Victoria had grown, that average nominal and real weekly earnings had increased and that managers and professionals were the occupations with the highest growth rates. However, the budget papers also indicate that underemployment had increased by March 2010.	Based on these statistics, the Committee considers that, overall, this measure has been met .
Victoria's productivity and competitiveness will increase	Primary Industries	The Department of Primary Industries delivered various research, development and extension programs that have improved the productivity and competitiveness of Victoria's agriculture and fisheries sectors.	Based on the indicators of real GSP per employed person and per hour worked, the Committee considers this measure to have been met .
	Treasury and Finance	Two of the indicators used by the Government for this measure in the budget papers were: <ul style="list-style-type: none"> • real gross state product (GSP) per employed person (which provides a measure of the value added by each worker in the economy); and • real GSP per hour worked (which provides a measure of the value added by each hour that Victorians work). Both measures decreased by 0.4 per cent between 2008-09 and 2009-10. However, both have increased since the commencement of <i>Growing Victoria Together</i> .	
A greater share of national business investment will be in Victoria	Business and Innovation	Victoria's share of national business investment was 26.8 per cent in 2000-01 compared to 20.9 per cent in 2010-11.	Outcome not met , as Victoria's proportion has decreased from 2001-02 to 2010-11 instead of increasing.
Victoria will increase exports to \$30 billion by 2010	Business and Innovation	Victorian exports were \$31 billion in June 2010.	Outcome met .

Sources: departmental responses to the 2009-10 and 2010-11 Financial and Performance Questionnaire — Part One and Further Clarification Points; Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.363-438

Note: Information in this table is a summary of responses received from the departments. The responses often include additional data not repeated here. For the full responses, see the Committee's website (www.parliament.vic.gov.au/paec).

Growing and linking all of Victoria

One of the four measures for the 'growing and linking all of Victoria' goal was met. One measure was partly met because it included two targets, one of which was for 2030 and so cannot be assessed yet. Another measure had a target for 2020 and therefore also cannot be assessed. A fourth measure had been replaced by the Government and no data had been published since 2007-08.

Table 7.3 provides further details.

Table 7.3: ‘Growing and linking all of Victoria’ achievements

Measure	Department	Outcomes achieved to November 2010	Committee comments
Victoria’s total population will reach seven million people by 2030, and regional population growth will increase to 1.25 per cent annually by 2006	Business and Innovation	Victoria’s total population was 5,545,932 as at 30 June 2010. Regional Victoria’s population grew by 1.4 per cent from 2009 to 2010, from 1,447,967 to 1,468,272. In 2006, the target was narrowly missed at 1.14 per cent, but has remained above 1.25 per cent since 2007.	Overall the measure has been partially met . The population in 2030 cannot yet be known. The regional population growth rate target was missed by a small proportion in 2006 but has increased by more than 1.25 per cent annually from 2007.
Regional rail services will be available to more Victorians	Transport	As at 30 June 2010, there were 1,462 regional rail services per week, which is the same number as for the last two years, but an increase from 2000-01. The budget papers indicate that the number of passenger trips increased to 2008-09.	This measure has been assessed as met .
The proportion of freight transported to and from ports by rail will increase from 10 per cent to 30 per cent by 2010	Transport	The last report against this outcome was in the 2009-10 budget papers, which indicated that the proportion had been declining since 2001-02, reaching 12.3 per cent in 2007-08. In the 2010-11 budget papers, the Government indicated that it had replaced this target with ‘ <i>more comprehensive freight and port strategies</i> ’.	No data are available after 2007-08 and, as a result, the Committee has assessed this measure as unable to determine . The Committee does note that the last reported result was well below the target.
Public transport use in Melbourne as a proportion of trips taken by motorised means will increase from 11 per cent in 2002 to 20 per cent by 2020	Transport	In 2009-10, an estimated 12.4 per cent of all personal motorised trips in metropolitan Melbourne were taken on public transport. The Department also noted that metropolitan public transport patronage rose by 1.1 per cent to 9.56 million boardings per week in 2009-10.	As the target date for this measure is 2020, the Committee is unable to determine whether or not it has been met.

Sources: *departmental responses to the 2009-10 and 2010-11 Financial and Performance Questionnaire — Part One and Further Clarification Points; Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.363-438; Budget Paper No.3, 2009-10 Service Delivery, May 2009, pp.385-6; Department of Planning and Community Development, Victorian Population Bulletin 2011,*

Note: *Information in this table is a summary of responses received from the departments. The responses often include additional data not repeated here. For the full responses, see the Committee’s website (www.parliament.vic.gov.au/paec).*

FINDING

For the ‘thriving economy’ vision, four measures were met, one was partially met, one was not met and the Committee was unable to fully determine whether or not two measures were met.

7.2.2 Quality health and education

Two goals supported the ‘quality health and education’ vision:

- high quality, accessible health and community services; and
- high quality education and training for lifelong learning.

High quality, accessible health and community services

Two of the four measures under the ‘high quality, accessible health and community services’ goal were not met whilst two measures had been partially met. With the two measures that were not met, the targets were for an increase or improvement, whereas the actual results showed little movement over the life of *Growing Victoria Together*. Table 7.4 provides a more detailed analysis.

Table 7.4: 'High quality, accessible health and community services' achievements

Measure	Department	Outcomes achieved to November 2010	Committee comments
The health of Victorians will improve	Health	The Department indicated that no more recent results are available than those published in the 2010-11 budget papers. The budget papers used four indicators from the Victorian Population Health Survey, all of which showed little change between 2001 and 2009. The budget papers also looked at average life expectancy at birth, which had increased between 1999 and 2008.	Most of the indicators provided showed little change from 2001 to 2009. As a result, the Committee has assessed the measure as not met .
The wellbeing of young children will improve	Education and Early Childhood Development	Three indicators were used to monitor this measure: <ul style="list-style-type: none"> the proportion of infants that were fully breastfed at three months; the proportion of infants that were immunised; and the proportion of 4 year-olds participating in kindergarten. There was little change from 2002 to 2009 for the first measure. The kindergarten participation rate had increased by a small amount to 95.1 per cent in 2010. Childhood immunisation rates increased for most age brackets.	The data provided has shown little change in the measurement from 2001 to 2009 for one indicator, slight improvement in 2010 for one and improvement in another. As a result the Committee considers the measure to be partially met .
Waiting times (emergency, elective and dental) will be reduced	Health	Three indicators were used by the Government to assess this measure in the budget papers, one for each of emergency, elective and dental waiting times): <ul style="list-style-type: none"> for emergency waiting times, triage category 1 patients treated immediately remained at 100 per cent throughout the period, the proportion of category 2 patients treated within 10 minutes stayed relatively static and the proportion of category 3 patients treated in 30 minutes fell; for elective surgery, the time to treatment for triage category 1 remained at 100 per cent within 30 days throughout the period and triage category 2 patients admitted within 90 days worsened; the average waiting time for denture care (including priority denture care) treatment decreased from 1999-2000 to 2008-09 but the average waiting time for general dental care treatment increased. 	The indicators for emergency and elective surgery waiting times showed little change or worsened, as did the general dental care treatment waiting times. However, priority denture and general denture waiting times have improved. Overall, this measure was partially met .
Levels of confidence in health and community services will increase	Health	The information provided in the budget papers indicated little variation for people's satisfaction with public hospitals and decreases in people's satisfaction with kindergarten/pre-school and maternal and child health centre services between 2001 and 2009.	As the data show little change or decreases in satisfaction, the Committee considers that this measure was not met .

Sources: *departmental responses to the 2009-10 and 2010-11 Financial and Performance Questionnaire — Part One and Further Clarification Points; Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.363-438; Department of Health, Annual Report 2010-11, pp.186-7*

Note: *Information in this table is a summary of responses received from the departments. The responses often include additional data not repeated here. For the full responses, see the Committee's website (www.parliament.vic.gov.au/paec).*

High quality education and training for lifelong learning

Under the ‘high quality education and training for lifelong learning’ goal, two of the three measures were met and one was not met. The Committee notes that the measure that was not met was very close to the target. Details are set out in Table 7.5.

Table 7.5: ‘High quality education and training for lifelong learning’ achievements

Measure	Department	Outcomes achieved to November 2010	Committee comments
The proportion of Victorian primary students achieving national minimum standards in literacy and numeracy will be at or above the national average	Education and Early Childhood Development	For all year 3 and 5 literacy and numeracy results as part of the National Assessment Program—Literacy and Numeracy, the Victorian average in 2010 was above the national average.	This measure has been met .
By 2010, 90 per cent of young people in Victoria will successfully complete year 12 or its educational equivalent	Education and Early Childhood Development	The year 12 or equivalent attainment rate for 20-24 year olds increased between 2001 and 2010, but was only 88.1 per cent in 2010.	This measure was not met . The Committee does note that the outcome achieved was close to the target
The level of participation in vocational education and training of adults aged 25 to 64 years will increase	Business and Innovation	The data provided by the Department show an increase in the number of vocational education and training students increasing from 1999 to 2010 (from approximately 270,000 to 309,544).	The increase in student numbers confirms this measure was met .

Sources: *departmental responses to the 2009-10 and 2010-11 Financial and Performance Questionnaire — Part One and Further Clarification Points; Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.363-438; Australian Curriculum, Assessment and Reporting Authority, NAPLAN Achievement in Reading, Writing, Language Conventions and Numeracy: National Report for 2010, 2010*

Note: *Information in this table is a summary of responses received from the departments. The responses often include additional data not repeated here. For the full responses, see the Committee’s website (www.parliament.vic.gov.au/paec).*

FINDING

For the ‘quality health and education’ vision, two measures were met, two measures were partially met and three measures were not met.

7.2.3 Healthy environment

Two goals supported the ‘healthy environment’ vision:

- protecting the environment for future generations; and
- efficient use of natural resources.

Protecting the environment for future generations

Of the four measures for the ‘protecting the environment for future generations’ goal, one measure was partially met and the Committee was unable to determine if outcomes were achieved for the remaining three measures. In all three of these cases, the Committee was unable to determine whether or not the measures were met due to a lack of data or a lack

of up-to-date data. For one measure, measurement did not even begin until 2010. Table 7.6 provides details for each measure.

Table 7.6: ‘Protecting the environment for future generations’ achievements

Measure	Department	Outcomes achieved to November 2010	Committee comments
The health of Victoria's rivers will improve significantly by 2010. In particular, the Snowy River will be returned to 21 per cent of its original flow by 2011, and 28 per cent over time.	Primary Industries, Sustainability and Environment	A state-wide ‘Index of Stream Condition’ assessment was conducted in 1999 and 2004 and found that approximately 21 per cent of major rivers and tributaries in good or excellent condition. An assessment was undertaken during 2010 and results were due to be released by January 2012 but have not been released to date. The budget papers note that in 2009-10, the Snowy River flow was below target due to drought conditions. Departments did not supply data to indicate how the end of the drought has altered outcomes.	The Committee is unable to determine if this measure was met, as up-to-date data are not available for both aspects of this measure.
The quality of air and drinking water will improve	Sustainability and Environment	Based on data presented in the 2010-11 budget papers, the percentage of days with ‘good’ to ‘very good’ air quality had decreased from 1999 to 2009 in Central Melbourne, Geelong and the Latrobe Valley. Data for drinking water showed significant improvement since 2004-05, with the proportion of drinking water free from <i>E. coli</i> increasing from 95 per cent to 99 per cent in 2008-09.	Based on the data provided, this measure has been partially met , as water quality has increased though air quality has decreased.
The extent and quality of native vegetation will increase	Sustainability and Environment	The 2010-11 budget papers only provide data indicating change between 2005-06 and 2008-09. On this basis, the Committee does not consider that it can determine whether or not the measure has been met.	Based on the data in the budget papers, the Committee considers that it is unable to determine whether or not the measure was met.
The condition of our land will improve as the impact of salinity and soil degradation is reduced	Sustainability and Environment	The budget papers indicate that this has been ‘ <i>difficult to measure due to incomplete information</i> ’ and do not supply data. A first assessment of this measure was not due until early 2010.	In the absence of data, the Committee is unable to determine whether or not this measure was met.

Sources: *departmental responses to the 2009-10 and 2010-11 Financial and Performance Questionnaire — Part One and Further Clarification Points; Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.363-438*

Note: *Information in this table is a summary of responses received from the departments. The responses often include additional data not repeated here. For the full responses, see the Committee’s website (www.parliament.vic.gov.au/paec).*

Efficient use of natural resources

One of the four measures for the ‘efficient use of natural resources’ goal was met, one was partially met and one was not met, whilst the Committee was unable to determine one. With the measure that could not be determined, the Department of Primary Industries had undertaken a number of activities towards achievement of this measure. However, data are not available to indicate whether or not the target was achieved. Table 7.7 provides details.

Table 7.7: 'Efficient use of natural resources' achievements

Measure	Department	Outcomes achieved to November 2010	Committee comments
Greenhouse gas emissions from the production and use of energy will be reduced	Primary Industries	The Department of Primary Industries indicated that it ' <i>contributed to this area of work but does not have any quantified performance measures.</i> ' Data supplied in the budget papers show that total greenhouse gas emissions have increased from 1999 to 2008 and that emissions from stationary energy generation also increased over that period. The Department of Climate Change and Energy Efficiency has indicated that the total greenhouse gas emissions further increased between 2008 and 2009. The budget papers do note that emissions intensity (that is, the total emissions per unit of gross state product) decreased from 1999 to 2008.	Although emissions intensity may have reduced, as the measure is simply for emissions to be reduced, the Committee considers that this measure was not met .
More efficient use of water in agriculture	Primary Industries	The Department of Primary Industries has identified much work undertaken in this area. The Department's quantified performance measure against this measure was 'Water Saving Plans progressed in the Goulburn Murray Irrigation District', with a result of 480 in 2010-11, above the target of 300. However, the 2010-11 budget papers indicate a decline in water delivery system efficiency between 2006-07 and 2008-09, which was attributed to the significant reduction in available water. Data have not been provided for more recent years which might factor in changed conditions. The budget papers also indicate that the efficiency of on-farm water use was not measured until 2008-09.	Given the lack of recent data, especially in the context of changed drought conditions, the Committee is unable to determine whether or not this measure was met.
Melbourne's water usage will be reduced by 15 per cent on a per capita basis from the 1990s' average by 2010	Sustainability and Environment	The 2010-11 budget papers indicate that in 2008-09, Melbourne's water usage was 257 litres of water per person per day, which was 39 per cent less than the 1990s' average. The Department of Sustainability and Environment indicated that no more recent data are available.	Based on data provided, this measure has been met .
The quantity of solid waste generated will be reduced, and the amount recovered for reuse, recycling and energy generation will increase	Sustainability and Environment	The 2010-11 budget papers indicate that the total amount of waste generated increased from 1999-2000 to 2007-08. The amount of waste generated per unit of gross state product varied from year to year and was larger in 2007-08 than it had been in 2000-01, but smaller than it had been in 1999-2000. However, the amount of waste recovered increased substantially from 43 per cent in 1999-2000 to 61 per cent in 2007-08. The Department of Sustainability and Environment advised that there were not any more up-to-date figures.	Based on data provided, this measure has been partially met .

Sources: departmental responses to the 2009-10 and 2010-11 Financial and Performance Questionnaire — Part One and Further Clarification Points; Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.363-438; Department of Primary Industries, Annual Report 2010-11, p.116; Department of Climate Change and Energy Efficiency, Australian National Greenhouse Accounts – National Inventory by Economic Sector 2009, April 2011

Note: Information in this table is a summary of responses received from the departments. The responses often include additional data not repeated here. For the full responses, see the Committee's website (www.parliament.vic.gov.au/paec).

FINDING

For the 'healthy environment' vision, one measure was met, two partially met, one not met and the Committee was unable to determine whether or not four measures had been met, due to lack of data.

7.2.4 Caring communities

Two goals were associated with the 'caring communities' vision:

- building friendly, confident and safe communities; and
- a fairer society that reduces disadvantage and respects diversity.

Building friendly, confident and safe communities

One of the four measures for the 'building friendly, confident and safe communities' goal was met; one measure was partially met while two of the four measures were not met. See Table 7.8 for more details.

Table 7.8: ‘Building friendly, confident and safe communities’ achievements

Measure	Department	Outcomes achieved to November 2010	Committee comments
Crime will be reduced by 5 per cent from 2003 to 2008, and Victorians will feel safer	Justice	The budget papers indicate that the total reported rate of crime fell by 16.5 per cent between 2003 and 2008. More recent statistics indicate that this trend has continued to 2010-11, although crime rates in certain categories (e.g. assault) have increased. The budget papers also indicate that Victorians’ perceived level of safety has increased from 2003 to 2009, and the Department indicated that this trend has also continued.	Based on data provided, the measure has been partially met .
Annual deaths and serious injuries from road crashes will be reduced by 20 per cent over the period 2002 to 2007	Transport	The budget papers indicate that the road toll in 2007 was 332, which was 19.4 per cent less than the baseline average of 1999-2001, indicating that the measure was almost, but not quite met. The Department noted that the road toll had subsequently continued to reduce, being 288 in 2010. The budget papers indicate that data tracking serious injuries over the period 2002-2007 are not available.	Data provided indicate that the target for the reduction of deaths by 2007 was not met , although the actual results were very close and the target has been subsequently met. Data for serious injuries over the timeframe are not available.
The extent and diversity of participation in community, cultural and recreational organisations will increase	Planning and Community Development	The budget papers indicate that there was a small increase in the proportion of people attending local community events in the last six months between 2001 and 2009, and that the proportion of people helping out as volunteers had almost no change over that period. The Department indicated that no more recent data were available.	Based on data provided, the Committee considers that this measure has been met .
More Victorians will be able to get help from friends, family or neighbours when they need it	Planning and Community Development	The Victorian Population and Health Survey included the question: ‘Can you get help from family/friends/neighbours when you need it?’ The proportion of respondents answering ‘yes, definitely’ or ‘sometimes’ decreased for both urban and regional Victorians between 2001 and 2009.	Based on data provided, the Committee has assessed this measure as not met .

Sources: *departmental responses to the 2009-10 and 2010-11 Financial and Performance Questionnaire — Part One and Further Clarification Points; Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.363-438; Victoria Police, Annual Report 2010-11, pp.18-19*

Note: *Information in this table is a summary of responses received from the departments. The responses often include additional data not repeated here. For the full responses, see the Committee’s website (www.parliament.vic.gov.au/paec).*

A fairer society that reduces disadvantage and respects diversity

Of the four measures associated with the ‘A fairer society that reduces disadvantage and respects diversity’ goal, two were partially met, one was not met and the Committee was not able to determine if one of the measures had met expected outcomes. See Table 7.9 for further information.

Table 7.9: 'A fairer society that reduces disadvantage and respects diversity' achievements

Measure	Department	Outcomes achieved to November 2010	Committee comments
Disadvantage in health, education and housing among communities will be reduced	Human Services	<p>The budget papers provided eight different indicators for this measure. Most of these were either highly variable from one year to the next or showed little change over the period from 2001 to 2008 or 2009. Indicators with clear trends were:</p> <ul style="list-style-type: none"> • the total social housing stock numbers; • the average wait time for public housing allocations to clients in greatest need; and • the numbers of clients assisted with homelessness support. <p>All three of these indicators increased over the time period measured.</p> <p>The budget papers note that the completion of year 12 or its equivalent is also a relevant indicator. As discussed in Section 7.2.2 above, the target for this indicator was not met.</p>	Although the average wait time increased, based on the increase in social housing and the number of clients assisted, the Committee considers that this measure has been partially met , though it notes that these measures are outputs rather than outcomes.
The number of early school leavers who are unemployed after six months will decline	Education and Early Childhood Development	The budget papers indicate that the proportion of early school leavers looking for work decreased from 18.5 per cent in 2003 to 17.9 per cent in 2009. However, the figures are highly variable from year to year and the budget papers note that the survey used to track this information needs to be interpreted with care. The Committee does not consider that the data are sufficiently robust to assess whether or not the measure has been met.	Based on the data available the Committee is unable to determine if the measure has been met.
The prison population will not grow as quickly and reoffending will be reduced	Justice	The budget papers indicate that the imprisonment rate has risen from 2000-01 to 2008-09 and that the rate of prisoners returning to prison under sentence within two years of release has declined over that period. Data supplied by the Department indicate that both of these trends continued in 2009-10. It is unclear what growth rate for the prison population is the baseline against which performance is to be measured.	The target for prison growth is unclear but the target has been met for reoffending. Therefore, the Committee considers this measure to have been partially met .
The appreciation of diverse neighbourhoods and communities will increase	Planning and Community Development	The 2010-11 budget papers note that the Victorian Population and Health Survey collected information on the proportion of Victorians that think multiculturalism makes life in their area better. The data from that survey show a decline from 2001 to 2009. The budget papers note that a change in methodology makes the data prior to 2005 not directly comparable, but the figures indicate a decline in numbers from 79.9 per cent in 2005 to 75.2 per cent in 2009. The Department of Planning and Community Development indicated that there were no updated data available.	Based on data provided, the statistics have declined and thus the Committee has assessed this measure as not met

Sources: departmental responses to the 2009-10 and 2010-11 Financial and Performance Questionnaire — Part One and Further Clarification Points; Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.363-438

Note: Information in this table is a summary of responses received from the departments. The responses often include additional data not repeated here. For the full responses, see the Committee's website (www.parliament.vic.gov.au/paec).

FINDING

For the ‘caring communities’ vision, two measures were met, two measures were partially met, three measures were not met, while with one measure the Committee was unable to determine if the measure was fully achieved.

7.2.5 Vibrant democracy

The ‘vibrant democracy’ vision was supported by two goals:

- greater public participation and more accountable government; and
- sound financial management.

Greater public participation and more accountable government

Two measures were provided for the ‘greater public participation and more accountable government’ goal. Both were met. Details can be seen in Table 7.10.

Table 7.10: ‘Greater public participation and more accountable government’ achievements

Measure	Department	Outcomes achieved to November 2010	Committee comments
More Victorians from all backgrounds will have the opportunity to have a say on issues that matter to them	-	The 2010-11 budget papers indicate that there were small increases between 2001 and 2009 in the proportions of Victorians who feel that there are opportunities to have a real say on issues that are important to them and that feel valued by society.	Based on data provided, this measure has been met
There will be regular reports on progress in improving the quality of life for all Victorians and their communities	-	The budget papers considered the reporting of the progress towards <i>Growing Victoria Together</i> goals to be the indicator for this measure. This progress was reported each year in the budget papers.	Based on the indicator established by the Government, this measure was met

Sources: *Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.363-438*

Note: Information in this table is a summary of responses received from the departments. The responses often include additional data not repeated here. For the full responses, see the Committee’s website (www.parliament.vic.gov.au/paec).

Sound financial management

For the ‘sound financial management’ goal, two of the three measures were met and one was not. Table 7.11 provides details.

Table 7.11: ‘Sound financial management’ achievements

Measure	Department	Outcomes achieved to November 2010	Committee comments
An annual budget surplus of at least \$100 million	Treasury and Finance	This was achieved each year, with a surplus (net result from transactions) of \$517.3 million in 2010-11.	This measure has been met .
Victoria’s AAA credit rating will be maintained	Treasury and Finance	Victoria’s AAA credit rating was maintained throughout the life of <i>Growing Victoria Together</i> .	This measure has been met .
Victoria’s taxes will remain competitive with the Australian average	Treasury and Finance	The Government identified two indicators of tax competitiveness: <ul style="list-style-type: none"> • state taxation as a share of gross state product; and • taxation revenue per capita. For both measures, Victoria’s taxation rate was higher than the Australian average. The Committee notes that earlier budget papers indicated that the former measure had been close to or below the Australian average in previous years.	Based on the Government’s indicators, this measure was not met

Sources: departmental responses to the 2009-10 and 2010-11 Financial and Performance Questionnaire — Part One and Further Clarification Points; Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.363-438; Budget Paper No.3, 2005-06 Service Delivery, May 2005, p.363

Note: Information in this table is a summary of responses received from the departments. The responses often include additional data not repeated here. For the full responses, see the Committee’s website (www.parliament.vic.gov.au/paec).

FINDING

For the ‘vibrant democracy’ vision, four measures were met and one was not met.

7.3 Outcomes achieved by the 57th Parliament

The Committee asked all departments to detail the five most important outcomes that they achieved between the election in November 2010 and the end of the financial year on 30 June 2011. Table 7.12 below outlines the outcomes supplied by departments. The Committee notes that in a number of cases the objectives provided by departments are what the Committee would classify as ‘outputs’ rather than ‘outcomes’. That is, they describe the goods and services produced rather than the impact of those goods and services on the community. The Committee also notes that some of the outcomes identified had longer time-frames than the period under review and therefore it is not yet possible to identify whether or not the outcome was achieved.

The list, however, does provide an overview of the Government’s achievements in that part of 2010-11 for which it was in power. Details of what was actually achieved towards the identified outcomes, with supporting data, have been included in Appendix 2. Table 7.12 also includes the relationship between each identified outcome and major government strategies to provide some context for these outcomes.

The Committee also asked departments to identify any planned outcomes that had not been achieved during that period. Most departments indicated that there were none, with the exception of the Department of Transport, which noted the variations from planned outcomes that have been included by the Committee in Appendix 2.

FINDING

Details supplied by departments indicate a wide variety of planned outcomes that were achieved between the election and the end of 2010-11. Only one department indicated any significant program outcomes that were not achieved in that period.

Table 7.12: Achieved outcomes between November 2010 and 30 June 2011

Department	Planned outcome	Relationship to major government strategy
Business and Innovation	Provided flood assistance to help tourism and businesses	Not applicable
	Trade mission to India led by the Hon. Louise Asher	The Victorian Liberal Nationals Coalition Plan for Stronger Industry and More Jobs
	Department of Business and Innovation restructure	The Victorian Liberal Nationals Coalition Plan for Stronger Industry and More Jobs
	New industrial relations principles to apply to tenders for state-funded construction projects	The Victorian Liberal Nationals Coalition Plan for Stronger Industry and More Jobs
	Removed the ban on Easter Sunday trading	The Victorian Liberal Nationals Coalition Plan for Stronger Industry and More Jobs
Education and Early Childhood Development	Give children the best start in life and provide access to affordable, quality early childhood education in the years before schooling	Victorian Government's Election Policy Commitments 2010 – Children and Early Childhood Development
	Develop the basic skills for life and learning so children make a successful transition to school	Victorian Government's Election Policy Commitments 2010 – Children and Early Childhood Development
	Engage students in learning and improve student achievement in literacy and numeracy so Victorian students excel by national and internal standards	Victorian Government's Election Policy Commitments 2010 – Children and Early Childhood Development
	Assist young people to transition from school to further education and/or work that provides further training opportunities	Victorian Government's Election Policy Commitments 2010 – Children and Early Childhood Development
	Supply the skills needed to improve labour market outcomes and equip Victorians of all ages with the skills and capabilities to enable educational, labour market and social participation	Victorian Government's Election Policy Commitments 2010 – Skills (Establishment of a public register for training providers informing student choice about what and where to study; training fee concessions for 15 to 25 year olds studying Diploma and above qualifications at a TAFE; improving opportunities for rural and regional Victorians to participate in tertiary education through the \$20 million Regional Participation Facilitation Fund; improving pathways between education providers and encouraging innovative service models; increasing exemptions by \$10 million per annum to reduce barriers for ineligible Victorians to engage with vocational education and training)

Department	Planned outcome	Relationship to major government strategy
Health	Respond to flood emergency	Protecting the health of all Victorians
	Release of the Victorian Health Services Performance website	The government's commitment to increasing transparency and accountability in public reporting by supplementing the reporting of output performance through annual reports with the establishment of a new Health Service Performance website
	Develop Victorian Public Health and Wellbeing Plan as required by Section 49, <i>Public Health and Wellbeing Act 2008</i>	The Plan complements the Victorian Health Priorities Framework 2012-2022
	Development of the Healthy Workers and Healthy Children Implementation Plans as part of the National Partnership Agreement on Preventive Health	Implementation plans are consistent with the Victorian Health Priorities Framework 2012-2022 and The Victorian Public Health and Wellbeing Plan
	Victorian Health Priorities Framework 2012-2022	The framework articulates the long-term planning and development priorities for Victoria's health services throughout the next decade. It is the basis for three supporting plans: <ul style="list-style-type: none"> • Metropolitan Health Plan • Rural and Regional Health Plan • Health Capital and Resources Plan
Human Services	Deliver sustainable client-centred services	Helping families recover from floods and other natural disasters (2011 Victorian Families Statement)
	Respond to the needs of individuals and communities at greater risk	Achieve the goals of Nation Building and Jobs Plan
	Respond early to need	Deliver better outcomes for vulnerable children and young people
	Provide opportunities for our clients to participate in society	Deliver better outcomes for people with a disability and their families
	Strive for our clients to exercise greater choice	Younger people in residential aged care (Council of Australian Government)
Justice	A safer Victoria	This project aligns with the government's service delivery priority to implement sentencing reform, and election commitment to abolish home detention, and with the commitment to recruit 1700 additional police officers, and 940 Protective Services Officers (PSOs)
	Emergency response and preparation	This item aligns with the government's commitment to implement all recommendations of the Bushfires Royal Commission Report
	Community corrections	This project aligns with the Government's Community Safety and Crime Prevention strategy
	Alcohol and gambling regulation	This project aligns with the government's commitment to integrate Liquor and Gambling Regulation and promote and support responsible gambling
	Developing the racing industry	The distribution of unclaimed dividends relates to the government's election commitment and support for the growth and development of the racing industry
	Protecting consumers	This project aligns with the government's election commitment to reinvigorate and promote consumer protection and focus on small business as consumers and provide education about rights and the law

Department	Planned outcome	Relationship to major government strategy
Planning and Community Development	Planning communities for growth and change	<ul style="list-style-type: none"> • Government's policy commitment to grow the whole of Victoria • Metropolitan Planning Strategy • Growth Areas Precinct Structure Plans and metropolitan area strategies • Facilitate the transition of strategic and large-scale urban renewal sites. • Wind farms policy
	Investing in community infrastructure and heritage	<ul style="list-style-type: none"> • Government's response to the 2009 bushfires • Government's response to the 2010-11 floods • The Victorian Liberal Nationals Coalition Plan for Sport and Recreation • Victoria's 10-Year Tourism and Events Industry Strategy
	Strengthening communities and promoting equity and diversity	<ul style="list-style-type: none"> • Victorian Indigenous Affairs Framework • Strengthen the Government's regional presence
	Building organisational performance	-
Premier and Cabinet	Response to change of government	Establishment of Executive Government
	Developing the Government's first major policy statement – the Victorian Families Statement	The Statement is a key component of the Government's policy on issues that affect families
	COAG commitment to establish a National Disability Insurance Scheme (NDIS) and the Victorian Government recognised as having played a key and influential role in its design and implementation	The work will assist in the delivery of the Victorian Government's commitment to implement an NDIS in Victoria
	Provided the Premier with high-quality policy analysis and advice, enabling the Government to shape a health package that will deliver improved health outcomes for Victorians	Will assist in the delivery of the Government's health related commitments
	Delivering two pilot satellite offices in Ballarat and Bendigo to support the Premier's commitment to bring government closer to regional Victoria	Delivered on a Government commitment
Primary Industries	Commence implementation of the Government's election commitments	The Victorian Liberal Nationals Coalition Plan for Agriculture
	Assisting Victorian primary producers recover from the devastating floods	Links to the 'Assisting flood-affected families, businesses and communities' statement – page 6 of 2011-12 Budget Overview
	Safe, substantial mitigation of the impact of Australian locust plague on the Victorian community	The Victorian Liberal Nationals Coalition Plan for Agriculture
	Provide a fair deal for Victorian irrigators in the Murray Darling Basin Plan (MDBP)	The Victorian Liberal Nationals Coalition Plan for Water – Murray-Darling Basin Plan
	Secure Victoria's energy supply and transition to a low carbon economy	The Victorian Liberal Nationals Coalition Plan for Energy and Resources, in particular: <ul style="list-style-type: none"> • cleaner coal; and • renewable and low emission energy projects

Department	Planned outcome	Relationship to major government strategy
Sustainability and Environment	Delivering sustainable water management and supply (including responding to flood events)	This outcome relates to the Plan For Water
	Reducing the threat of fire	Reducing the threat of fire is linked to the document "Implementing the Government's Response to the 2009 Victorian Bushfires Royal Commission" released in May 2011
	Investment in natural resource management	This outcome relates to the Plan For Planning
	Adapting to the impacts of climate change	This outcome is primarily linked to the <i>Climate Change Act 2010</i>
	Regional service delivery	This is a Department of Sustainability and Environment initiative
Transport	Establish the Public Transport Development Authority by 1 July 2011	Implementation of Government election commitment
	Establish the Taxi Commission by 1 July 2011	Implementation of Government election commitment
	Facilitate the deployment of Protective Service Officers at railway stations	Implementation of Government election commitment
	Plan and deliver rail network capital improvements	Implementation of Government election commitment
	Finalise planning for the implementation of agreed recommendations in DTF's myki evaluation report by June 2011	Implementation of Government election commitment
	Timely and appropriate response to flood relief	Department of Transport Plan
	Implementation of Government's Hoon Initiatives	Department of Transport Plan
	Completion of the Western Highway Anthony's Cutting Realignment including the Woolpack Road extension in early 2012	Department of Transport Plan
Treasury and Finance	The establishment of the Independent Review of State Finances	Government election commitment
	Maintaining a \$100 million budget surplus	Election commitment
	Triple A credit rating	Election commitment
	Management and delivery of infrastructure projects	Government implementing commitment to strengthen the procurement and ongoing management of public assets in Victoria
	An inquiry into the state based reform agenda	Election commitment

Source: *Departmental responses to Financial and Performance Outcomes Questionnaire — Part One and further clarification points*

CHAPTER 8: THE VICTORIAN AUDITOR-GENERAL'S OFFICE IN 2010-11

8.1 Introduction

The Victorian Auditor-General's Office (VAGO) strategic plan for 2010-11 to 2014-15 states that the vision for the Office is:⁴⁰⁷

To be a catalyst for continuous improvement in the accountability and performance of the public sector.

The Office's purpose as outlined in the strategic plan is:⁴⁰⁸

Providing assurance to Parliament.

The strategic plan also identifies the following five key result areas as assisting VAGO to fulfil its purpose:

- reports and advice;
- Parliament;
- audit clients;
- people; and
- organisation.

The Committee's analysis of the outcomes achieved in 2010-11 is structured primarily according to the five key result areas.

In this inquiry, the Committee has restricted its review of VAGO to 2010-11, rather than 2009-10 and 2010-11. This has been done because an independent performance audit of VAGO was conducted in 2010 which included VAGO's 2009-10 performance.

8.2 Independent performance audit findings

The results of the independent performance audit were tabled in Parliament in September 2010. Covering the period from 2007-08 to 2009-10, the independent performance auditor concluded that in all material respects the Victorian Auditor-General was operating in compliance with the *Audit Act 1994* (as amended) and that the Victorian Auditor-General and VAGO were operating effectively and efficiently to discharge their duties.⁴⁰⁹ The report contained a large number of more detailed findings on its terms of reference and 20 recommendations for VAGO to consider.

407 Victorian Auditor-General's Office, *Strategic Plan , 2010-11 to 2014-15*, p.2

408 *ibid.*

409 PKF, *Performance Audit of the Victorian Auditor-General's Office*, August 2010, p.17

8.3 Reports and advice

8.3.1 Number of reports tabled compared to target and annual plan

Performance compared to target

According to the VAGO annual report, 39 reports were tabled in 2010-11 compared to the target of 37. Table 8.1 provides a breakdown of this outcome according to product type.

Table 8.1: Reports tabled compared to output target, 2010-11

Product type	Target	Actual	Variance
Performance audit reports	28	30	2
Reports on financial audit results	6	6	-
Report on the examination of the State's finances	1	1	-
<i>Operational audits</i>	35	37	2
Annual plan	1	1	-
Annual report	1	1	-
Total	37	39	2

Source: Victorian Auditor-General's Office, *Annual Report 2010-11*, p.14

The Committee notes that the VAGO annual report for 2010-11 includes a list of the reports to Parliament (Appendix 2) in chronological order according to date tabled. This list specifies the number of pages for each report. The Committee believes that it would be useful to add the cost of producing each report compared to the original budget to this information. Currently, costs are only provided in aggregate.

This additional information would enhance VAGO's accountability for achieving its vision and conducting audits in a cost-effective manner.

The Committee also maintains that, in terms of promoting the concept of *ex-ante* reporting, the annual report for VAGO should also provide a list and timing of the performance reports planned to be tabled in the forthcoming year. This would strengthen accountability and provide a link with the annual plan. The Committee notes that VAGO already supplies this information for financial audits.⁴¹⁰

FINDING

During 2010-11, the Victorian Auditor-General's Office (VAGO) tabled 39 reports in Parliament, compared to a target of 37. VAGO's annual report currently provides information in terms of quality, cost and timeliness. It also reports in aggregate on the size of each report.

410 Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.34

RECOMMENDATION 53:

The Victorian Auditor-General's Office add to the information currently provided in its annual report:

- (a) the audit cost compared to the original budget for each audit; and
- (b) the anticipated tabling date for each performance audit report planned to be completed in the following year.

Performance compared to target

The Committee notes that, while VAGO set a target to have 28 performance audit reports tabled in 2010-11, 30 performance audit reports were tabled during the year. A reconciliation of the performance audits tabled with the target is set out in Table 8.2.

Table 8.2: Reconciliation of performance audits tabled with target, 2010-11

2010-11 target for performance audit reports	Number of performance audits tabled	Explanation
28	24	Performance audits specified in the 2010-11 Annual Plan that were tabled in 2010-11
	2	Performance audits carried forward from the 2009-10 Annual Plan
	3	Newly commissioned performance audits
	1	One performance audit tabled early from the 2011-12 Annual Plan
	30	Total number of performance audit reports tabled in 2010-11

Source: Victorian Auditor-General's Office, *Annual Report 2010-11*, p.14

In relation to the four reports targeted for 2010-11 that were not tabled in 2010-11 (see Table 8.2), the Committee notes that one report was tabled earlier than planned in June 2010 and another was removed because the Commonwealth Government had commenced a review in that area. A third report (*State Trustees Ltd: Represented Persons*) was tabled in February 2012,⁴¹¹ while one titled *Biotechnology and the Victorian Public Sector* was carried forward from 2009-10 and tabled in the first quarter of 2011-12. The factors that contributed to these last two performance audits not being tabled in 2010-11 are set out in Table 8.3.

The Committee appreciates that the two performance audits in Table 8.3 dealt with complex matters. In relation to the performance audit titled *Biotechnology and the Victorian Public Sector*, the total cost of this audit of \$1,025,000⁴¹² exceeded the approved budget of \$600,000 by \$425,000 or 71 per cent. A 14 month delay was also experienced in the completion of this audit. In both audits, staffing issues (departures and leave) were cited as contributing factors to the delays. This underscores the importance for VAGO, as for all organisations, of developing appropriate contingency plans to respond to such events.

411 Victorian Auditor-General's Office, 'Audits in progress', <www.audit.vic.gov.au/audit_program.aspx>, accessed 3 January 2012

412 Victorian Auditor-General, *Biotechnology and the Victorian Public Sector*, August 2011, p.7

Table 8.3: Explanation for significant delays in the tabling of performance audit reports

Performance audit report	Explanation provided by VAGO
State Trustees Ltd: Represented Persons	<p>Initial findings indicated that further consideration was required to assess the adequacy of the application of a range of governance frameworks and policies. This required the analysis of additional evidence before findings and conclusions about these matters could be formed. These were contested which created further delays in the drafting and clearance of the report.</p> <p>In addition, unforeseen changes to audit teams as a result of staff departures impacted on audit timelines.</p>
Biotechnology and the Victorian Public Sector	<p>Three factors contributed significantly to the delays on this audit, namely:</p> <ul style="list-style-type: none"> • Significant re-work and revision of report was required because new information was provided late in the audit process, after preliminary findings had been developed and communicated to agencies. The additional evidence was considered and where appropriate used in the audit. However, the agency continued to contest findings which led to delays. • An extensive natural justice consultation was undertaken late in the audit for parties that were named but not audited. • Key staff members had taken extended leave and additional resources could not be secured for that period.

Source: Victorian Auditor-General’s Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 13 December 2011, p.4

The Committee also notes that the outcomes achieved by VAGO in 2010-11 in terms of tabling reports included two performance audits carried forward from 2009-10 (*Sustainable Management of Victoria’s Groundwater Resources* and *Construction of Police Stations and Courthouses*).⁴¹³

An additional financial audit report (*Acquittal Report: Results of the 2009-10 Audits*) was issued after Parliament opened in 2011 (2010 results were reported as ‘interim’ in July 2010 due to the expiry of Parliament leading up to the 2010 election).⁴¹⁴

In addition to the current practice of disclosing on its website when each report is expected to be tabled, the Committee believes that VAGO should also report on its website when each performance audit was initially planned to be completed. This will provide a link between the annual plan and the performance audits in progress, so that progress against planned activity can be appropriately measured. Such a process would enhance accountability for those areas earmarked for performance audit focus in a given year.

FINDING

Thirty performance audit reports were tabled in 2010-11 compared to a target of 28. Four reports planned for 2010-11 were not tabled in that year and three planned for other years were tabled in 2010-11.

413 Victorian Auditor-General’s Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, 5 December 2011, p.3

414 *ibid.*

FINDING

When providing an update on its website of the performance audits in progress, which includes the month when each report is currently expected to be tabled, VAGO does not indicate in which financial year each report was initially planned to be completed.

RECOMMENDATION 54:

When publishing material on its website in relation to performance audits in progress, which includes information about when each report is expected to be tabled, the Victorian Auditor-General's Office also include particulars of the year in which each audit was initially earmarked for completion.

Number of reports completed on time

The Committee notes that in 2010-11, VAGO continued processes previously established to improve the proportion of reports completed on time. In comparison to the aim of having 90 per cent of reports tabled within one month of the planned tabling dates, 81 per cent of reports met this target (26 out of 32) during 2009-10. This showed strong improvement from the prior year. The outcome for 2010-11 again saw a significant improvement whereby 90 per cent (35 out of 39 reports) met this target. VAGO advised the Committee that internal improvement initiatives, including a concerted effort to decrease delays in accessing evidence, contributed to this achievement.⁴¹⁵

According to the VAGO annual report, the four performance audit reports that did not meet their timelines failed to do so largely as a result of unexpected staff departures.⁴¹⁶ As noted above, it is important to have contingency plans to deal with staff departures. This is especially the case where audit topics involve risks to the community and delays in audit reports may lead to delays in corrective action. The Committee notes that one delayed audit in 2010-11 concerned 'managing student safety'.

FINDING

During 2010-11, VAGO achieved its target of having 90 per cent of reports tabled within one month of the planned tabling dates (35 out of 39 reports), compared to 81 per cent (26 out of 32) for the previous year.

8.3.2 *Being authoritative and relevant*

VAGO's strategic plan for 2010-11 to 2014-15 requires reports and advice provided by VAGO, a key result area, to be authoritative and relevant.⁴¹⁷ Outcomes achieved in relation this objective and related strategies are described in Table 8.4.

415 *ibid.*

416 Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.20

417 Victorian Auditor-General's Office, *Strategic Plan 2010-11 to 2014-15*, p.3

Table 8.4: Reports and advice – outcomes achieved in 2010-11 in terms of being authoritative and relevant

Objective/ strategies – planned outcome to be achieved	Description of actual outcome achieved	Data provided by VAGO to demonstrate outcome
Being authoritative and relevant	Authoritative audits met or exceeded professional standards and quality frameworks	Peer reviews, which were conducted in line with professional standards and the national quality framework, found that all sampled audits were conducted in accordance with audit policies, Australian Auditing and Assurance Standards and legislation. VAGO achieved an average score of 80 per cent from the independent assessment of a selection of ten performance audit reports that were assessed against criteria agreed by the Australian audit offices that participated [81 per cent for five 2009-10 reports].
Better targeting topics	Audit topics were better targeted to areas of public interest	Annual planning consultations were expanded to include stakeholder summits. These summits included regulators, practitioners, community organisations, people involved in direct service delivery and recipients of government programs and initiatives. An increased level of engagement with secretaries, senior management of departments and departmental audit committees involved discussions about the proposed multi-year program.
Direct audit effort to areas of public value	Value of audits recognised by Parliamentary, community and client stakeholders	With 98 per cent of Parliamentarians surveyed being satisfied with VAGO reports and services, this result exceeded the prior year outcome of 92 per cent in 2009-10 and the target of 85 per cent. There was a significant increase in inquiries from the public during 2010-11. The majority of audit clients rated the value of audit reports positively (73 per cent for financial audit and 65 per cent for performance audit). 87 per cent of audit recommendations made in the prior year were fully accepted by government agencies.
Promoting broader access to reports	Greater access and use of audit reports	The increasing trend in the number of unique visitors to the VAGO website has continued with a 14 per cent increase in unique visits in 2010 compared to 2009 (calendar year data). There was a 54 per cent increase in the total number of audit-related references in Parliament from 112 in 2009-10 to 172 in 2010-11. Audit reports were promoted through 19 high level conferences and public addresses and three national parliamentary inquiries.

Source: Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, pp.36-7; and Victorian Auditor-General's Office, Annual Report, 2009-10, p.22

The Committee notes that the reporting by VAGO of 98 per cent of Parliamentarians being satisfied or very satisfied with VAGO's reports and services in 2010-11 does not represent 98 per cent of Parliamentarians surveyed, but rather 98 per cent of the 40 members who responded to the survey (out of 128 members who make up the Parliament, VAGO achieved a 31 per cent response rate to the survey).⁴¹⁸ To ensure that misleading information is not

418 Victorian Auditor-General's Office, Annual Report 2010-11, August 2011, p.23

inadvertently contained in VAGO's annual report, this matter should be clarified in future annual reports of VAGO.

FINDING

Where VAGO reported that 98 per cent of Parliamentarians were satisfied or very satisfied with VAGO's reports and services in 2010-11, this result was based on the responses of 40 out of the 128 members of Parliament.

Criteria used in the peer review of performance audit reports

As reported by VAGO, the Australasian Council of Auditors-General selects independent assessors each year to review a selection of performance audit reports. The reports submitted for assessment are assessed against criteria agreed by the Australian audit offices that participate in the peer review process. Australasian Council of Auditors-General criteria applied in this process are set out below:⁴¹⁹

- scope and potential for significant impact;
- focus on effectiveness and economy;
- persuasiveness of conclusions;
- communication (online report);
- communication (printed report); and
- usefulness to the customer.

In relation to the assessment result against the criterion 'Focus on effectiveness and economy', VAGO achieved an average score of 3.7 out of a possible score of 5 for the 2010-11 reports (compared to an average score of 3.6 for the 2009-10 reports) which was the equal lowest rating among the six criteria used in the assessment process.⁴²⁰ While marginally improving on the result for the prior year, the Committee believes that a focus of performance audits on effectiveness should be paramount and, as such, efforts should be made to work on areas where there is scope to achieve a higher rating in future. For example, VAGO could examine whether there is scope for ensuring that in the vast majority of performance audits performed by the office, the audit involves determining whether objectives have been met.

RECOMMENDATION 55:

The Victorian Auditor-General's Office explore avenues for having a greater focus on the statutory requirements in section 3A(1)(b) of the *Audit Act 1994* in relation to examining effectiveness and economy in the conduct of performance audits in future.

The Committee is of the view that it is important for governments to provide public services efficiently, especially during a climate where it is imperative for budget surpluses to be generated. The Committee therefore considers that there is a strong argument for the performance audit reports of the Auditor-General to examine and provide assurances on whether services funded by the public purse are provided efficiently. In the past, performance

419 *ibid.*, p.18

420 *ibid.*

audits have not had a large focus on examining whether entities have achieved their objectives in an efficient manner. The Committee acknowledges the view expressed by VAGO that financial audits can also contribute to this goal through identifying instances where processes can be improved, increasing the efficiency of entities' operations and eliminating wasted effort.⁴²¹

As VAGO has a legislative mandate to reach conclusions on efficiency as part of undertaking a performance audit,⁴²² the Committee considers that the Victorian Auditor-General should consider discussing with the other members of the Australasian Council of Auditors-General, the possibility of expanding the criteria for assessing performance audit reports to include an assessment of whether they address the concept of 'efficiency'. The Committee notes with interest the following finding from the performance auditor of VAGO:⁴²³

The United Kingdom National Audit Office ("UKNAO") measures the extent of how their work leads to savings and other efficiency gains. In 2009 the UKNAO secured £768 million of financial impact, more than £10 for every £1 spent running UKNAO. The financial impact comprises detailed estimates of the net financial benefit of changes to government practice that arise from UKNAO's audit findings....

In also drawing on practices employed by the US Government Accountability Office to measure financial net benefits arising from the implementation of recommendations made by that office, the performance auditor of VAGO found that that there was no quantifiable measure being used by VAGO to gauge the adequacy and effectiveness of audits in terms of promoting improved performance and accountability as well as efficiency in the Victorian public sector. The performance auditor recommended that VAGO consider adopting a quantifiable measure, based on the practices applied by the United Kingdom National Audit Office and the US Government Accountability Office.⁴²⁴ The Committee notes that in not accepting this recommendation, the Auditor-General provided the following comments:⁴²⁵

Priority is accorded to the statutory mandate and a comprehensive suite of performance indicators, including a core developed in conjunction with ACAG [Australasian Council of Auditors-General], already exists.

The Committee observed that VAGO's annual report for 2010-11 discloses VAGO's impact on public sector performance and accountability in a number of ways. The Committee inquired about whether any strategies were in place to actually measure the value added from the implementation of audit recommendations in future. The Committee maintains that measuring efficiency gains should be a part of this process.

In response, VAGO drew to the Committee's attention the response provided by VAGO in August 2009 to a previous Committee's recommendation that the Auditor-General develop quantifiable measures of the impact of reports and recommendations on

421 Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, 13 December 2011, p.6

422 *Audit Act 1994*, section 15 (1)

423 PKF, *Performance Audit of the Victorian Auditor-General's Office*, August 2010, p.43

424 *ibid*, p.44

425 *ibid*.

audited departments and agencies. In that response (where VAGO did not support the Committee's recommendation), VAGO informed the Committee, in part, that:⁴²⁶

*'The role of the Auditor-General is to provide **assurance** to Parliament on the performance and accountability of the public sector' and that whilst our Strategic Plan does seek to be a catalyst for improvement in the public sector, 'it remains the primary accountability of public sector agencies to implement and report on change and improvements arising from audit reports – this cannot be enforced by VAGO'... As such, measuring the impact of audit recommendations on agency behaviour is not an appropriate performance measure for the Office, and may encourage agencies to rely overly on external audit activities and reports to acquit their performance responsibilities.*

The Committee believes that there is scope for performance audits to have a greater focus on efficiency, and in so doing, impacts should be quantified through the development of an appropriate performance measure.

FINDING

There is potential for expanding the criteria for assessing performance audit reports to include an assessment of whether they address the concept of 'efficiency'.

RECOMMENDATION 56:

In relation to the annual peer review of performance audit reports, the Victorian Auditor-General consider discussing with the Australasian Council of Auditors-General the possibility of expanding the criteria to include a focus on efficiency.

RECOMMENDATION 57:

The Victorian Auditor-General's Office reconsider establishing a performance measure that quantifies the impact that performance audits have had in terms of public sector entities generating efficiency gains from their operations.

8.4 Parliament

The VAGO strategic plan for 2010-11 to 2014-15 identifies Parliament as a key result area. With an objective of being highly regarded by Parliament, strategies outlined in the plan involve smoothing the flow of reports and improving the engagement of Parliamentary committees and individual Parliamentarians.⁴²⁷ Outcomes achieved in relation to this objective and related strategies are described in Table 8.5.

426 Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, 13 December 2011, p.5

427 Victorian Auditor-General's Office, *Strategic Plan 2010-11 to 2014-15*, p.3

Table 8.5: Parliament – outcomes achieved in 2010-11 in terms of being highly regarded by Parliament

Objective/ strategies – planned outcome to be achieved	Description of actual outcome achieved	Data provided by VAGO to demonstrate outcome
<i>Being highly regarded by Parliament by:</i> Smoothing the flow of reports	Tabling of audits has been smoothed across the tabling dates	<p>In 2010-11, half the program was tabled in the first half of the year and half in the second. This pattern was an improvement from 2009-10 when no reports were tabled between July and October 2009.</p> <p>As indicated in the VAGO annual report '<i>In 2011 we are generally tabling no more than two reports at a time – a big change from last year, where we tabled 18 reports in four months and, on one occasion, six reports were tabled.</i></p> <p>Improved smoothing may have made reports more accessible to members of Parliament.</p> <p>As stated in the VAGO annual report '<i>In the past year Parliament put our audit reports to good use with more than 172 references to our audits in Parliamentary debates, up from 112 in 2009-10.</i></p>
<i>Being highly regarded by Parliament by:</i> Better engaging Parliamentary committees and individual Parliamentarians	Stronger relationships with Committee staff informed our audit program and encouraged transfer of good practice through secondments	<p>Two Committee staff were seconded to VAGO.</p> <p>Regular information sessions for senior staff of the joint investigatory committees of Parliament were commenced to highlight audits in their areas of interest. These sessions were well attended and received positive feedback.</p> <p>As outlined in the 2010-11 Annual Report, in 2010-11 we conducted 15 briefing sessions in Parliament House, detailing the key findings of VAGO reports tabled earlier that day. These sessions were open to any Member of Parliament to attend. Thirty members came to one or more sessions, with an average attendance of seven at each session. This is an increase on 2009-10, and indicates that members are finding these sessions increasingly valuable...Across the year, 31 Ministers accepted briefings on individual reports of interest to them, usually meeting with VAGO senior staff on the eve of the tabling day.</p>
	Parliamentarians rated the responsiveness of the Office highly	100 per cent of respondents who had dealings with VAGO in the preceding 12 months rated the responsiveness of the Auditor-General or his office as good or very good.
	Parliamentarians and PAEC input considered in the development of the Annual Plan	<p>Two request audits were undertaken following request from Parliamentarians, compared to one in the previous year.</p> <p>The annual planning process included extensive consultation with PAEC in accordance with the <i>Audit Act 1994</i>.</p>
	Participated in the Parliament of Victoria induction program for new Members	In 2010-11 the Auditor-General provided 14 Ministers and 11 Shadow Ministers briefings on their portfolios at the inception of the 57th Parliament.

Source: Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, p.38; and Victorian Auditor-General's Office, Annual Report, 2010-11, August 2011, pp.6, 22

8.4.1 Attendance rate at briefing sessions

The Committee notes VAGO's positive efforts in smoothing the flow of audit reports tabled in Parliament and providing briefing sessions to interested parliamentarians and other interested parties after each report prepared by VAGO is tabled in Parliament.

The Committee notes that on average, seven members of Parliament attend each briefing session conducted by VAGO on the key findings of their tabled reports.⁴²⁸ This outcome represents only a 5 per cent attendance rate of all members of Parliament. The Committee notes that members of Parliament have many other commitments and that the Auditor-General also provides private briefings with members where requested.

However, the Committee considers that there may be ways to increase attendances at briefing sessions. VAGO should therefore consider obtaining feedback from members of Parliament, such as through the annual survey of Parliamentarians, on ways in which such sessions would be of more interest to them or more convenient in future. As an alternative, VAGO could consider the introduction of other forms of briefing mechanisms such as web-based seminars, targeted to members of Parliament. An assessment could be made annually of the number of downloads or replays by members.

FINDING

In addition to providing private briefings to members of Parliament, the Auditor-General provides briefing sessions for each report. On average, seven members of Parliament attend the briefing sessions conducted about each report.

RECOMMENDATION 58:

The Victorian Auditor General's Office obtain feedback on how briefing sessions on the key findings of the Auditor-General's reports could be made more appealing or convenient to members of Parliament in order to increase the attendance rate in the future.

8.4.2 *Survey of Parliamentarians – comparison of results with other jurisdictions*

VAGO, in its 2010-11 annual report, stated that:⁴²⁹

To allow VAGO the opportunity to compare itself with other Australian Auditors-General, a number of questions within our survey are consistent with those of three other offices. While VAGO's results are positive, we are at the mid-lower range when comparing with these other offices.

In relation to the Committee's request for further information about this matter, VAGO advised that it was ranked first for six of the 17 questions when compared with two other participating Australian audit offices.⁴³⁰ While still scoring highly, responses to nine of the 17 questions in the areas listed below were in the mid or lower range among the benchmarking partners at the time of the *VAGO Annual Report 2010-11*:⁴³¹

- frequency of referral to audit reports (which was potentially impacted by the number of new Parliamentarians);

428 Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.22

429 *ibid.*, p.23

430 Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, 13 December 2011, p.7

431 *ibid.*, pp.7-8

- clarity, layout and design of audit reports; and
- assistance provided by reports in monitoring accountability.

The Committee will be interested in examining whether the strategies developed by VAGO to address these issues have been effective in coming years.

8.5 Audit clients

8.5.1 Overall level of client satisfaction with performance audits

Audit clients are a key result area of the Office. The Committee was informed by VAGO that, in relation to the overall level of client satisfaction with performance audits, the Office achieved a rating score of 67 for 2010-11, which was below the target in the budget papers of 75 and the scores of 69 for 2009-10 and 72 in 2008-09.⁴³² When compared to 2009-10, VAGO advised the Committee that key areas for improvement addressed through business plans and individual performance plans in 2010-11 included having a stronger focus on communicating audit value and managing contentious audits.⁴³³

The Committee was informed by VAGO that:⁴³⁴

VAGO views this BP3 target as a measure of satisfaction with the audit experience rather than an overall quality measure for an audit. The ratings by audited agencies can be influenced by negative audit findings and the respondents are not necessarily objective. VAGO has a strong commitment to engagement and high standards of professional practice, however, given the nature of the performance audit process, tensions in some relationships are inevitable and may impact on the responses in the surveys.

This is in part reflected in the much greater range of scores VAGO received in 2010-11 - the overall index scores for individual audits ranged from 44 to 96 points, from a pool of 32. Low scores for one or two performance audits in the year can have a statistically significant effect on the average index.

In addition, there was a minor downwards trend on average across all three areas of process, reporting and value.

Reflecting VAGO's awareness of the subjectivity of audited agency survey feedback, VAGO has included additional quality measures in the 2011-12 Budget, including 'Average score of audit reports by external assessors' with a target 80%. This provides an independent measure of the quality of the audit report through the external assessment of selected performance audit reports by three external assessors. The criteria have been agreed at the

432 Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.19; and Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, p.3

433 Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, p.3

434 Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 13 December 2011, pp.8-9

Australasian Council of Auditors-General (ACAG) level and the assessments are coordinated through ACAG office.

In terms of placing the results of surveys of performance audit clients in context and to assist in interpreting outcomes, the Committee considers there would be value in VAGO enhancing disclosure by:

- benchmarking the average score of audit reports by external assessors against the scores from other jurisdictions; and
- documenting the credentials of the external assessors.

FINDING

VAGO achieved a client satisfaction rating score of 67 compared to a target of 75. VAGO has included a more objective means to be reported on in future years.

RECOMMENDATION 59:

To assist in interpreting the overall quality of performance audits, the Victorian Auditor-General's Office supplement information reported against its performance measures by:

- (a) **benchmarking the average score of audit reports by external assessors against other jurisdictions; and**
- (b) **disclosing the credentials of the external assessors.**

8.5.2 Fostering productive relationships with audit clients

The VAGO strategic plan for 2010-11 to 2014-15 sets an objective of fostering productive relationships with audit clients. Strategies contained in the plan involve appropriately informing audit clients about audit plans, processes and activities and fostering professional relationships.⁴³⁵ Table 8.6 describes the outcomes achieved in relation to this objective and related strategies.

Table 8.6: Audit clients – outcomes achieved in terms of forging productive client relationships in 2010-11

Objective/strategies - planned outcome to be achieved	Description of actual outcome achieved	Data provided by VAGO to demonstrate outcome
<p><i>Fostering productive relationships with audit clients by:</i></p> <p>Appropriately informing audit clients about audit plans, processes and activities</p>	<p>Clients had a strong understanding of the audit process and approach</p>	<p>80 per cent of performance audit clients surveyed reported that they received a clear explanation of the audit approach.</p> <p>94 per cent of financial audit clients surveyed reported that they were sufficiently consulted about the audit strategy and key milestones for the audit.</p>
<p><i>Fostering productive relationships with audit clients by:</i></p> <p>Fostering professional relationships</p>	<p>Positive progress in more challenging relationships</p>	<p>VAGO's expanded Stakeholder Engagement Program has doubled the frequency of formal contact with Secretaries since 2009.</p> <p>There has been an overall fall in average delays experienced in accessing information during performance audits.</p> <p>Clients have been engaged earlier and more frequently during audits.</p>

Source: Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, pp.38-9

8.5.3 Informing performance audit clients about audit approach

The Committee considers that, in view of the nature of performance auditing, the sensitivity in some cases of the topic chosen for audit and the fact that the findings will be publicly disclosed, a performance audit can constitute a significant event within an organisation for the year. In such circumstances, appropriate communication between auditors and the client is paramount.

VAGO cited in its annual report that the majority of respondents were satisfied with the explanation of the audit approach, and considered this a positive aspect that emerged from the 2010-11 agency feedback on performance audits.⁴³⁶ The Committee, however, believes that all performance audit clients should receive a clear explanation of the audit approach adopted for conducting the audit.

Where a situation has arisen that 20 per cent of performance audit clients surveyed report that they had not received a clear explanation of the audit approach,⁴³⁷ VAGO should explore how the process could have been improved in these cases in the opinion of the client. The effective communication of the approach to be followed in conducting a performance audit can reduce the risk that the basis for the conclusions reached and findings may be contested at the end of the audit, leading to a protracted clearance process for the final report.

436 Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.20

437 Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, p.38

The Committee notes that the independent performance auditor of VAGO reported that suggested areas for improvement raised by audit clients with regard to the conduct of performance audit included the following:⁴³⁸

- the scope of performance audits, at times, was amended mid-way through the audit process and audit clients were not always appropriately consulted regarding these changes;
- performance audit scopes were not discussed in detail with audit clients to enable VAGO to fully understand client operations, with a perception that the performance audit scopes on occasions relate to 'fishing expeditions'/ identification of 'newsworthy items';
- performance audit recommendations generally added little value in assisting audit clients improve their performance/operations;
- inappropriate performance measures/practices were applied to audit clients; and
- performance audits conducted by VAGO, at times, strayed into a review of government policy.

FINDING

Eighty per cent of performance audit clients surveyed reported that they received a clear explanation of the audit approach. The independent performance auditor of VAGO identified a number of ways in which audit clients suggested potential improvements.

RECOMMENDATION 60:

To strengthen relationships with audit clients, the Victorian Auditor-General's Office:

- (a) **examine the reasons why particular performance audit clients considered that the audit approach had not been clearly explained to them; and**
- (b) **adopt appropriate means to improve communication with clients.**

8.6 People

The need to foster a stimulating working environment is an objective that has been set in the VAGO strategic plan for 2010-11 to 2014-15 in relation to the key result area that deals with people. The message from the Auditor-General outlined in the plan includes the following:⁴³⁹

Crucially, we will also remain focused on the health of our people and the sustainability of our organisation.

This section explores various aspects of employee conditions at VAGO.

438 PKF, *Performance Audit of the Victorian Auditor-General's Office*, August 2010, p.41

439 *ibid.*, p.2

8.6.1 Outcomes achieved against strategic plan

The plan sets out strategies that involve rigorous performance planning and management and supporting a safe and healthy workplace.⁴⁴⁰ A description of the outcomes achieved in relation to this objective and the related strategies is contained in Table 8.7.

Table 8.7: People – Outcomes achieved against people related strategies in 2010-11

Objective/strategies - planned outcome to be achieved in relation to fostering a stimulating working environment	Description of actual outcome achieved	Data provided by VAGO to demonstrate outcome
Rigorous performance planning and management	Strong investment in staff development to support high performance	Staff received an average of 51 hours (6.7 days) of training in 2010-11 versus 23 hours (3 days) per year for a comparator independent review body. 91 per cent of employees attended training in 2010-11 versus 83 per cent of Australian public servants in 2009-10. New Performance Development Plans were introduced to better align performance plans with business targets.
Supporting a safe and healthy workplace	Stronger employee satisfaction in the workplace	87 per cent of staff survey questions improved on the 2009 survey outcomes.

Source: Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, p.39

Staff training

The Committee notes that the amount of training provided to employees has, on average, been variable over the past 5 financial years – 6.7 days (2010-11), 9.7 days (2009-10), 6.4 days (2008-09), 10.1 days (2007-08) and 8.8 days (2006-07). The amount of training provided in 2010-11 was the second lowest over that term although, as stated by VAGO, around twice the level provided by a comparative independent review body.⁴⁴¹ In comparison to the Australian National Audit Office, where an average of 6.2 days was provided in 2010-11,⁴⁴² the Committee notes that the level of training provided by VAGO was similar. The annual report for the Australian National Audit Office discloses that \$766,412 was spent in terms of direct expenditure on training in 2010-11.

The Committee is of the view that, as VAGO advocates strong investment in staff development to support a high performance, it would be useful for the associated expenditure to be disclosed in the annual report.

440 *ibid.*, p.3

441 Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.4

442 Australian National Audit Office, *Annual Report 2010-11*, p.123

FINDING

The average level of training provided to staff of 6.7 days in 2010-11 was around twice the level provided by a comparative independent review body and compared favourably with that of the Australian National Audit Office where an average of 6.2 days was provided in 2010-11.

RECOMMENDATION 61:

The Victorian Auditor-General's Office disclose in its annual report the level of expenditure incurred on staff training and development in each year.

VAGO's Organisational Alignment Survey – staff survey outcomes

The Committee notes that VAGO has aligned its performance development planning with the strategies outlined in the strategic plan to provide a fuller understanding for staff of their part in VAGO's deliverables. A second Organisational Alignment Survey was conducted in February 2011 to further support this strategic alignment. According to VAGO, the staff survey revealed that it was performing well in relation to:⁴⁴³

- IT and telecommunications systems and resources;
- the provision of training and development opportunities;
- benchmarking and monitoring performance against its peers; and
- the involvement of employees in planning processes for their respective work groups.

VAGO indicated in its annual report that a program was in place to build on these strengths and to address areas where the need for improvement was evident.⁴⁴⁴ The annual report did not provide details about the particular areas for improvement.

The Committee is of the view that as annual reports are a key accountability document, they should disclose areas where an organisation has identified there is scope for improving performance and the measures taken to address these opportunities for continuous improvement. Such disclosure would also instil confidence in staff that management was serious about addressing concerns highlighted by them in staff surveys.

FINDING

VAGO did not include any information in its annual report about the specific areas where it was evident from the staff survey that improvement was necessary with respect to organisational alignment.

RECOMMENDATION 62:

The Victorian Auditor-General's Office disclose in its annual report key areas of organisational alignment identified through staff surveys as requiring improvement, together with strategies to address these areas of concern.

443 Victorian Auditor-General's Office, *Annual Report 2010-11*, p.43

444 *ibid.*

Independent survey of VAGO staff

As part of the independent performance audit of VAGO, the independent performance auditor conducted a staff survey in June 2010 to further ascertain the workloads of staff and the impact on overall staff work-life balance and retention. Areas that revealed the strongest positive results from staff included the following.⁴⁴⁵

- sufficient equipment to undertake their role (84 per cent strongly agreed or agreed);
- considered their job to be important (82 per cent strongly agreed or agreed); and
- peers showing a commitment to performing quality work (79 per cent strongly agreed or agreed).

Certain issues raised by respondents included whether:⁴⁴⁶

- employees would recommend VAGO as a preferred employer (34 per cent strongly disagreed or disagreed);
- employees considered that at work their opinion seemed to count (29 per cent strongly disagreed or disagreed);
- VAGO was achieving what it should (25 per cent strongly disagreed or disagreed);
- there was someone at work who encourages their development (25 per cent strongly disagreed or disagreed);
- they enjoyed working for VAGO over the past three years (24 per cent strongly disagreed or disagreed); and
- their supervisor seemed to care about them as a person (22 per cent strongly disagreed or disagreed).

The Committee believes that VAGO should strive to achieve a more positive attitude from staff than is suggested by these results, particularly with regard to recommending VAGO as a preferred employer. As this survey took place almost two years ago, the Committee considers that VAGO should conduct another survey to identify whether or not these issues remain and to determine the causes. Regular surveys should also be planned into the future to ensure that VAGO is a preferred employer.

FINDING

The outcome of the staff survey undertaken by the independent performance auditor of the Victorian Auditor-General's Office in June 2010 revealed that only 58 per cent of respondents would recommend the Victorian Auditor-General's Office as a preferred employer.

445 PKF, *Public Accounts and Estimates Committee ("PAEC") — Performance Audit of Victorian Auditor-General and Victorian Auditor-General's Office*, August 2010, p.75

446 *ibid.*

RECOMMENDATION 63:

The Victorian Auditor-General's Office consider surveying staff on a continuous basis about whether they would recommend the Victorian Auditor-General's Office as a preferred employer and, if not, the reasons for which they have not given positive responses. These matters should be addressed where appropriate.

8.6.2 Staff turnover

The Committee requested that VAGO provide a breakdown of the staff turnover ratio (the total number of staff departures, including fixed term and casual staff, expressed as a percentage of total headcount) during 2008-09, 2009-10 and 2010-11 according to various age brackets.

Table 8.8 shows the breakdown of the staff turnover ratio provided by VAGO. Based on this information, the analysis shows a significant increase in staff departing VAGO during 2010-11, evidenced by staff turnover ratio increasing from 17 per cent in 2009-10 to 29 per cent in 2010-11. Of the staff departures that took place in 2010-11, the highest turnover occurred in the 30-54 year old age group, closely followed by those less than 30 years of age, with a much lower representation in relation to those who were 55 years of age or over. The Committee notes that according to the State Services Authority, the turnover of ongoing employees across the Victorian public sector, excluding fixed term and casual staff, resulted in a separation rate of 9 per cent as at 30 June 2010.⁴⁴⁷

Table 8.8: Trends in staff turnover ratio according to age profiles, 2008-09 to 2010-11

Age bracket (years)	2008-09 (per cent)	2009-10 (per cent)	2010-11 (per cent)
Less than 30	9.15	8.90	11.56
30-54	14.37	7.77	14.45
55 or older	1.96	0.55	2.89
Total	25.49	17.22	28.9

Source: Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, p.31

The Committee also notes that the voluntary turnover rate (voluntary turnover is considered to cover resignations from ongoing positions or a request for early termination of a fixed-term contract) of 20 per cent for 2010-11 represented a marginal increase on the outcome of 17 per cent that was experienced in 2009-10, but was a significant reduction from the rates for 2007-08 and 2008-09 of 27 per cent and 24 per cent respectively.⁴⁴⁸

447 State Services Authority, *Annual Report 2010-11*, August 2011, p.36

448 Victorian Auditor-General's Office, *Annual Report 2010-11*, August 2011, p.45

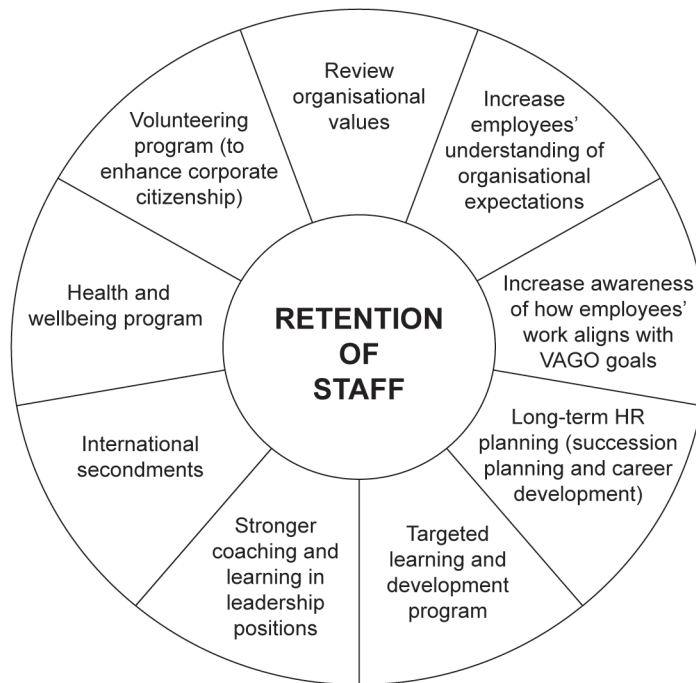
VAGO advised the Committee that the increase in the number of staff departures in 2010-11 was attributed, in part, to the lessening effects of the global financial crisis. As a result of the resultant upswing in employment opportunities within the external job market, a number of staff departed the organisation to pursue careers in the private sector.⁴⁴⁹

FINDING

The staff turnover ratio at the Victorian Auditor-General’s Office increased from 17 per cent in 2009-10 to 29 per cent in 2010-11. The voluntary turnover rate increased marginally from 17 per cent to 20 per cent.

The Committee was interested to see that a wide range of development and retention initiatives that are designed to retain staff have been launched or planned for the future. These are set out in Figure 8.1.

Figure 8.1: Development and retention strategies



Sources: Prepared by the Committee’s secretariat from information supplied by VAGO in the response to the Committee’s the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, p.31 and the Victorian Auditor-General’s Office, Annual Report 2010-11, August 2011, p.6

FINDING

VAGO has either launched or planned a wide range of development and retention initiatives.

449 Victorian Auditor-General’s Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, p.31; and response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 13 December 2011, p.2

8.6.3 Succession planning

The State Services Authority issued in December 2008 a Succession Risk Management Toolkit. This proposes that strategies and activities be utilised in a targeted manner to address the risk that a critical role vacancy cannot be filled satisfactorily within an acceptable timeframe.⁴⁵⁰

As part of the above toolkit, the Authority's guide to succession risk management for Victorian public sector leaders states that:⁴⁵¹

The mitigation of risk can involve the identification of, and targeted development for, existing staff that have potential to succeed in a particular type of critical role.

In response to the Committee's interest in understanding VAGO's approach to addressing succession risk management, VAGO advised that:⁴⁵²

Succession Planning, Talent Management and Workforce Planning Guidelines have been developed to assist with staff retention at VAGO.

As part of this approach, secondment opportunities have been made available for all staff, in particular Audit staff, to overseas Audit Offices (British Columbia, Canada; Hong Kong; UAE) and to other VPS Departments/Agencies. In addition staff have been assigned special tasks or assignments and have attended tailored development programs such as ANZSOG or the Copland course. Staff also have their work experience broadened through acting arrangements and switching senior people into different roles.

To demonstrate the effectiveness of VAGO's Talent Management guidelines, the Committee was informed by VAGO that vacancies have often been filled through internal recruitment rounds. This approach provided staff with the opportunity to be appointed to higher Victorian public service (VPS) levels and, in doing so, an opportunity to progress individual career aspirations. Examples include recent internal promotions to positions of Director, Financial Audit and movement of Assistant Auditors-General between Financial Audit and Performance Audit.⁴⁵³

The Committee is pleased to observe that several VAGO staff who have been seconded to the Committee's Secretariat subsequently rose to more senior positions within a relatively short time span.

450 State Services Authority, *A guide to Succession Risk Management — for Victorian Public Sector Leaders*, December 2008, p.1

451 *ibid.*, p.11

452 Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 13 December 2011, p.2

453 *ibid.*, p.3

8.6.4 Work-life balance

The State Services Authority has indicated that:⁴⁵⁴

Building an intellectually and operationally agile workforce that is innovative and able to operate effectively in a changing environment will require changes to current workforce planning and human resource practices. Public sector organisations will need to understand how the required workforce characteristics fit within their businesses. Moreover they will need to support the development of those characteristics.

According to the State Services Authority, enhancing approaches to attraction and recruitment can include, among other things, continuing to improve the sector's work-life balance efforts through the increasing availability of:⁴⁵⁵

- part-time employment;
- flexible work hours;
- support for caring responsibilities; and
- retraining opportunities.

Table 8.9 describes the opportunities provided to VAGO staff during 2010-11 in relation to each of the above practices.

Table 8.9: Work-life balance opportunities provided to staff by VAGO

Work-life balance strategies/efforts	Description of work-life balance practices available to staff
Part-time employment	Part-time work is made available to staff in accordance with the provisions set out in the VPS agreement.
Flexible work hours	Flexible working hours are available to staff, with a number of staff taking up condensed working agreements.
Support for caring responsibilities	VAGO offers telecommuting and working-from-home arrangements.
Retraining opportunities	A comprehensive learning and development program is available to all staff, and staff are actively encouraged to participate.
Other – A Health and Wellbeing program	The program provides a range of activities (healthy eating information sessions, work health checks and lunchtime yoga/pilates classes) to assist staff to balance work and non-work time.

Source: Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part Two, received 13 December 2011, pp.3-4

8.6.5 Collaboration, agility and innovation

The State Services Authority has identified collaboration, agility and innovation as important to the future of the Victorian public sector.⁴⁵⁶ Initiatives undertaken by VAGO in 2009-10, or in 2010-11 prior to the change of government, that have been designed to enhance these three

454 State Services Authority, *The State of the Public Sector in Victoria 2008-09*, March 2010, p.53

455 *ibid.*, p.54

456 State Services Authority, *The State of the Public Sector in Victoria 2008-09*, March 2010, p.49

qualities are shown in Table 8.10, together with the outcomes that have been achieved by these initiatives.

Table 8.10: Initiatives and related outcomes flowing from collaboration, agility and innovation shown in the workplace, 2009-10 or in 2010-11 prior to the change in government

Behavioural qualities	Initiative	Outcomes
Collaboration	Contributing to inquiries and reviews, for example: <ul style="list-style-type: none"> the Public Sector Standards Commission's Review of Victoria's Integrity and Anti-Corruption system; and the Essential Services Commission's review of Performance Reporting Framework for Local Government. 	Collaboration with integrity and review bodies drove public sector improvement and developed collaboration and consultation skills in senior staff.
Agility	Building organisational and leadership capability, supported by organisational values and vision.	Development of the Strategic Alignment plan that supports the people and organisation key result areas in the five year strategic plan.
Innovation	Developing secondments between interstate and international Audit Offices, increasing career development opportunities and professional development.	Share knowledge between agencies. Provide opportunities for professional development for individuals with potential for accelerated learning.

Source: Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, p.32

Table 8.11 shows the initiatives undertaken by VAGO since the change of government in November 2010 that have been designed to enhance the above three qualities and the outcomes that have been achieved from these initiatives.

The Committee notes the following statement made by the Auditor-General in VAGO's strategic plan for 2010-11 to 2014-15:⁴⁵⁷

We will remain vigilant to the changing expectations of audit and accountability as we relate to Parliament and our audit clients.

The Committee supports the need for organisations to collaborate to develop new and innovative ways of doing business. The Committee commends VAGO for its ability to adapt to a changing landscape in an auditing sense, as shown in Tables 8.10 and 8.11. VAGO may wish to include such information in future annual reports.

FINDING

VAGO has implemented various initiatives that are linked to being collaborative, agile and innovative in the workplace.

457 Victorian Auditor-General's Office, *Strategic Plan 2010-11 to 2014-15*, p.2

Table 8.11: Initiatives and related outcomes flowing from collaboration, agility and innovation shown in the workplace since the change in government in November 2010

Behavioural qualities	Initiative	Outcomes
Collaboration	<p>Investigation into ICT Enabled Projects conducted by Ombudsman Victoria in consultation with the Victorian Auditor-General.</p> <p>Worked with other Australian audit offices to develop Australia’s first national collaborative audit.</p> <p>Contributing to inquiries and reviews, for example the <i>Independent Review of State Finances</i>, Department of Treasury and Finance.</p>	<p>Working closely with other audit, integrity and review bodies enabled exchange of good practice and professional development.</p> <p>Collaboration with integrity and review bodies drove public sector improvement and developed collaboration and consultation skills in senior staff.</p>
Agility	<p>Further development of VAGO’s Learning and Development framework to better foster VAGO’s culture, and provide training and development opportunities.</p>	<p>Revised framework supports the organisation’s core capabilities, including programs such as building team effectiveness and resilience training.</p>
Innovation	<p>Staff Consultation and Development Group contributing to improving organisational effectiveness and providing a stimulating and rewarding workplace.</p>	<p>Development of staff ‘think tank’ enabling staff at a forum to discuss ‘ideas’, including outside speakers to stimulate discussion.</p>

Source: Victorian Auditor-General’s Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, pp.32-3

8.7 Organisation

The objective and related strategies outlined in the strategic plan for 2010-11 to 2014-15 that are directed at the performance of VAGO from an organisational perspective, together with a description of outcomes achieved, are set out in Table 8.12.

FINDING

In terms of leveraging systems and processes to improve organisational performance, demonstrated outcomes for 2010-11 included the following:

- as indicated in Section 8.3.1 of this chapter, 90 per cent of reports were tabled on time, which represented an improvement on 2009-10;
- 94 per cent of financial audit opinions were issued within three months; and
- the average cost per financial and performance audits was significantly lower according to VAGO than comparable Australian audit offices.

In terms of the strategy for VAGO to be a responsible corporate citizen, the Committee commends the intention by the Auditor-General to increase opportunities for volunteering in 2011-12 to enhance the Office’s corporate citizenship and build even stronger retention strategies for high-performing staff.⁴⁵⁸

458 Victorian Auditor-General’s Office, *Annual Report 2010-11*, August 2011, p.6

Table 8.12: Organisation – Outcomes achieved against planned strategies in 2010-11

Objective/strategies – planned outcome to be achieved	Description of actual outcome achieved	Data provided by VAGO to demonstrate outcome
<p><i>Leverage systems and processes to improve organisational performance by:</i></p> <p>Aligning systems and processes</p>	<p>Improved organisational performance allowed gains in timeliness and continued strong performance on cost comparisons.</p>	<ul style="list-style-type: none"> • 90 per cent of reports were tabled on time, an improvement on 2009-10. • 94 per cent of financial audit opinions were issued within three months, continuing the upward trend over the last three years and significantly better than national averages. • Average cost per financial and performance audits were significantly lower than comparable Australian audit offices.
<p><i>Leverage systems and processes to improve organisational performance by:</i></p> <p>Investing in capability for long-term sustainability</p>	<ul style="list-style-type: none"> • Strengthened VAGO's governance and quality systems through implementation of the Australasian Council of Auditors-General Governance and Audit Framework. • Addressed all recommendations from the triennial performance audit. 	<ul style="list-style-type: none"> • Self-assessment using the Framework gained positive response from external performance auditors. • All recommendations addressed by 30 June 2011.
<p><i>Leverage systems and processes to improve organisational performance by:</i></p> <p>Being a responsible corporate citizen</p>	<ul style="list-style-type: none"> • Environmental ratings retained. • Continued emphasis on international assistance and knowledge transfer. 	<ul style="list-style-type: none"> • 4 star green rating retained. • Hosted secondments and delegations from Indonesia, Uganda, China, Vietnam, Samoa and Bangladesh. • Knowledge transfer secondment to Tonga. • Developed long-term partnership proposal with Tonga Audit Office for consideration by AusAID. • Secondment exchange with British Columbia.

Source: Victorian Auditor-General's Office, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 December 2011, pp.39-40

8.8 Disclosure of operational activities on a regional basis

Consistent with the stated purpose of VAGO to 'provide assurances to Parliament', VAGO's annual report for 2010-11 states in the first sentence to the introduction that:⁴⁵⁹

Established in 1851, the Victorian Auditor-General's Office plays a key role in providing the Victorian Parliament with assurance about the financial integrity of the state.

As the annual report does not provide a snapshot of how VAGO's operations and coverage are dispersed throughout the State, the Committee considers there is an opportunity for operational activities to be linked to geographic areas of Victoria (where activities are location-specific, as distinct from those activities that have universal application across the State). This form of disclosure would provide interested parties with an appreciation of how VAGO covers the entire State in its operational activities. Disclosure on a regional basis could resemble something along the lines of Figure 8.2.

459 *ibid.*, p.1

Figure 8.2: Example of how audits undertaken in the Gippsland region could be portrayed in the VAGO Annual Report



Note: The lists of audits above are examples and are not exhaustive.

Source: Prepared by the Committee’s secretariat

FINDING

VAGO does not disclose on a geographic basis the spread of its audit coverage of the State.

RECOMMENDATION 64:

To illustrate the breadth of audit activity and the way in which audit resources are deployed throughout Victoria, the Victorian Auditor-General’s Office report on the geographic coverage of audits (both financial and performance). This may be disclosed in the Victorian Auditor-General’s Office’s annual report or on its website.

CHAPTER 9: THE GOVERNMENT RESPONSES TO THE COMMITTEE'S REPORT ON THE 2008-09 FINANCIAL AND PERFORMANCE OUTCOMES

9.1 Summary of the Government responses to the Committee's report on the 2008-09 financial and performance outcomes

The Committee made 67 recommendations in its *Report on the 2008-09 Financial and Performance Outcomes*.

Section 36 of the *Parliamentary Committees Act 2003* requires responsible ministers to respond, within six months, to recommendations in the Committee's reports tabled in Parliament.⁴⁶⁰ The 'Government Responses to the Recommendations of the Public Accounts and Estimate Committee's 94th *Report on the 2008-09 Financial and Performance Outcomes*' was tabled by the previous Government in Parliament on 6 October 2010, shortly before the 2010 State Election that saw a change of government.

Of the Committee's 67 recommendations, the previous Government indicated that it fully accepted 23 (34 per cent), accepted in part 1 (1 per cent), accepted in part/principle 5 (7 per cent), accepted in principle 32 (48 per cent), was reviewing 1 (1 per cent), rejected 4 (6 per cent) and did not respond to 1 (1 per cent).

The Government's responses can be seen in full on the Committee's website: www.parliament.vic.gov.au/paec.

9.1.1 Government's responses

Table 9.1 shows what proportion of recommendations were accepted, under review, rejected or had no response provided and compares that to the previous four inquiries into the financial and performance outcomes or budget outcomes (2005-06 was considered as part of the 2006-07 report and did not have a report of its own). Please note that all responses were completed by the previous Government.

The one recommendation that the Government did not respond to related to the Parliamentary Departments and was therefore not within the Government's authority to respond.

The following response was provided to the Committee by the Department of Parliamentary Services, rejecting the recommendation:⁴⁶¹

Executive Officers employed by the Parliament are not employed on the basis of public service executive contracts and are unable to access performance related payments received by other public sector Executives. It has been accepted by the Parliamentary Executive Group that the obligations for impartiality would create difficulty for the objective measurement of performance.

460 *Parliamentary Committees Act 2003*, s.36

461 Mr P. Lochert, correspondence received 16 January 2012

Table 9.1: Government's responses to recommendations in the financial and performance outcomes and budget outcomes reports, 2003-04 to 2008-09

Response	2003-04 (per cent)	2004-05 (per cent)	2006-07 (per cent)	2007-08 (per cent)	2008-09 (per cent)
Accept	84	80	68	73	91
• fully	55	25	32	37	34
• in part	14	14	17	3	1
• in part/principle	-	-	-	-	7
• in principle	15	41	19	33	48
Under review	8	10	14	16	1
Reject	8	10	18	11	6
No response	-	-	-	-	1

Sources: Victorian Government responses to recommendations of the Public Accounts and Estimates Committee's reports on Financial and Performance Outcomes 2003-04 to 2008-09, tabled 6 October 2010

FINDING

Of the Committee's 67 recommendations in its *Report on the 2008-09 Financial and Performance Outcomes*, the previous Government accepted 61 (91 per cent), was reviewing one (1 per cent), rejected four (6 per cent) and did not respond to one (1 per cent). The one to which the Government did not respond related to the Parliamentary Departments, which rejected it.

One recommendation was accepted in part where the Government considered that a practice it currently undertakes is equivalent to the Committee's recommendation. It is unclear to the Committee why this was accepted in part rather than in principle, or, indeed, rejected, as no additional action was planned in response. The Committee notes that another recommendation was responded to with exactly the same details of the 'action taken to date' and the 'further action planned' but was classified as 'accept in principle' (see Section 9.2 of this chapter).

Of the 32 recommendations that were classified as 'accept in principle', there were eight cases where the Government considered that a practice it currently undertakes is equivalent to the Committee's recommendation. In sixteen cases, recommendations were accepted in principle because the Government was of the view that the matters should be given further consideration as part of processes that already regularly take place or are planned. There were eight recommendations accepted in principle because they were planned to be implemented as part of the Public Finance and Accountability Bill (discussed below).

The Government's response included a new category of 'accept in part/principle' in its responses to the *Report on the 2008-09 Financial and Performance Outcomes*. This covered recommendations where some aspects of the recommendation were planned to be implemented, but other aspects were under consideration.

Regarding the recommendation classified as 'under review', the Government considered that it required further work to determine its practicability and noted that there were already plans to consider similar matters through another process.

Those recommendations that were rejected primarily related to suggestions by the Committee to publish or provide additional information. In one case, the Government considered that the level of detail suggested by the Committee was unnecessary. In two cases, where the Committee recommended that historical trend information be disclosed in annual reports, the Government considered that this information could be obtained from previous years' annual reports and therefore did not need to be reported. For the remaining rejected recommendation, the Department of Business and Innovation (previously named Department of Innovation, Industry and Regional Development) indicated that the recommended action would be better undertaken by other entities.

9.1.2 Implementation of the recommendations

The Committee undertook its own analysis of the accepted recommendations and recommendations under review to identify how many of them had actually been implemented by the start of 2012 (see Table 9.2). The Committee notes that a number of recommendations that were not implemented had processes initiated that may lead to them being implemented in the future.

Table 9.2: Proportion of accepted recommendations that have been implemented

	Implemented	Partially implemented	Not implemented	Total
Number of recommendations	33	3	25	61
Proportion of total (%)	54	5	40	100

Source: Assessment by the Committee's secretariat

Accepted fully

The previous Government fully accepted 23 recommendations and 18 of the 23 (78 per cent) of these recommendations have been implemented. There were five recommendations that have not yet been implemented. Of the five recommendations that were not implemented, three recommendations were to be implemented as part of the Public Finance and Accountability Bill (discussed below).

Accepted in part

One recommendation was 'accepted in part'. Regarding this recommendation, the Government considered that current processes were sufficient and no further action was planned to be taken. The Committee has noted that this response would have been more appropriately classified as 'rejected' or 'accepted in principle' (see Section 9.2 of this chapter).

Accepted in part/principle

With the 'accepted in part/principle' recommendations, three of the five have been implemented, one has been partially implemented and one was not implemented.

Accepted in principle

For the 'accepted in principle' recommendations 12 of the 32 (38 per cent) were implemented while 18 (56 per cent) were not implemented and two recommendations (6 per cent) were partially implemented. Of the 18 recommendations that were not implemented,

eight recommendations were to be implemented as part of the Public Finance and Accountability Bill (discussed below).

The Committee has noted that five responses that were classified as ‘accepted in principle’ would have been more appropriately classified as ‘under review’ and one response classified as ‘accepted in principle’ would have been more appropriately classified as ‘rejected’ or noted as ‘already in place’. This has been discussed further in Section 9.2 below.

FINDING

Of the 61 recommendations that were accepted or under review by the previous Government, 33 (54 per cent) have been fully implemented to date.

Recommendations under review

One recommendation was classified as ‘under review’ from the *Report on the 2008-09 Financial and Performance Outcomes*. The Government confirmed that there were no national measures in place to monitor for the proportion of early school leavers who are unemployed after six months and further work had to be undertaken to build these measures.

Recommendations accepted and to be implemented part of Public Finance and Accountability Bill

There were 11 recommendations accepted by the previous Government which were to be implemented as part of the Public Finance and Accountability Bill (see Table 9.3). The Public Finance and Accountability Bill was introduced in December 2009 by the previous Government. It was designed as ‘*a comprehensive, principles-based legislative framework for public finance in Victoria*’.⁴⁶² It was intended to create an Act which would replace ‘... *the Financial Management Act 1994, the Borrowing and Investment Powers Act 1987, the Monetary Units Act 2004 and the Public Authorities (Dividends) Act 1983 with a single piece of legislation that covers all key elements of public finance, including planning, reporting, procurement, borrowing and investment, and appropriations.*’⁴⁶³ The Public Finance and Accountability Bill did not pass the Parliament prior to the ending of the 56th Parliament in 2010. As a result, these 11 recommendations were not implemented. In the absence of the Public Finance and Accountability Bill, the Committee considers that the Government should consider whether these recommendations should be implemented by other means.

FINDING

There were 11 accepted recommendations from the *Report on the 2008-09 Financial and Performance Outcomes* that were to be implemented as part of the Public Finance and Accountability Bill. Because the Bill did not pass in Parliament, these recommendations have not been implemented.

462 Australasian Legal Information Institute, Victorian Bills Explanatory Memoranda, ‘Public Finance and Accountability Bill 2009,’ <www.austlii.edu.au/au/legis/vic/bill_em/pfaab2009290/pfaab2009290.html>

463 *ibid.*

RECOMMENDATION 65:

The Government reconsider implementing (via appropriate guidance materials) the recommendations noted in Table 9.3 that were accepted by the previous Government and to be implemented as part of the Public Finance and Accountability Bill.

Table 9.3: Recommendations that were accepted and to be implemented with the Public Finance and Accountability Bill

Recommendation	Response category	Government action to date	Future action planned
<p><i>Recommendation 13</i> With regard to the implementation of large scale procurement contracts for the purchase of strategic goods and services, the Department of Treasury and Finance should consider providing guidance to agencies on how to disclose in their annual reports in a consistent manner the impact that procurement outcomes in terms of service delivery have had on the achievement of planned strategic objectives.</p>	<p>Accept in principle</p>	<p>This recommendation is addressed as part of the procurement reform proposed under the Public Finance and Accountability Bill currently before the Parliament. Under the supporting frameworks of the Bill reforms, agencies will be required to report procurement information in a consistent fashion in their annual reports. The policy also proposes the establishment of consistent strategic and operational planning documents for procurement that will ensure that entities are able to make an accurate judgement of the performance of their procurement activities against their strategic objectives.</p>	<p>DTF is preparing guidance material in support of the preparation of strategic planning documentation and annual reporting requirements.</p>
<p><i>Recommendation 14</i> The Department of Treasury and Finance reinforce with agencies for evaluation and reporting purposes, the need to adopt a balanced approach that takes into account an optimum combination of quality, quantity, risk, timeliness and cost when measuring and evaluating whether value for money has been obtained from procurement.</p>	<p>Accept in principle</p>	<p>The Victorian Government Purchasing Board (VGPB) already requires the delivery of value for money outcomes that consider all these factors through the application of relevant supply policies. This recommendation is also addressed as part of the procurement reform proposed under the Public Finance and Accountability Bill, currently before the Parliament. Under the Bill, value for money is enshrined as an overarching procurement principle against which all procurement activity must be consistent. Value for money is also addressed in detail in the assessment of procurement complexity under the proposed reform.</p>	<p>DTF is preparing guidance material in support of the principles of value for money and for the assessment of procurement complexity which determines the best path to market to achieve value for money outcomes.</p>
<p><i>Recommendation 15</i> For large and complex procurement, the Department of Treasury and Finance encourage agencies to consider publishing a value-for-money statement that sets out the aspects of the procurement approach aimed at driving the achievement of value-for-money.</p>	<p>Accept in principle</p>	<p>Continuous improvement is a key component of existing VGPB supply policy for contract and category management of larger projects. This recommendation is also addressed as part of the procurement reform proposed under the Public Finance and Accountability Bill currently before the Parliament. Under the Bill, procurement reform, comprehensive contract management frameworks will be required to drive effective realisation of value for money outcomes. This will result in the ability of agencies to effectively track and report on the outcome of their procurement activities.</p>	<p>DTF is preparing guidance material supporting contract management in the reform environment.</p>

Recommendation	Response category	Government action to date	Future action planned
<p><i>Recommendation 16</i></p> <p>To enhance accountability for, and strengthen the control environment over, the delivery of major procurement contracts on time, all departments and government agencies include objectives, planned milestones and key deliverables in their corporate and annual/business plans.</p>	<p>Accept in principle</p>	<p>VGPB supply policies already require documentation of objectives, milestones and deliverables for major procurement activities. The requirements of strategic procurement plans (>\$10m) and procurement business cases more than satisfy these requirements as well as capturing other important procurement information relating to the risk and complexity of the procurement activity being undertaken.</p> <p>Under the Public Finance and Accountability Bill procurement reform, the assessment of procurement complexity, its alignment with entity capability and the appropriate path to market will be explicit and supported by guidelines.</p>	<p>DTF is preparing guidance material in support of the preparation of strategic planning and capability development documentation.</p>
<p><i>Recommendation 17</i></p> <p>To enhance procurement governance and maximise financial and performance outcomes across the public sector, the Department of Treasury and Finance encourage agencies to consider using their internal audit function to evaluate on an ongoing basis, for large-scale procurement contracts, whether:</p> <ul style="list-style-type: none"> • risk assessments are being carried out in an appropriate manner; and • procurement risks are being reviewed and managed effectively. 	<p>Accept</p>	<p>DTF supports the application of the internal audit function to large scale entity procurement activity.</p> <p>Under the proposed Public Finance and Accountability Bill reform it is proposed that the accountable officer for a department or public body may refer any procurement for review as part of the internal audit function.</p>	<p>DTF is preparing guidance material in support of the preparation of strategic procurement planning and capability development documentation.</p>
<p><i>Recommendation 19</i></p> <p>To enhance performance reporting and accountability, the Department of Treasury and Finance release a guidance statement and practical examples that clearly define the difference between an outcome and an output and the need to frame measurable outcomes that are relevant to the needs of the community.</p>	<p>Accept</p>	<p>Continued improvement is a key component of the financial and performance management framework.</p> <p>Under the proposed Public Finance and Accountability reform the performance management framework will be strengthened with government planning, budgeting and accountability processes focussed on the achievement of outcomes.</p>	<p>DTF is preparing guidance material in support of the preparation for implementation of an Outcome-Output Framework.</p>

Recommendation	Response category	Government action to date	Future action planned
<p><i>Recommendation 20</i></p> <p>To enhance the ability of government organisations to demonstrate whether planned outcomes have been achieved, the central departments (Department of Premier and Cabinet and Department of Treasury and Finance) promote a reporting culture throughout the public sector that emphasises the importance of developing quantitative performance measures and targets.</p>	<p>Accept</p>	<p>DTF supports the application of a strengthened financial and performance framework. Under the proposed Public Finance and Accountability reform there will be an increased focus on performance and the achievement of results, through the implementation of an Outcome-Output framework and the development of intermediate indicators.</p>	<p>DTF is preparing guidance material in support of the preparation for implementation of an Outcome-Output Framework.</p>
<p><i>Recommendation 21</i></p> <p>Progressive reporting of how government organisations have fared in terms of achieving intended outcomes should disclose any material risks that may emerge from planned outcomes not being achieved on time.</p>	<p>Accept in principle</p>	<p>DTF supports a strengthened planning and reporting framework. Under the proposed Public Finance and Accountability reform there will be a requirement to undertake planning activities and to report performance against the entities plan.</p>	<p>DTF is preparing guidance material in support of the preparation for implementation of enhanced planning and reporting requirements, on a fit-for-purpose basis.</p>
<p><i>Recommendation 64</i></p> <p>All government agencies report against the full range of performance indicators adopted to monitor Occupational Health and Safety matters as per the requirements of FRD 22B. The Department of Justice, <i>Annual Report 2008-09</i> Appendix G provides an excellent example of the type of clear and detailed response to this requirement that the Committee expects would satisfy reporting to Parliament.</p>	<p>Accept in principle</p>	<p>DTF supports continuous improvement in performance reporting. A central feature of the proposed Public Finance and Accountability reform is the requirement for reporting to be clear and be prepared at a time and in a manner that is useful to the intended audience.</p>	<p>DTF is preparing guidance material in support of the preparation for implementation of Public Finance and Accountability reform.</p>
<p><i>Recommendation 65</i></p> <p>All departments and government agencies identify and report against all of the specific requirements for disclosure of consultancies contained in FRD 22B. The Department of Human Services, <i>Annual Report 2008-09</i> (page 159) provides an excellent example of a clear and detailed disclosure that the Committee expects would satisfy reporting requirements to Parliament.</p>	<p>Accept in principle</p>	<p>Extensive work has been undertaken to develop the legislation and associated frameworks underpinning the Government's Public Finance and Accountability Bill presently before the Parliament. The legislation, and the associated directions and guidance aim to strengthen public sector accountability to Parliament and the public.</p>	<p>A central feature of the reforms endorsed for implementation through the Government's Public Finance and Accountability Bill is proposed to strengthen performance reporting arrangements.</p>

Recommendation	Response category	Government action to date	Future action planned
<p><i>Recommendation 66</i></p> <p>All government agencies annually review their reporting responsibilities in relation to the <i>Financial Management Act 1994</i>, the Standing Directions and Financial Reporting Directions of the Minister for Finance, and put in place controls and appropriate quality assurance processes to ensure that all relevant requirements are addressed fully.</p>	<p>Accept in principle</p>	<p>Under the current Financial Management Framework, public sector agencies are required to annually review their compliance responsibilities, including reporting, as part of their annual certification against the Standing Directions of the Minister for Finance. Departments continue to be committed to the achievement of high quality financial reporting across the Victorian public sector and will continue to demonstrate leadership in engaging with public sector agencies, to continually improve compliance.</p>	<p>The Public Finance and Accountability Bill currently before Parliament will establish a comprehensive compliance framework for public financial management. Under the new framework agencies will be required to:</p> <ul style="list-style-type: none"> • monitor and report levels of compliance; and • certify, on a fit for purpose basis, annual compliance with requirements of the Act and Directions to the relevant Portfolio Minister and Minister for Finance, and attest compliance in annual reports. <p>This will further strengthen assurance across the VPS.</p>

Source: Victorian Government, *Government Responses to Recommendations of the Public Accounts and Estimates Committee's 94th Report on the 2008-09 Financial and Performance Outcomes*, tabled 6 October 2010

9.2 Quality of the Government's responses

In general, the Committee was satisfied with the quality of the Government's responses. Most provided a clear statement of the action taken to date and any further action planned.

However, timelines have not been provided for further action planned or recommendations under review. The Committee notes that the template for responses has been updated by the current Government, subsequent to the tabling of the response to the *Report on the 2008-09 Financial and Performance Outcomes*. The guide for readers now explains that recommendations that are supported or under review should include target timeframes where possible or appropriate.

In terms of the classification of responses, the Committee identified six responses that were accepted in principle, in which the further actions were to consider or review the recommendation (see Table 9.4). It was not clear to the Committee why these responses were classified as 'accept in principle' rather than 'under review'.

The Committee has previously recommended that:⁴⁶⁴

The Department of Treasury and Finance clarify for the Government the difference between the classification of 'under review' and 'support'.

The Government has supported this recommendation.⁴⁶⁵

Furthermore, the Committee notes that there were two recommendations which the Government accepted (one in part and one in principle) for which the Government responses indicated no plans to implement what the Committee had recommended (see Table 9.5). The two recommendations were responded to in exactly the same words and it was not clear to the Committee why one was accepted in part and one was accepted in principle. However, given the lack of intention to undertake exactly what was recommended, the Committee considers that it may have been more appropriate for both recommendations to have been classified as 'reject'.

FINDING

Overall, the Committee was pleased with the quality of responses to the *Report on the 2008-09 Financial and Performance Outcomes*. However, the Committee notes that six recommendations that were accepted in principle might have been better classified as 'under review', and two accepted recommendations might have been better classified as 'reject'.

464 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 88, p.237

465 Victorian Government, *Government Responses to the Recommendations of the Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three*, tabled 14 March 2012, p.45

Table 9.4: Government responses which might have been better classified as 'under review'

Recommendation	Response category	Government action to date	Future action planned
<i>Recommendation 24</i> The Department of Primary Industries and the Environment Protection Authority consider reporting office-based and non-office-based data separately in future reports.	Accept in principle	<p>Only one third of DPI sites can be categorised as office only. The remainder of sites are combined office and non-office, including depots, laboratories and farms.</p> <p>DPI has commenced a sub-metering strategy at its major research sites to enable the reporting of office-based and non-office based electricity usage.</p> <p>To date, DPI Hamilton and Elinbank have had the necessary infrastructure and data management capability installed, with Tatura, Mildura and Queenscliff to be completed in 2010.</p> <p>The Environmental Protection Authority (EPA) has included separate reports with regard to electricity and water usage in its annual report. As the EPA has minimal non-office based usage, reporting on total usage gives a fair and accurate assessment of resource use.</p>	Based on the results of DPI's electricity sub-metering strategy, it will investigate the costs, benefits and practicality of metering water and gas usage separately for office and non-office based usage.
<i>Recommendation 25</i> The Environment Protection Authority include in future annual reports its assessment of the value of using Green Power.	Accept in principle	The EPA is currently reviewing its mechanism for assessing the value of Green Power.	Currently under review.
<i>Recommendation 28</i> The Department of Treasury and Finance and the Department of Sustainability and Environment revise the procurement section of FRD 24C so that the degree to which environmental considerations inform procurement decisions can be ascertained from departmental reporting.	Accept in principle	FRD 24C currently requires environmentally responsible procurement activities.	DSE, in consultation with DTF, will continue to revise FRDs as appropriate, including consideration of the expansion of current reporting requirements.

Recommendation	Response category	Government action to date	Future action planned
<p><i>Recommendation 58</i> The Department of Premier and Cabinet consider including a new performance measure and target in the budget papers relating to public participation in the Community Cabinet program.</p>	<p>Accept in principle</p>	<p>Participant satisfaction surveys were previously collected at Community Cabinet forums but these were discontinued due to a very low completion rate by participants.</p>	<p>DPC will consider inclusion of a new performance measure and target in the Budget Papers in relation to public participation in the Community Cabinet program after an investigation of whether more appropriate measurement mechanisms can be developed and implemented.</p>
<p><i>Recommendation 61</i> The Department of Treasury and Finance disclose the long-term unfunded superannuation liability projections for the SSF in the State Budget Papers. This will enhance the accountability to Parliament and the general public of the government's progress in achieving its strategy to fully fund the SSF by 2035.</p>	<p>Accept in principle</p>	<p>Although it is possible for the projections previously included in Budget papers to be reinstated, it is noted that:</p> <ul style="list-style-type: none"> • Superannuation liability figures in the Budget are calculated in accordance with accounting standard AASB 119 which requires the liability to be calculated using a discount rate based on long-dated Commonwealth government bonds. • The superannuation liability figure reported in accordance with AASB 119 does not provide a meaningful estimate of the actual funds required to meet the liabilities that have accrued to date. • Any projections regarding progress towards full funding of SSF liabilities would have to be based on a different methodology from that used elsewhere in the Budget papers, which could be misleading. <p>Progress towards the full funding of the SSF is currently fully disclosed in the ESSSuper Annual report.</p>	<p>DTF will seek further advice on the best way to disclose the additional information requested, having regard to the challenges outlined.</p>
<p><i>Recommendation 62</i> The Department of Treasury and Finance include in future annual reports the savings achieved, compared to target, resulting from the ETS program.</p>	<p>Accept in principle</p>	<p>DTF will consider greater reporting against achievement of the Efficient Government Program, of which ETS is a part.</p>	<p>As per comment.</p>

Source: Victorian Government, *Government Responses to Recommendations of the Public Accounts and Estimates Committee's 94th Report on the 2008-09 Financial and Performance Outcomes*, tabled 6 October 2010; emphasis added by the Committee

Table 9.5: Government responses which might have been better classified as 'reject'

Recommendation	Response category	Government action to date	Future action planned
<p><i>Recommendation 9</i></p> <p>The Secretary of the Department of Premier and Cabinet with the assistance of the State Services Authority conduct a comprehensive review of the system of awarding performance bonuses. The conclusions from this review should lead to change including, where necessary, by appropriate regulation or legislation.</p>	Accept in part	<p>Government undertakes a review of executive remuneration policy annually. The State Services Authority undertakes a comprehensive executive employment and remuneration market review triennially.</p> <p>These reviews help inform performance bonus policy, which is determined by the Premier as the Minister responsible for the <i>Public Administration Act 2004</i>.</p>	The review procedures are already in place.
<p><i>Recommendation 10</i></p> <p>The Government Sector Executive Remuneration Panel (GSERP) review and consider amending the GSERP policy for remuneration of executives in the broader public sector to explicitly prohibit the awarding of performance bonuses to executives where performance is assessed as not meeting expectations.</p>	Accept in principle	<p>Government undertakes a review of executive remuneration policy annually. The State Services Authority undertakes a comprehensive executive employment and remuneration market review triennially.</p> <p>These reviews help inform performance bonus policy, which is determined by the Premier as the Minister responsible for the <i>Public Administration Act 2004</i>.</p>	The review procedures are already in place.

Source: Victorian Government, *Government Responses to Recommendations of the Public Accounts and Estimates Committee's 94th Report on the 2008-09 Financial and Performance Outcomes*, tabled 6 October 2010; emphasis added by the Committee

APPENDIX 1: DEPARTMENTAL OUTPUTS, 2009-10 AND 2010-11

Table A1.1: Performance measures by output, 2009-10

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Education and Early Childhood Development	Early Childhood Services – child health and support services	0	3	1	0	98.6	102.4	3.9
	Early Childhood Services – early childhood education and care	0	2	0	0	210.8	207.9	-1.4
	Early Childhood Services – early childhood intervention services	0	4	0	0	65.3	55.9	-14.4
	Compulsory years – early years (schools)	1	7	3	3	2,710.7	2,620.6	-3.3
	Compulsory years – middle years (schools)	1	13	6	0	2,697.8	2,678.0	-0.7
	Later years and youth transitions	0	6	8	0	1,727.1	1,671.9	-3.2
	Services to students	0	11	1	0	811.7	826.0	1.8
	Adolescent health services (schools)	0	1	0	0	10.1	10.4	3.0
	Policy and regulation	0	1	0	0	41.9	41.9	0.0
	Total	2	48	19	3	8,374.0	8,215.0	-1.9

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Health	Admitted Services	1	13	1	0	5,940.0	6,228.2	4.9
	Non-Admitted Services	0	5	1	0	1,035.2	1,072.2	3.6
	Emergency Services	1	4	0	0	338.7	353.1	4.3
	Acute Training and Development	0	4	0	0	288.1	283.2	-1.7
	Ambulance Emergency Services	0	9	2	0	442.6	442.0	-0.1
	Ambulance Non-Emergency Services	1	4	0	0	86.5	100.3	16.0
	Small Rural Services – Acute Health	2	2	0	0	261.3	261.0	-0.1
	Small Rural Services – Aged Care	0	4	0	0	147.1	164.8	12.0
	Small Rural Services – Home and Community Care Services	0	2	0	0	27.9	29.6	6.1
	Small Rural Services – Primary Health	0	2	0	0	16.3	16.6	1.8
	Residential Aged Care	0	4	0	0	290.0	304.2	4.9
	Aged Care Assessment	1	1	1	0	39.6	54.8	38.4
	Aged Support Services	0	6	0	0	103.3	129.2	25.1
	HACC Primary Health, Community Care and Support	0	3	1	0	541.4	521.6	-3.7
	Community Health Care	1	3	1	0	269.3	244.9	-9.1
	Dental Services	2	3	0	0	148.9	155.6	4.5
	Health Protection	1	12	0	0	183.3	212.4	15.9
	Health Advancement	1	3	0	0	68.9	63.6	-7.7
	Public Health Development, Research and Support	0	4	0	0	13.4	14.9	11.2
	Drug Prevention and Control	2	4	0	0	24.1	27.3	13.3
Drug Treatment and Rehabilitation	2	4	4	0	103.4	104.3	0.9	
Clinical Care	0	11	0	0	857.3	891.9	4.0	
Psychiatric Disability Rehabilitation and Support Services (PDRSS)	0	4	0	0	87.8	90.3	2.8	
Total		15	111	11	0	11,314.4	11,766.0	4.0

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Human Services	Information, planning and capacity building	0	3	0	0	94.2	85.4	-9.3
	Targeted services	1	3	1	0	76.9	86.5	12.5
	Individual support	1	7	0	0	532.9	530.4	-0.5
	Residential accommodation support	0	7	0	0	584.0	602.0	3.1
	Statutory child protection services	2	2	0	0	137.9	151.1	9.6
	Specialist support and placement services	1	5	0	0	302.7	313.1	3.4
	Family and community services	1	1	2	0	142.4	147.8	3.8
	Youth justice custodial services	0	7	1	0	54.1	56.2	3.9
	Community based services	1	2	2	0	50.7	50.8	0.2
	Concessions to pensioners and beneficiaries	0	4	4	0	348.0	393.3	13.0
	Homelessness assistance	0	6	0	0	161.2	165.1	2.4
	Long term housing assistance	1	3	3	0	808.5	973.9	20.5
	Home ownership and renovation assistance	1	3	0	0	n.r.	n.r.	n.r.
Total		9	53	13	0	3,293.5	3,555.6	8.0

Department	Output	Non-cost performance measures			Cost performance measures			
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Innovation, Industry and Regional Development	Sector development	1	1	2	0	66.3	47.2	-28.8
	Small Business	1	3	4	0	40.5	33.4	-17.5
	Innovation	0	3	3	0	20.2	19.3	-4.5
	Science and technology	1	4	2	0	177.4	155.8	-12.2
	Strategic Policy	0	3	0	0	8.0	7.1	-11.3
	Investment Attraction and Facilitation	0	2	3	0	71.8	85.3	18.8
	Exports	0	1	5	0	18.4	17.3	-6.0
	Regional infrastructure development	1	0	3	0	84.6	67.7	-20.0
	Regional economic development, investment and Promotion	1	3	5	0	69.5	47.2	-32.1
	Skills	0	8	4	0	1,829.1	2,038.2	11.4
	Industrial Relations	0	4	0	0	8.6	8.2	-4.7
	Workforce Participation	0	7	0	0	27.1	27.9	3.0
	Tourism	1	8	2	0	75.2	91.0	21.0
	Major Projects	0	3	0	0	9.3	46.3	397.8
Total		6	50	33	0	2,506.0	2,691.9	7.4

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Justice	Policing services	1	10	1	0	1,892.1	1,857.1	-1.8
	Police integrity	1	2	1	0	26.4	24.2	-8.3
	Legal policy, advice and law reform	0	9	0	0	45.6	60.3	32.2
	Protecting community rights	1	4	1	0	29.5	32.6	10.5
	Supporting the judicial process	1	5	3	0	108.9	145.7	33.8
	Privacy regulation	0	4	0	0	2.4	2.3	-4.2
	State electoral roll and elections	1	2	0	0	22.6	20.9	-7.5
	Court matters and dispute resolution	0	2	2	0	380.8	378.8	-0.5
	Public prosecutions	1	3	1	0	60.4	55.3	-8.4
	Infringement and orders management	0	3	2	0	220.0	171.1	-22.2
	Community safety and crime prevention	0	4	0	0	39.6	30.8	-22.2
	Emergency management capability	0	4	1	0	217.5	214.5	-1.4
	Prisoner supervision and support	0	3	0	0	511.1	492.6	-3.6
	Community based offender supervision	0	4	0	0	81.8	74.1	-9.4
	Promoting and protecting consumer interests	0	3	2	0	144.2	159.9	10.9
	Gaming and racing management and regulation	0	6	1	0	123.7	114.8	-7.2
Total		6	68	15	0	3,906.6	3,835.0	-1.8

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Planning and Community Development	Planning for liveable communities	5	23	2	0	152.2	126.7	-16.8
	Youth Affairs	0	2	5	0	14.7	14.5	-1.4
	Women's Policy	0	4	2	0	4.4	4.8	9.1
	Disability	0	6	0	0	7.2	7.3	1.4
	Seniors and Veterans	2	5	2	0	10.2	10.4	2.0
	Indigenous Community and Cultural Development	0	5	3	0	19.8	19.9	0.5
	Adult and Community Education	1	2	6	0	57.7	63.1	9.4
	Sport and Recreation Development	2	12	3	0	85.9	88.6	3.1
	Community Development	1	8	1	0	61.8	69.5	12.5
	Developing the Local Government Sector	0	6	1	0	41.7	45.9	10.1
	Total	11	73	25	0	455.6	450.7	-1.1
Premier and Cabinet	Strategic Policy Advice And Projects	1	7	1	0	70.3	105.9	50.6
	Government Information Services And Support	2	3	0	0	45.8	43.8	-4.4
	Protocol And Special Events	0	3	1	0	3.1	2.9	-6.5
	Advice And Support To The Governor	0	6	0	0	9.2	9.0	-2.2
	State Services Authority	0	3	1	0	12.3	12.1	-1.6
	Ombudsman Victoria	2	1	5	0	7.8	7.9	1.3
	Chief Parliamentary Counsel Services	0	6	1	0	4.8	4.8	0.0
	Multicultural Affairs	2	9	1	0	12.9	13.5	4.7
	Arts Development And Access	0	9	5	0	45.1	45.9	1.8
	Creating Place And Space	0	5	0	0	92.5	97.8	5.7
	Portfolio Services And Policy	0	5	1	0	4.9	4.4	-10.2
	Arts Portfolio Agencies	1	11	5	0	288.6	286.1	-0.9
	Total	8	68	21	0	597.3	634.1	6.2

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Primary Industries	Primary industries policy	2	10	3	0	62.5	54.3	-13.1
	Regulation and Compliance	1	18	3	0	101.8	105.3	3.4
	Strategic and applied scientific research	0	6	6	0	156.1	175.7	12.6
	Sustainable practice change	2	8	3	0	280.8	232.9	-17.1
	Total	5	42	15	0	601.2	568.2	-5.5
Sustainability and Environment	Sustainable water management and supply	2	13	2	0	389.4	380.7	-2.2
	Land and fire management	0	7	5	0	198.1	275.7	39.2
	Biodiversity	0	2	1	0	51.3	46.8	-8.8
	Natural resources	2	3	3	0	126.3	106.6	-15.6
	Forests and parks	0	7	0	0	156.7	179.8	14.7
	Public land	0	5	3	0	144.4	135.8	-6.0
	Environmental policy and climate change	0	3	0	0	77.0	76.2	-1.0
	Statutory activities and environment protection	0	6	0	0	118.9	113.7	-4.4
	Land administration and property information	0	6	5	0	125.5	125.0	-0.4
	Total	4	52	19	0	1,387.6	1,440.3	3.8

Department	Output	Non-cost performance measures			Cost performance measures			
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Transport	Public transport safety and regulation	1	5	3	0	26.0	28.1	8.1
	Road safety and regulation	3	1	1	0	177.7	158.0	-11.1
	Vehicle and driver regulation	3	8	4	0	162.2	169.7	4.6
	Marine safety and regulation	0	4	3	0	16.3	16.4	0.6
	Transport and marine safety investigations	0	3	1	0	2.6	1.6	-38.5
	Infrastructure security and emergency management	1	7	2	0	3.8	3.7	-2.6
	Integrated metropolitan public transport services	0	18	4	0	2,074.5	2,419.0	16.6
	Rural and regional public transport services	0	13	0	0	693.0	691.0	-0.3
	Specialist transport services	3	10	0	0	247.7	240.7	-2.8
	Integrated and sustainable transport development	3	13	2	0	50.1	54.2	8.2
	Public transport infrastructure development	10	20	8	0	188.6	135.9	-27.9
	Road network improvements	1	12	3	0	682.1	721.3	5.7
	Road asset management	0	14	0	0	382.0	380.4	-0.4
	Freight, logistics, ports and marine development	1	5	2	0	62.1	64.5	3.9
Total		26	133	33	0	4,768.7	5,084.5	6.6

Department	Output	Non-cost performance measures				Cost performance measures			
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)	
Treasury and Finance	Financial and Resource Management Frameworks	0	8	0	0	3.9	4.1	5.1	
	Budget and Financial Policy Advice	1	2	2	0	12.3	11.4	-7.3	
	Economic and Financial Policy	1	6	2	0	34.5	35.9	4.1	
	Financial Reporting	0	13	0	0	11.0	12.3	11.8	
	GBE Performance Monitoring and Financial Risk Management	0	10	1	0	6.1	6.5	6.6	
	Land and Infrastructure Investment Management	0	5	0	0	21.8	23.7	8.7	
	Government Services	1	4	6	0	113.5	101.0	-11.0	
	Economic Regulatory Services	0	4	4	0	14.3	13.9	-2.8	
	Business Environment Policy Advice	1	2	4	0	5.8	6.0	3.4	
	Revenue Management Services to Government	1	9	0	0	72.9	73.2	0.4	
	Total	5	63	19	0	296.1	288.0	-2.7	
	Parliament	Procedural Support, Documentation Preparation and Provision of Information for Council	0	7	1	0	15.8	16.1	1.9
		Procedural Support, Documentation Preparation and Provision of Information for Assembly	0	7	1	0	29.7	30.1	1.3
Provision of information and resources to Parliament		2	10	3	0	74.9	70.7	-5.6	
Reports tabled and papers published		0	3	2	0	6.4	6.5	1.6	
Parliamentary reports and services		1	3	0	0	13.9	14.5	4.3	
Audit reports on financial statements		0	5	0	0	19.8	20.4	3.0	
Total		3	35	7	0	160.5	158.3	-1.4	
Grand total, 2009-10		100	796	230	3	37,661.5	38,687.6	2.7	

Table A1.2: Performance measures by output, 2010-11

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Business and Innovation	Sector Development	0	4	1	0	42.2	47.2	11.8
	Small Business	1	3	3	0	33.4	41.5	24.3
	Innovation	2	3	1	0	14.0	17.7	26.4
	Science and Technology	1	5	1	0	164.9	131.8	-20.1
	Strategic Policy	1	1	0	0	8.3	7.4	-10.8
	Investment Attraction and Facilitation	0	2	3	0	92.2	61.2	-33.6
	Exports	0	3	3	0	22.5	19.3	-14.2
	Regional Economic Development, Investment and Promotion	2	2	0	0	41.4	31.3	-24.4
	Industrial Relations	0	4	0	0	7.7	34.0	341.6
	Tourism	0	10	1	0	76.6	144.0	88.0
	Major Projects	0	1	1	0	11.0	79.4	621.8
	Total	7	38	14	0	514.2	614.8	19.6
	Education and Early Childhood Development	Early Childhood Services – child health and support services	0	3	1	0	105.1	105.7
Early Childhood Services – early childhood education and care		0	3	0	0	237.9	238.5	0.3
Early Childhood Services – early childhood intervention services		0	3	0	0	61.2	60.9	-0.5
School education – early years (schools)		0	7	3	0	2,736.1	2,702.3	-1.2
School education – middle years (schools)		0	20	2	0	2,792.7	2,785.5	-0.3
Later years and youth transitions		1	8	4	0	1,745.1	1,752.3	0.4
Services to students		2	11	0	0	883.5	891.5	0.9
Adolescent health services (schools)		0	1	0	0	10.6	10.4	-1.9
Policy and regulation		0	1	0	0	42.8	43.5	1.6
Skills		0	6	5	0	1,976.2	2,270.0	14.9
Adult, community and further education		1	3	4	0	58.0	70.5	21.6
Total		4	66	19	0	10,649.2	10,931.1	2.6

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Health	Admitted Services	2	12	1	0	6,570.7	6,596.8	0.4
	Non-admitted services	0	5	1	0	1,140.6	1,207.3	5.8
	Emergency services	1	5	0	0	372.9	386.5	3.6
	Acute training and development	0	4	0	0	307.1	302.4	-1.5
	Ambulance emergency services	0	10	1	0	460.3	477.6	3.8
	Ambulance non-emergency services	1	3	1	0	103.8	104.7	0.9
	Clinical care	1	10	0	0	917.4	925.0	0.8
	Psychiatric Disability Rehabilitation and Support Services (PDRSS)	0	3	1	0	90.4	96.1	6.3
	Residential aged care	0	4	0	0	309.9	332.4	7.3
	Aged care assessment	1	1	1	0	43.5	56.5	29.9
	Aged support services	1	5	0	0	117.1	135.6	15.8
	HACC primary health, community care and support	0	4	0	0	583.6	558.9	-4.2
	Seniors program and participation	0	3	1	0	6.0	5.5	-8.3
	Community health care	0	5	0	0	232.6	239.1	2.8
	Dental services	3	2	0	0	164.3	172.2	4.8
	Small rural services – acute health	1	2	1	0	280.5	293.0	4.5
	Small rural services – aged care	0	4	0	0	154.9	185.4	19.7
	Small rural services – Home and Community Care Services	0	2	0	0	29.4	31.1	5.8
	Small rural services – primary health	2	0	0	0	16.4	17.5	6.7
	Health protection	1	11	1	0	227.0	208.6	-8.1
Health advancement	1	2	1	0	68.7	67.6	-1.6	
Public health development, research and support	0	4	0	0	8.6	11.9	38.4	
Drug prevention and control	1	3	1	0	25.5	24.2	-5.1	
Drug treatment and rehabilitation	1	5	4	0	110.2	109.6	-0.5	
Total		17	109	15	0	12,341.4	12,545.5	1.7

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Human Services	Information, planning and capacity building	0	2	1	0	87.2	88.3	1.3
	Targeted services	2	2	1	0	83.3	91.3	9.6
	Individual Support	1	6	0	0	571.9	560.2	-2.0
	Residential Accommodation Support	1	5	0	0	628.0	655.3	4.3
	Statutory Child Protection Services	2	1	1	0	161.1	166.8	3.5
	Specialist Support and Placement Services	0	6	0	0	331.7	342.9	3.4
	Family and Community Services	0	2	2	0	160.3	160.5	0.1
	Youth Justice Custodial Services	1	5	0	0	55.5	60.7	9.4
	Community Based Services	0	4	1	0	58.7	57.9	-1.4
	Concessions to Pensioners and Beneficiaries	0	7	1	0	373.4	469.1	25.6
	Social Housing	1	5	2	0	517.6	219.6	-57.6
	Housing Support and Homelessness Assistance	0	8	1	0	212.7	223.3	5.0
	Youth Affairs	0	3	4	0	15.8	15.7	-0.6
	Women's Policy	0	6	0	0	7.0	4.9	-30.0
	Office for Disability	0	5	1	0	7.2	6.4	-11.1
Community Participation	0	5	0	0	26.7	27.1	1.5	
Total		8	72	15	0	3,298.1	3,150.0	-4.5

Department	Output	Non-cost performance measures					Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)	
Justice	Policing Services - total output cost	1	8	3	0	1,990.8	1,959.7	-1.6	
	Police Integrity - total output cost	1	2	1	0	26.2	25.8	-1.5	
	Legal policy, advice and law reform - total output cost	0	5	2	0	54.8	69.3	26.5	
	Protecting community rights - total output cost	0	5	1	0	36.9	34.5	-6.5	
	Supporting the judicial process - total output cost	2	5	2	0	150.6	162.3	7.8	
	Privacy regulation - total output costs	0	3	1	0	2.5	2.5	0.0	
	State electoral roll and elections - total output cost	0	3	0	0	54.7	55.7	1.8	
	Court matters and dispute resolution - total output cost	0	3	0	0	407.7	419.9	3.0	
	Public prosecutions - total output cost	0	5	0	0	62.5	60.3	-3.5	
	Infringement and orders management - total output cost	0	2	3	0	226.9	180.5	-20.4	
	Community safety and crime prevention - total output cost	0	4	0	0	37.9	33.9	-10.6	
	Emergency management capability - total output cost	0	3	2	0	232.6	264.8	13.8	
	Prisoner supervision and support - total output cost	0	3	0	0	544.7	534.0	-2.0	
	Community based offender supervision	0	3	1	0	95.1	85.0	-10.6	
	Promoting and protecting consumer interests - total output cost	0	4	1	0	159.0	167.7	5.5	
	Gaming and racing management and regulation - total output cost	0	7	0	0	129.6	111.4	-14.0	
	Total		4	65	17	0	4,212.5	4,167.3	-1.1
Planning and Community Development	Planning	5	15	0	1	154.0	165.5	7.5	
	Regional infrastructure development	1	2	5	0	55.0	99.4	80.7	
	Veterans' Affairs	0	3	2	0	3.2	3.6	12.5	
	Indigenous community and cultural development	2	6	0	0	22.1	22.9	3.6	
	Sport and recreation development	0	11	4	0	106.8	109.2	2.2	
	Community development	2	6	1	1	62.8	67.7	7.8	
	Developing the local government sector	0	9	1	0	58.2	64.3	10.5	
	Total	10	52	13	2	462.1	532.6	15.3	

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Premier and Cabinet	Strategic Policy Advice And Projects	4	5	0	0	66.0	75.4	14.2
	Government Information Services And Support	2	2	1	0	44.6	44.7	0.2
	Protocol And Special Events	0	3	1	0	3.2	3.2	0.0
	Advice And Support To The Governor	0	6	0	0	9.2	9.4	2.2
	State Services Authority	1	2	1	0	12.2	11.6	-4.9
	Ombudsman Victoria	1	1	6	0	7.7	8.4	9.1
	Chief Parliamentary Counsel Services	1	5	1	0	4.9	5.0	2.0
	Multicultural Affairs	2	9	0	0	13.8	12.6	-8.7
	Arts Development And Access	1	8	5	0	43.2	44.1	2.1
	Creating Place And Space	0	5	0	0	96.6	97.6	1.0
	Portfolio Services And Policy	1	5	0	0	3.7	3.9	5.4
	Arts Portfolio Agencies	0	11	7	0	305.9	336.8	10.1
	Total	13	62	22	0	611.0	652.7	6.8
Primary Industries	Primary Industries Policy	5	10	1	0	66.9	74.5	11.4
	Regulation and compliance	8	13	1	0	116.2	148.4	27.7
	Strategic and applied scientific research	1	6	5	0	208.1	201.7	-3.1
	Sustainable practice change	1	8	3	0	119.7	117.8	-1.6
	Total	15	37	10	0	510.9	542.4	6.2

Department	Output	Non-cost performance measures				Cost performance measures			
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)	
Sustainability and Environment	Sustainable water management and supply	2	10	5	0	327.7	276.3	-15.7	
	Land and fire management	0	11	2	0	216.8	299.5	38.1	
	Biodiversity	0	3	1	0	53.2	55.7	4.7	
	Natural resources	2	4	2	0	121.2	111.5	-8.0	
	Forests and parks	0	7	0	0	187.4	206.3	10.1	
	Public land	0	7	1	0	116.5	120.4	3.3	
	Environmental policy and climate change	0	3	0	0	46.8	44.7	-4.5	
	Statutory activities and environment protection	1	4	2	0	143.7	125.6	-12.6	
	Land administration and property information	0	10	1	0	132.7	128.3	-3.3	
	Total	5	59	14	0	1,346.0	1,368.3	1.7	
	Transport	Public Transport Safety and Regulation	0	7	1	0	29.2	30.4	4.1
		Road Safety and Regulation	4	1	0	0	119.7	102.6	-14.3
		Vehicle and Driver Regulation	3	12	2	0	170.2	167.3	-1.7
Marine Safety and Regulation		2	2	1	0	18.1	18.9	4.4	
Transport and Marine Safety Investigations		1	3	0	0	2.0	1.8	-10.0	
Transport security and emergency management		0	6	4	0	3.8	4.3	13.2	
Integrated Metropolitan Public Transport services		0	20	0	0	2,822.8	2,825.6	0.1	
Rural and Regional Public Transport Services		0	12	1	0	732.3	759.9	3.8	
Specialist Transport Services		1	10	2	0	250.6	252.5	0.8	
Integrated and Sustainable Transport Development		4	7	2	0	48.5	44.2	-8.9	
Public Transport Infrastructure Development		10	18	11	0	143.1	107.6	-24.8	
Road Network Improvements		2	9	5	0	733.2	725.0	-1.1	
Road Asset Management		0	12	0	0	383.5	480.1	25.2	
Freight, Logistics, Ports and Marine Development	4	3	0	0	72.4	79.3	9.5		
Total	31	122	29	0	5,529.4	5,599.5	1.3		

Department	Output	Non-cost performance measures				Cost performance measures		
		More than 10% below target (number)	Within 10% of target (number)	More than 10% above target (number)	Not reported	Budget (\$ million)	Actual (\$ million)	Variation (per cent)
Treasury and Finance	Financial and Resource Management Frameworks	1	7	0	0	4.3	4.6	7.0
	Budget and Financial Policy Advice	2	2	1	0	11.6	12.5	7.8
	Economic and Financial Policy	1	7	1	0	31.0	30.3	-2.3
	Financial Reporting	0	11	2	0	12.6	11.2	-11.1
	GBE Performance Monitoring and Financial Risk Management	1	10	0	0	6.4	10.4	62.5
	Land and Infrastructure Investment Management	2	2	1	0	20.7	20.1	-2.9
	Government Services	3	4	4	0	64.4	64.7	0.5
	Economic Regulatory Services	0	3	5	0	15.3	14.6	-4.6
	Business Environment Policy Advice	1	2	3	1	5.9	6.1	3.4
	Revenue Management Services to Government	0	5	5	0	64.4	64.2	-0.3
	Total	11	53	22	1	236.6	238.7	0.9
Parliament	Procedural Support, Documentation Preparation and Provision of Information for Council	0	5	0	0	16.3	15.9	-2.5
	Procedural Support, Documentation Preparation and Provision of Information for Assembly	0	5	3	0	30.7	30.9	0.7
	Provision of information and resources to Parliament	0	8	1	0	77.8	72.7	-6.6
	Reports tabled and papers published	0	3	1	0	6.9	4.7	-31.9
	Parliamentary reports and services	1	3	1	0	14.1	14.7	4.3
	Audit reports on financial statements	0	5	0	0	20.3	21.2	4.4
	Total	1	29	6	0	166.1	160.1	-3.6
	Grand total, 2010-11	126	764	196	3	39877.5	40503.0	1.6

**APPENDIX 2: OUTCOMES ACHIEVED BY DEPARTMENTS
BETWEEN 27 NOVEMBER 2010 AND
30 JUNE 2011**

Table A2.1: Department of Business and Innovation (DBI)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Provided flood assistance to help tourism and businesses	Provided flood assistance to help tourism and businesses.	Assistance included: \$1.5 million for grants of up to \$5,000 for businesses affected by floods, \$25,000 Clean Up and Restoration Grants for directly affected businesses, free small business advisory services to mentor businesses throughout the recovery process and a \$2.5 million tourism marketing campaign encouraging people to visit regional Victoria.
Trade Mission to India led by the Hon. Louise Asher	A multi-industry trade mission made up of 60 organisations visited India in April 2011.	The anticipated generation of at least \$63 million of additional exports and the creation of new jobs over the next 24 months.
DBI restructure	Restructured DBI, assigning many more business development managers to suburban and regional offices.	Increased business development managers in suburban and regional offices, better service delivery and enhanced interactions with business across Victoria.
New industrial relations principles to apply to tenders for state-funded construction projects	Drafted new industrial relations principles to apply to tenders for state-funded construction projects.	The projected outcome of the updated principles is achieving better value for money for taxpayers in the delivery of major infrastructure.
Removed the ban on Easter Sunday trading	Any business that wishes to trade on Easter Sunday will now be legally able to do so.	Businesses are now legally able to trade on Easter Sunday.

Source: Department of Business and Innovation, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, pp.38-9

Table A2.2: Department of Education and Early Childhood Development (DEECD)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
<p>Give children the best start in life and provide access to affordable, quality early childhood education in the years before schooling</p>	<p>Increased proportion of children who attend MCH key age and stage visits.</p>	<p>Key ages and stages consultation participation rates between 2008/9 and 2009/10:</p> <ul style="list-style-type: none"> • Home consultation 98.9% to 99.8% • 2 weeks 96.2% to 96.6% • 4 weeks 95% to 95.4% • 8 weeks 94.7% to 94.7% • 4 months 91.5% to 91.5% • 8 months 83.9% to 82.7% • 12 months 81.5% to 80.3% • 18 months 71.6% to 71.6% • 2 years 67.6% to 69.1% • 3.5 years 58.3% to 63.1% <p>Source: DEECD</p>
<p>Develop the basic skills for life and learning so children make a successful transition to school</p>	<p>Increased proportion of four-year-old children accessing early childhood education.</p>	<p>Participation rate of 4 year olds in first year of funded kindergarten increased from 92.7 per cent in 2009 to 95.1 per cent in 2010.</p> <p>Source: DEECD</p>
<p>Engage students in learning and improve student achievement in literacy and numeracy so Victorian students excel by national and internal standards</p>	<p>Increased proportion of students meeting the expected standards for literacy and numeracy in Years 3, 5, 7 and 9.</p>	<p>Percentage of students at or above the National Minimum Standard in Year 5, 7 and 9 NAPLAN Literacy and Numeracy:</p> <ul style="list-style-type: none"> • Year 3 <ul style="list-style-type: none"> – Reading 2009 (95.2%) to 2010 (95.4%) – Numeracy 2009 (95.6%) to 2010 (95.4%) • Year 5 <ul style="list-style-type: none"> – Reading 2009 (94.2%) to 2010 (94.2%) – Numeracy 2009 (95.5%) to 2010 (95.7%) • Year 7 <ul style="list-style-type: none"> – Reading 2009 (95.4%) to 2010 (96.2%) – Numeracy 2009 (96%) to 2010 (96.1%) • Year 9 <ul style="list-style-type: none"> – Reading 2009 (94.3%) to 2010 (93.3%) – Numeracy 2009 (96.3%) to 2010 (94.8%) <p>NAPLAN results include a level of statistical error and can sometimes be reported with confidence intervals which are used to ascertain “real” changes between years or differences between jurisdictions.</p> <p>Source: DEECD</p>

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Assist young people to transition from school to further education and/or work that provides further training opportunities	Increased proportion of young people having attained at least a Year 12 or equivalent (AQF Cert II).	The attainment rate of 20 to 24 year olds increased from 86.8 per cent in 2009 to 88.1 per cent in 2010. Source: DEECD
Supply the skills needed to improve labour market outcomes and equip Victorians of all ages with the skills and capabilities to enable educational, labour market and social participation	Increased proportion of graduates with improved employment status after training.	VET graduates: Of those students not employed before training, 41.9 per cent reported being employed after training. Source: National Centre for Vocational Research (NCVER) Student Outcomes Survey 2010
	Increased proportion of working-age population enrolled in higher education.	Percentage of Victorians aged 15 to 64 enrolled in higher education: <ul style="list-style-type: none"> • 2009: 7 per cent • 2010: 8 per cent Source: ABS Survey of Education and Work

Source: Department of Education and Early Childhood Development, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 6 January 2012, pp.94-7

Table A2.3: Department of Health (DOH)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Respond to flood emergency	The department's flood response included: extensive communication campaign on mosquitoes, Murray Valley Encephalitis, clean up advice, mould issues and floodwater contamination of drinking water supplies.	<p>Given the incident was separate to that of routine business, quantitative or qualitative data to demonstrate the outcome is unavailable, arbitrary, or completely insufficient in fully demonstrating the outcome of the incident.</p> <p>The department is measuring the achievement of the above programs and activities by achieving the following reductions to public health risk:</p> <ul style="list-style-type: none"> • no reported cases water borne disease; • no reported cases of Murray Valley Encephalitis (MVE); and • positive feedback from stakeholders involved.
Release of the Victorian Health Services Performance website	<p>A revised website was released providing new information about:</p> <ul style="list-style-type: none"> • real time hospital bypass status and when the Hospital Early Warning System (HEWS) is activated; • estimated median time to treatment for non-urgent emergency department patients; • rates of Elective Surgery Hospital Initiated Postponements; • number of emergency department mental health patients waiting longer than 8 hours for admission; • number of emergency department patients with a length of stay greater than 24 hours; • ambulance attendances (arrivals at emergency department by ambulances); • proportion of ambulance patient transfers within 40 minutes; and • number of hours on Hospital Early Warning System. 	<p>The actual outcome is a tangible product, i.e. in this case a new website that is publicly available, and released within the advised time-frames.</p> <p>The number of measures that are reported upon has increased, as has the frequency of reporting. These two aspects may both be considered as measures of achievement.</p>
Develop Victorian Public Health and Wellbeing Plan as required by section 49, <i>Public Health and Wellbeing Act 2008</i>	Plan developed and launched in Parliament on 1 September 2011.	<p>Not applicable as the Plan was launched in 2011-12.</p> <p>As the planned outcome was the production of a specific plan, the measure has been achieved.</p>
Development of the Healthy Workers and Healthy Children Implementation Plans as part of the National Partnership Agreement on Preventive Health	Implementation plans were approved by the Commonwealth in May.	As the planned outcomes are the production of specific plans the measure is either achieved or not achieved.
Victorian Health Priorities Framework 2012-2022	Victorian Health Priorities Framework 2012-2022 and the accompanying technical paper, the <i>Metropolitan Health Plan 2012</i> were released on 12 May 2011.	<p>The Victorian Health Priorities Framework: Metropolitan Health Plan was delivered and made available to the Public in May 2011 and can be accessed via the Department of Health website.</p> <p>Qualitative data within the document has informed framework priorities and government focus.</p>

Source: *Department of Health, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 6 January 2012, pp.96-8;*
Department of Health, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 2 March 2012, pp. 7-9

Table A2.4: Department of Human Services (DHS)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Deliver sustainable client-centred services	<p>Ongoing support to bushfire affected communities:</p> <ul style="list-style-type: none"> • establishment of the Bushfire Communities Support Program to provide a state-wide telephone helpline, community support workers and drop-in centres located in Marysville, Kinglake, Flowerdale, Whittlesea and Hurstbridge; • management of temporary accommodation villages in Kinglake, Marysville, Flowerdale and Whittlesea; and • support by housing workers to develop a housing plan and transition to permanent accommodation. <p>Upgrade and improve existing older housing.</p>	<p>Allocation of 3,415 Victorian Bushfire Appeal Fund payments in 2010-11 across 39 categories.</p> <p>300 payments to individuals in 2010-11 from the Victorian Floods Disaster Relief Fund.</p>
Respond to the needs of individuals and communities at greater risk	<p>Achieved 75% of Nation Building and Jobs Plan in May 2011.</p> <p>Better interaction with the Family Court is being achieved by establishment of a protocol between:</p> <ul style="list-style-type: none"> • Child Protection; • the Family Court of Australia; and • the Federal Magistrates Court. <p>Office of the Senior Practitioner – Physical Restraint Direction (the Direction), prohibiting the use of particular types of physical restraints on people with a disability. Coming into effect from 1 January 2012.</p> <p>The Direction was launched by the Hon Mary Woodridge MP, Minister for Community Services on 9 June 2011. Training and advice has been provided to disability service providers to support their implementation of the Direction.</p>	<p>Major upgrades to 1,975 homes during 2010-11, and ongoing maintenance works to make homes safer and more comfortable for residents, extend the life of ageing properties and make important improvement to common areas used by residents.</p> <p>2,917 dwellings completed.</p> <p>The protocol was published in May 2011 and is currently being distributed to stakeholders and child protection and legal staff.</p>
	<p>Initiatives to prevent violence against women. Funding programs including:</p> <ul style="list-style-type: none"> • <i>Local Government Preventing Violence Against Women in Our Community Program</i>, supporting nine local councils (in three clusters) to roll out prevention programs in their local community (\$1.26m over four years); • Eliminating Violence Against Women Media Awards (\$70,000); • <i>Media Advocate Against Violence</i> initiatives run through the Women's Domestic Violence Crisis Services (\$150,000 over three years to 2012-13); and • <i>Everyone Wins</i> toolkit to help sporting clubs build more inclusive sporting environments for women was launched in June 2011 (\$50,000). 	<p>The Senior Practitioner will monitor the use of physical restraint on people with a disability from 1 July 2011.</p> <p>The information sessions on the Direction had a total audience of 327 disability professionals from the Department and Community Service Organisations.</p> <p>Since May 2011 over 20 RIDS e-BSP training sessions across the state.</p> <ul style="list-style-type: none"> • June 2011 Eliminating Violence Against Women Media Awards • Launch of <i>Everyone Wins</i> toolkit • Ongoing delivery of programs

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Respond to the needs of individuals and communities at greater risk	<p>Continuing the roll out of Family Violence Risk Assessment and Risk Management training in Victoria to sector professionals.</p> <p>Flood response: Co-ordination of relief and recovery activities across affected regions, including emergency and interim accommodation, outreach, psychosocial support and provision of personal hardship grants.</p> <p>The department has also undertaken extensive planning and revised the state's emergency relief and recovery arrangements to ensure that services are delivered in the most timely and effective manner possible.</p>	<p>Victorian government is expanding the Family Violence Risk assessment and risk management training to primary health, child protection, drug and alcohol and mental health services workers in the next two years.</p> <p>An estimated 170 training sessions will be delivered.</p> <p>Over 700 families and households assisted to re-build their lives.</p>
Respond early to need	<p>Ensuring children and young people subject to Children's Court Protection Orders are assigned a child protection case manager.</p> <p>Reform of child protection workforce to better meet the needs of vulnerable children.</p>	<p>State-wide allocation rates improved from 14.5 per cent on 30 November 2010 to 7.1 per cent as at 8 June 2011.</p> <p>Release of <i>Child Protection Workforce: the case for change</i>, launched by the Minister for Community Services on 3 June 2011, outlining the challenges facing child protection practitioners in Victoria, and initiating a process to reform the workforce.</p>
Provide opportunities for our clients to participate in society	<p>Redevelopment of the Aids and Equipment program to establish a state-wide service delivery model. This will enable a more streamlined approach to improve administration and promote efficiencies.</p> <p>The program is now being administered by a single agency (Ballarat Health Services Statewide Equipment program) rather than a number of agencies across Victoria. This means that people seeking aids, equipment, home and/or vehicle modifications only have to register with one agency rather than having to find the one most appropriate to their needs.</p> <p>Regional councils better able to provide services to young people living in the outer fringes of the regional centre. Rural young people have more opportunities to be involved in government and community decision making.</p>	<p>Clients able to access a single website with clear directions on eligibility, application processes and documentation to support the application.</p> <p>3 regional councils (Swan Hill, Bendigo and Geelong) funded \$50,000 to research and map service delivery options to geographically isolated young people in their Local Government Area.</p> <p>Rural and Regional Youth Inclusion Grants totalling \$270,000 provided to 9 local councils.</p>

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
<p>Provide opportunities for our clients to participate in society</p>	<p>Various programs to support people with disabilities to participate in society, including:</p> <ul style="list-style-type: none"> • Bar None Employment campaign to promote benefit of employing people with a disability; • Disability Action Plans – supporting public and community organisations to develop Disability Action Plans to increase their capacity to promote inclusion; • Disability Advocacy Program – funding to 22 disability advocacy organisations; and • DiVine website to create a community website for and by people with a disability. 	<p>Launch of a photographic exhibition and resource guide, receiving overwhelmingly positive anecdotal feedback;</p> <p>230 public and community organisations supported to develop Disability Action Plans (far exceeding the target of 150 for the financial year);</p> <p>841 clients supported by advocacy services;</p> <p>Strong response to DiVine website:</p> <ul style="list-style-type: none"> • over 40,000 visitors 27 Nov 2010 to 30 June 2011 (half of all visitors from Victoria); • over 95,000 page views; • over 600 articles, all written by Victorians with a disability; and • over 80 Victorians with a disability have had articles published on DiVine, with dozens given formal training and ongoing mentoring.
<p>Strive for our clients to exercise greater choice</p>	<p>Increased recruitment and retention of people with a disability employed in the Victorian Public Service.</p> <p>My future my choice initiative. This is an ongoing commitment to support younger people in, or at risk of admission to, residential aged care (RAC) facilities.</p>	<p>Increase in the total number of people with a disability employed across a number of departments:</p> <ul style="list-style-type: none"> • 15 people with a disability placed in VPS positions between 1 Dec 2010 and 30 Jun 2011; • additional 15 people with a disability retained positions in VPS; and • 156 people with a disability referred by the contracted agency (Disability Employment Advisory Service) and 49 people were interviewed for VPS positions. <p>22 new service developments will be established under the 'my future my choice' initiative, providing accommodation and support for 104 younger people living in, or at risk of entry to, residential aged care.</p>

Source: Department of Human Services, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, pp. 58-63

Table A2.5: Department of Justice (DOJ)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
<p>A safer Victoria</p>	<ul style="list-style-type: none"> • Recruitment campaign for 1700 additional police commenced and the first of these officers graduated from the Police Academy during 2010–11. • Legislation passed for the appointment of an additional 940 protective services officers (PSOs) with expanded powers. • Introduction of new powers, new offences and increased penalties to create a safer environment at licensed venues. • Continued graffiti removal efforts, now boosted by a new zero tolerance to graffiti fund. • Improved transparency of the road safety camera system with initiation of a weekly publication of mobile camera locations and launch in April 2011 of the 'Cameras Save Lives' website containing a weekly list of speed camera locations. • Introduced in May 2011, legislation to create the Office of the Road Safety Camera Commissioner to independently monitor the road-safety camera system. • Introduced a range of sentencing reforms such as the abolition of suspended sentences for serious crimes and new bullying laws. • Commenced development of a single flexible community corrections order to replace existing community based sentencing orders and give courts express powers to impose conditions that reflect the particular circumstances of the case and the offender. • Introduced new offences aimed at reducing the circulation of weapons in the community and curbing the development of a 'knife culture' among young people. 	<p>Details of Bills submitted and legislation introduced are available through: www.parliament.vic.gov.au/static/www.legislation.vic.gov.au-bills.html</p>
<p>Emergency response and preparation</p>	<p>The department has played a central role in coordinating and supporting implementation of the Victorian Bushfires Royal Commission's recommendations including development of the state's implementation plan in response to the commission's recommendations. The Deputy Premier and Minister for Bushfire Response, the Hon Peter Ryan MLA, tabled the implementation plan in both Houses of Parliament on 31 May 2011.</p> <p>One of the commission's recommendations was to establish an independent Bushfire Implementation Monitor to monitor, assess and report on implementation progress to the Parliament and people of Victoria. The department developed the legislation to implement these and in April 2011 and the Governor in Council appointed Mr Neil Comrie AO APM as the Implementation Monitor. Mr Comrie uses the state's implementation plan as a 'yardstick' to measure progress.</p> <p>On 27 February 2011, the government reaffirmed its commitment to volunteers by signing an updated CFA Volunteer Charter. The charter formalises the commitment to recognise the needs of volunteers and consult with them and has been enshrined in legislation via amendments to the <i>Country Fire Authority Act 1958</i>. These amendments recognise the CFA as a volunteer-based organisation, require the CFA to have regard to the commitment and principles set out in the charter and create a responsibility for the CFA to maintain and strengthen the capacity of its volunteers to deliver CFA services.</p>	<p>The Implementation Monitor's progress report can be accessed at: www.bushfiresmonitor.vic.gov.au or www.justice.vic.gov.au.</p> <p>Details of the CFA Volunteer Charter are available at: www.vfbv.com.au/pubArchive_volCharter.php</p> <p>Details of Bills submitted and legislation introduced are available through: www.parliament.vic.gov.au/static/www.legislation.vic.gov.au-bills.html</p>

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Community corrections	<p>The community work program operated by CCS is a highly visible program that exemplifies the notion of offenders making reparations to the community. Offenders undertook more than 800 hours of unpaid work specifically targeted at flood relief activities, valued at an estimated \$19,000. As well, in 2010–11, the graffiti removal program removed 286,427 square metres of graffiti and contributed 81,496 hours of community work, worth almost \$20 million.</p>	<p>Statistics relating to graffiti work are available through the Department of Justice Annual Report 2010–11.</p>
Alcohol and gambling regulation	<p>Continued to improve the regulatory schemes for liquor and gambling regulation. This has been achieved through the establishment of a new integrated regulator for liquor and gambling (the Victorian Commission for Gambling and Liquor Regulation).</p> <p>Commenced work on the establishment of the Victorian Responsible Gambling Foundation, an independent body with a mandate to reduce the prevalence and severity of problem gambling across Victoria.</p> <p>In March 2011, the department ran a campaign to promote help services for the families and friends of people with a gambling problem. This campaign was a success, resulting in a 148 per cent increase in calls to the help line by family and friends and a 147 per cent increase in unique visits to the website.</p> <p>On 11 March 2011, the Minister for Gaming announced his decision to issue Victoria's first independent keno licence to Tabcorp Investments No.5 Pty Ltd. The new 10-year keno licence will start on 15 April 2012. A \$60 million premium payment was received for the licence.</p> <p>New laws introduced in May 2011 relating to the supply of alcohol to a minor in a private residence. It is now an offence to supply alcohol to minors in a private home without the consent of the minor's parent, guardian or spouse over the age of 18.</p>	<p>Data relating to the work in the alcohol and gaming arena is available through the Department of Justice Annual Report 2010–11.</p> <p>Details of Bills submitted and legislation introduced are available through: www.parliament.vic.gov.au/static/www.legislation.vic.gov.au-bills.html</p>
Developing the racing industry	<p>The current wagering licence will expire in August 2012, along with the associated joint venture arrangements between the licence holder (Tabcorp) and the Victorian racing industry. The department completed detailed work during 2010–11 to manage the competitive tender process associated with the allocation of the new wagering and betting licence.</p> <p>During 2010–11, the department began work on the establishment of the Victorian Racing Industry Fund (VRIF), through which the government committed in the 2011–12 State Budget around \$79.5 million over four years to the Victorian racing industry to support a range of infrastructure and racing industry development initiatives. Following the commitment by the government to return unclaimed wagering dividends and wagering taxes derived from on-course totalisator betting back to the racing industry, the VRIF is being developed as a racing industry grants program within the Department of Justice (Office of Racing). In 2010–11, \$13.2 million was approved for 35 projects at thoroughbred, harness and greyhound racing and training venues across the state.</p>	<p>The Dividends distribution details were announced as part of the 2011 Budget Guidelines and were issued to all key racing stakeholders on 20 June 2011.</p>

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Protecting consumers	<p>Consumer Affairs Victoria (CAV) provided extra mobile services when the need arose, for example, to Victorian communities affected by floods in early 2011. This included two flood recovery tours of the Grampians region, where staff gave on-the-spot advice on issues such as renting, repairs and rebuilding, travelling con men and fundraising scams.</p> <p>Connecting with consumers and businesses via new technologies including developing a smartphone application to educate consumers about the new Australian Consumer Law (which came into full effect on 1 January 2011). The free MyShopRights app provides instant information on refund, warranty and lay-by rights and answers common shopping questions.</p> <p>In 2011, CAV added to its dispute resolution service which helps resolve disputes related to general consumer matters, domestic building, estate agents and residential tenancy. A new 'front line resolution' model, piloted from March, aims to resolve simpler complaints by contacting the trader and attempting to resolve the dispute within 48 hours of the consumer's initial contact.</p> <p>CAV also expanded its use of onsite conciliations to help fast-track certain types of building disputes. In 2010-11, it tripled the number of onsite conciliations completed compared to last year, conciliating 769 complaints and achieving a resolution rate of 96 per cent.</p> <p>CAV continued to protect Victorians from unsafe products, including dangerous toys and conducted 599 product safety inspections throughout the state, seizing 49,006 products that failed to meet mandatory standards or were subject to bans. This included 44,700 products seized during a pre-Christmas safety blitz.</p>	<p>Data relating to the work of CAV is available through the Department of Justice Annual Report 2010-11.</p> <p>Smart phone application is available through this website: www.consumer.vic.gov.au/shopping/myshoprights-app</p>

Source: Department of Justice, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 12 January 2012, pp.64-7

Table A2.6: Department of Planning and Community Development (DPCD)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Planning communities for growth and change	<ul style="list-style-type: none"> • Established the Regional Growth Fund. • Led the development of a whole-of-government approach to the delivery of an outcomes-based metropolitan planning strategy (MPS). A final project plan for the MPS is awaiting Government approval. • Led integrated land use and transport planning through the Growth Areas Precinct Structure Plans and metropolitan area strategies. • Established the Urban Renewal Authority and facilitate the transition of VicUrban's financial and business functions. • Wind farms – restoring fairness and certainty to the planning system for wind farms. • Advance regional strategic planning across Victoria. 	-
Investing in community infrastructure and heritage	<ul style="list-style-type: none"> • Established the Fire Recovery Unit. • Established the Community Recovery Fund. • Oversight of major capital works (including the State Athletics Centre) and completion of key early works at Melbourne Olympic Parks Trust. • Oversight of the operation of key sports events. 	-
Strengthening communities and promoting equity and diversity	<ul style="list-style-type: none"> • Led the delivery of commitments under the: National Indigenous Reform Agreement; Overarching Indigenous Bilateral Implementation Plan; and National Partnership on Aboriginal Economic Participation. • Established an integrated regional management model across Victoria. • Established Partnership Delivery Agreements to guide delivery for all DPCD portfolios and the Department of Business Innovation. 	-

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
<p>Building organisational performance</p>	<p>Continued business process improvements for better joint grants management, including integration of RDV grant processes. Worked towards a single entry grants platform with other agencies.</p> <p>Reviewed and developed the Leadership and Management Development Strategy by June 2011, including planning for talent and succession management of executives.</p> <p>Developed and implemented a learning and development strategy for all staff (including regionally-based staff) by June 2011.</p>	<p>New grants under RDV's new and existing programs will be established under DPCD systems for 1 July 2011. RDV grants under the local initiatives component of the Regional Growth Fund have been incorporated under DPCD's single Header Agreements with LGAs for most new local government grants, streamlining the process for grant recipients. Launch of the Monitoring and Administration Framework for consistent grant administration across the Department.</p> <p>The Leadership and Management Strategy was reviewed and a Talent and Succession Management approach was developed in 2010-11. Both initiatives were promoted and enhanced through:</p> <ul style="list-style-type: none"> • the Executive Leadership Development Series - quarterly workshops for executives to develop leadership capacity and focus on creating positive change; • Senior Leaders Group Forums; and • the DPCD Strategic Leaders Program for high potential VPS Grade 6 staff. <p>The Department's learning and development strategy continues to support staff professional development and positions DPCD as a place where people want to work. Examples of new offerings for professional development include:</p> <ul style="list-style-type: none"> • building capability in people management; influencing and negotiating; • enhanced occupational health and safety training; and • the launch of e-learn modules for all staff.

Source: Department of Planning and Community Development, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 31 January 2012, p.28; Department of Planning and Community Development, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 5 March 2012, pp.3-4

Table A2.7: Department of Premier and Cabinet (DPC)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Response to change of government	<ul style="list-style-type: none"> Swearing in of Ministers. Cabinet sworn-in as Ministers and Executive Councillors (if necessary). Establishing Cabinet and Cabinet Committee structure and protocols for executive decision-making. Appropriate arrangements in place to support Executive decision-making. 	<p>Ministers are able to undertake legislative and Parliamentary duties.</p> <p>Executive decision-making framework implemented and functioning.</p>
Developing the Government's first major policy statement the Victorian Families Statement	The Premier launched the Statement during the first week of Parliament's 2011 session, marking the first stage in a process to engage families in ongoing discussions on priority issues.	Discussions with families have been ongoing, with the first 'Kitchen Table' consultation sessions with community members commencing on 23 June 2011. These discussions will feed into the development of future editions of the Victorian Families Statement, to be released annually.
COAG commitment to establish a National Disability Insurance Scheme (NDIS) and the Victorian Government recognised as having played a key and influential role in its design and implementation	The Productivity Commission's (PC) Final Report strongly reflected many of the key recommendations made by the Victorian Government in its response to the PC's draft report (which was released by the PC in February 2011).	<p>Many of the recommendations made by the Victorian Government in its response to the PC's draft report (lodged in May 2011) were adopted by the PC in its final report.</p> <p>Victoria's positions in key intergovernmental for a (i.e. COAG, Select Council on Disability Reform) have been adopted.</p>
Provided the Premier with high-quality policy analysis and advice, enabling the Government to shape a health package that will deliver improved health outcomes for Victorians	<p>The negotiations were successfully concluded, and the Premier signed the Agreement in late July 2011.</p> <p>Key aspects of the NHRA included:</p> <ul style="list-style-type: none"> national adoption of devolved governance for health services (modelled on the arrangements in Victoria); national implementation of activity-based funding to improve hospital efficiency; greater Commonwealth funding contributions for Victoria; new performance and accountability measures to help drive improved services; and preservation of the State's role as manager of the public hospital system. 	<p>The Premier of Victoria signed the NHRA in conjunction with the Prime Minister and other First Ministers.</p> <p>A Health Reform Implementation Taskforce has been established in DH to ensure a smooth transition to the new arrangements for Victoria.</p>
Delivering two pilot satellite offices in Ballarat and Bendigo to support the Premier's commitment to bring government closer to regional Victoria	<p>Pilot offices in Bendigo and Ballarat were operational from July 2011.</p> <p>The offices have strengthened channels for regional Victorians to raise issues, increased coordination between existing government offices and different levels of government, and provided support to regional committees and forums.</p>	The offices were established on time and on budget.

Source: Department of Premier and Cabinet, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, pp. 36-8

Table A2.8: Department of Primary Industries (DPI)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
<p>Commence implementation of the Government's election commitments</p>	<p>DPI undertook significant planning activities, including the development of implementation plans to ensure that DPI election commitments are ready to commence at the start of 2011-12 (when funding officially commences). Examples of work undertaken for election commitments include:</p> <ul style="list-style-type: none"> • Support for Victorian Young Farmers – Research is underway to improve DPI's understanding of why young people leave farming or rural life, thereby informing policy related to skills shortages in farming, and addressing the priorities of the government concerning young people in agriculture. DPI is also continuing to investigate linkages with other rural youth groups such as Victoria's Young Agribusiness Professionals and Rural Youth Tasmania, who are keen to develop a stronger alliance with Victoria. • Promoting Recreational Fishing – Activities to promote recreational fishing has commenced, including consultation on piers/jetties and roads for re-opening, stocking native species and trout into selected waterways, and planning for recreational fishing reefs and fish ladders. 	<p>Funding approved in May 2011, through the 2011-12 State Budget Process included:</p> <ul style="list-style-type: none"> • support for Victorian Young Farmers – \$1 million over 4 years; and • improving recreational fishing opportunities in Victoria – \$16.2 million over 4 years. <p>Note: This is not an exhaustive list of the department's funded election commitments. For further information, refer to page 73 of Budget Paper No. 3, 2011-12 Service Delivery.</p>
<p>Assisting Victorian primary producers recover from the devastating floods</p>	<p>DPI responded quickly to the 2011 flood impacts on agriculture by establishing an incident management team and DPI statewide flood recovery centre in mid-January 2011. The main objectives of this centre was to contact as many flood affected farmers as possible in order to assess urgent animal welfare and personal needs, and to estimate the impact of the emergency on agricultural productivity. DPI successfully reached more than 2,170 farmers, and attempted to contact over 3,330 landowners in flood affected areas.</p> <p>When the initial response phase finished on 15 February 2011, a flood agricultural recovery project was rolled out by DPI to assist the recovery of Victorian rural communities and farm businesses by delivering a targeted, relevant and accessible service to assist all farmers in their recovery efforts.</p> <p>The DPI recovery project included extension and capability support services to farmers and farming communities to ensure that they could readily access relevant information, experts and assistance to support recovery decisions and build resilience for the future.</p> <p>DPI recovery services included:</p> <ul style="list-style-type: none"> • advice on re-establishing rural enterprises or alternative strategies for economy recovery; • presentations to 112 technical and community workshops and meetings throughout the flood-affected areas; • the widespread distribution of information leaflets; • the management of a single client database to ensure accurate client management from response to recovery; • implementation of a whole-of-government referral service; and • delivering specific flood subsidies, recovery projects and programs for primary producers. <p>DPI also enacted its new role in food supply security during the January 2011 floods – this involved the coordination of the commercial food supply into Kerang, in northern Victoria, before and during the town's isolation by floodwaters, which ensured that supermarkets remained open and were able to supply the estimated 2,000 people who remained in town while it was isolated.</p>	<p>Funding approved in May 2011, through the 2011-12 State Budget Process included:</p> <ul style="list-style-type: none"> • Apprenticeship Retention Program - \$1 million over 2 years; • Flood Response and Recovery - \$9.7 million over 2 years; and • Health and Wellbeing - \$0.8 million over 2 years. <p>DPI also exceeded its 2010-11 target for the following performance measure 'Farmers facing significant adjustment pressures supported to make better informed decisions'; primarily due to additional demand by farmers as a result of the floods.</p>

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
<p>Safe, substantial mitigation of the impact of Australian Locust Plague on the Victorian Community</p>	<p>The Spring 2010 locust plague was the largest in more than three decades, with approximately one-fifth of the state significantly affected, especially the north and west.</p> <p>In response, DPI implemented the Spring Locust Preparedness and Response project - the single-largest sustained emergency response undertaken by DPI with about 1,220 staff deployed through more than 20 rotations across 35 per cent of the state.</p> <p>DPI emergency response efforts have contributed to reduced impacts of locust on agricultural, environmental and social amenity assets, with locust numbers have returned to near normal levels in most areas.</p> <p>DPI control measures included ground and aerial spraying of public and private land and extensive aerial and ground surveillance:</p> <ul style="list-style-type: none"> • approximately 15,758 ha of public land was sprayed by the DPI, local government and agencies such as VicRoads and VicTrack. The Australian Plague Locust Commission (APLC) in collaboration with DPI also treated 17,000 ha of private land, to prevent swarms from Victoria migrating into neighbouring states. <p>A large scale DPI led community engagement and media campaign was also undertaken:</p> <ul style="list-style-type: none"> • community engagement activities involved 506 community meetings attended by 10,774 people, statewide media liaison resulting in 4,095 media stories and extensive press radio, television and online advertising campaign. <p>A Locust Insecticide Rebate Scheme was established, providing a 100% rebate for the cost of chemicals used to spray locusts.</p> <ul style="list-style-type: none"> • as at 30 June 2011, DPI has received over 1,360 claims (totalling \$2.1 million). 	<p>Supplementary funding for the costs of undertaking urgent locust control activities was reported in the 2010 11 Pre-election Budget Update.</p>
<p>Provide a fair deal for Victorian irrigators in the Murray Darling Basin Plan (MDBP)</p>	<p>DPI has helped lead and influence key elements of the Victorian Government's response to the <i>Guide to the Proposed Murray-Darling Basin Plan</i>.</p> <p>DPI analysed the MDBP Guide upon its release and found that equitable sharing was a significant problem with the Plan.</p> <p>DPI conducted socioeconomic analysis and delivered a comprehensive fact finding mission to the Lower Lakes to understand and verify the impacts and environmental watering requirements of the area and potential engineering options.</p> <p>DPI advised on the impacts of, and options for, national carbon pricing policies – with a focus on energy security, cost-of-living and energy investment.</p> <p>In addition, major clean energy innovation investments under the Energy Technology Innovation Strategy (ETIS) were progressed with the private sector. These included the:</p> <ul style="list-style-type: none"> • CarbonNet project (establishing a commercial pathway for large-scale carbon capture and storage or CCS); • HRL's Dual Gas demonstration project (efficient CCS-compatible gasification of coal for power and other uses); and • Silix Systems 2MW pilot solar plant (demonstration of a Victorian high-efficiency solar power technology). 	<p>DPI's contribution to the MDBP response has helped to inform other Victorian Government agencies of the potential economic impacts across various irrigation industries and regions in northern Victoria.</p>
<p>Secure Victoria's energy supply and transition to a low carbon economy</p>	<p>Relevant performance measures include:</p> <ul style="list-style-type: none"> • Exercise strategies for maintaining security of electricity and gas supply; • Facilitate delivery of milestones in line with grant agreements for large-scale sustainable energy demonstration program; and • Facilitate delivery of milestones in line with grant agreements for large-scale carbon capture and storage demonstration program. 	<p>DPI's contribution to the MDBP response has helped to inform other Victorian Government agencies of the potential economic impacts across various irrigation industries and regions in northern Victoria.</p>

Source: Department of Primary Industries, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 12 December 2011, pp.54-8

Table A2.9: Department of Sustainability and Environment (DSE)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Delivering sustainable water management and supply (including responding to flood events)	<p>A series of significant flood events occurred across Victoria in 2010–11, severely affecting homes, businesses and communities and resulting in large-scale damage to the environment and the parks and reserve system.</p> <p>Staff across DSE and its portfolio agencies were deployed in the response effort, assisting the Victorian State Emergency Service in various roles ranging from filling sandbags, dropping supplies to isolated communities, participation in incident management teams, to the provision of technical expertise relating to mapping, floodplain management and dam safety issues. Rapid Risk Assessment Teams assessed risks to life and property, infrastructure and the environment on public land affected by floods across regional Victoria.</p> <p>Recovery works are underway, including stream and waterway clean up and works to restore and repair flood-damaged parts of Victoria's flood warning network. As part of the Flood Recovery Employment Program more than 40 people in regional Victoria have been employed to undertake flood recovery works including fencing, weed, pest and erosion control.</p>	<p>For quantitative and qualitative data which demonstrates the outcomes achieved, please refer to the Sustainable Water Management and Supply Output on page 308 of the Victorian Government 2011-12 Service Delivery Budget Paper No. 3.</p> <p>For specific case studies and further examples of outcomes achieved, please refer to the Sustainable Water Management and Supply Output Performance section on page 39 of the Department's 2011 Annual Report.</p>
Reducing the threat of fire	<p>In response to recommendations from the 2009 Victorian Bushfires Royal Commission, DSE and its partner agencies, continued to implement a number of initiatives, including:</p> <ul style="list-style-type: none"> • Significantly increasing the level of planned burning conducted each year. DSE and Parks Victoria conducted 748 planned burns, treating a total of 188,997 hectares of public land. This is 29 per cent more than last year and more than has been achieved in any of the past 20 years. • Identifying and assessing potential places of last resort, which could be designated as a Neighbourhood Safer Place. More than 170 designated sites have been identified. • Commencing biodiversity monitoring programs, such as HawkEye, to understand the long term effect of fire on the Victorian landscape. • Developing bushfire risk analysis tools. Using Phoenix Rapid Fire, a computer-based simulation tool, DSE staff in collaboration with Parks Victoria and the University of Melbourne, pioneered innovative ways of mapping bushfire risk and evaluating the cost and effectiveness of different approaches to planned burning. 	<p>For quantitative and qualitative data which demonstrates the outcomes achieved, please refer to the Effective Management of Fire Output on page 318 of the Victorian Government 2011-12 Service Delivery Budget Paper No. 3.</p> <p>For specific case studies and further examples of outcomes achieved, please refer to the Land and Fire Output Performance section on page 46 of the Department's 2011 Annual Report.</p>
Investment in natural resource management	<p>The Victorian Government has established a number of investment programs to fund regionally based natural resource management projects across the state.</p> <p>In 2010–11, more than \$25 million was invested in projects aimed at improving the condition of Victoria's natural resources. During the year DSE worked with regional partners and communities to develop projects to address state priorities, including projects directed at the Murray River, the Goldfields, the Victorian volcanic plains, the South West, Gippsland Lakes and protecting Victoria's threatened species.</p>	<p>For quantitative and qualitative data which demonstrates the outcomes achieved, please refer to the Healthy and Resilient Natural Environment Output on page 315 of the Victorian Government 2011-12 Service Delivery Budget Paper No. 3.</p> <p>For specific case studies and further examples of outcomes achieved, please refer to the Providing Effective Stewardship of the Environment Output Performance section on page 54 of the Department's 2011 Annual Report.</p>

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Adapting to the impacts of climate change	<p>The <i>Climate Change Act 2010</i> came into effect on 1 July 2011, creating a legal framework for key actions for responding to climate change. The Act promotes collaboration, cooperation and innovation in Victoria's response to climate change. DSE had a leading role in the development of the Act and will continue to play a key role in supporting its implementation.</p> <p>As part of the Future Coasts project, DSE signed a Memorandum of Understanding with the Shire of Moynoe to establish a partnership to plan for climate-related coastal hazards at Port Fairy. A working group has been set up to help the Port Fairy community understand how climate change will affect Port Fairy and to prepare for the impacts of extreme weather and sea level rise.</p> <p>In June 2011, DSE finalised the first Victorian on-site energy, greenhouse and water performance assessment tool for existing homes. The tool is designed to help families understand their energy use and associated environmental impacts from their building and major fixed appliances, as well as the key water efficiency features of their homes.</p>	<p>For quantitative and qualitative data which demonstrates the outcomes achieved, please refer to the Effective Adaptation to the Impacts of Climate Change Output on page 321 of the Victorian Government 2011-12 Service Delivery Budget Paper No. 3.</p> <p>For specific case studies and further examples of outcomes achieved, please refer to the Effective Adaptation to the Impacts of Climate Change Output Performance section on page 71 of the Department's 2011 Annual Report.</p>
Regional service delivery	<p>The new Regional Service Delivery model has established DSE regions, with an increased regionally-based executive structure. This regional management team works with corporate and policy divisions to ensure integrated and responsive delivery of DSE services.</p> <p>Under the new model, DSE is:</p> <ul style="list-style-type: none"> • stronger at delivering in regional Victoria, with a more visible regional presence and better-supported stakeholder and agency relations; • empowered to make timely decisions at a local level, based on regional relationships and intelligence; and • better positioned to deliver on DSE's commitment to increase planned burning. <p>The model maintains access and connection of regional staff to the appropriate corporate and policy areas, and has better position DSE to deliver:</p> <ul style="list-style-type: none"> • strong leadership in regional communities; • an ability to build and manage stakeholder relationships; • enhanced local partnerships and collaboration across regional agencies; • a stronger sense of local leadership and 'belonging to place' for DSE staff; • a more visible regional presence. Stakeholders will have a local DSE executive manager as a contact for any DSE related issues in that region; • timely decision making at a local level; and • increased executive positions in regional areas, giving staff greater opportunities. 	<p>This outcome influences and is influenced by all DSE outputs.</p> <p>For quantitative and qualitative data which demonstrates the outcomes achieved, please refer to pages 305-325 of the Victorian Government 2011-12 Service Delivery Budget Paper No. 3.</p> <p>For specific case studies and further examples of outcomes achieved, please refer to the Output Performance section on pages 38-79 of the Department's 2011 Annual Report.</p>

Source: *Department of Sustainability and Environment, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 5 January 2012, pp.52-7*

Table A2.10: Department of Transport (DOT)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Establish the Public Transport Development Authority by 1 July 2011	DOT steering committee established and overseeing development and implementation of Authority.	N/A
Establish the Taxi Commission by 1 July 2011	Taxi Industry Inquiry announced by the Premier on 28 March 2011. Staffing, secondments and accommodation finalised. <i>Transport Legislation Amendment (Taxi Services Reform and Other Matters) Bill 2011</i> passed the Legislative Assembly on 16 June 2011.	Media Release – Premier, 28 March 2011
Facilitate the deployment of Protective Service Officers at railway stations	Briefed stakeholders on progress and proposed powers for Protective Service Officers (PSOs). <i>Justice Legislation Amendment (Protective Services Officers) Bill 2011</i> introduced into Parliament on 28 June 2011 to provide for relevant powers for PSOs.	Media Release – Deputy Premier 28 June 2011
Plan and deliver rail network capital improvements <ul style="list-style-type: none"> • Complete feasibility studies into rail extensions at Avalon, Doncaster, Rowville and Melbourne Airport by end 2012 • Delivery of first seven of 40 new metropolitan trains by end 2014 Complete planning for new railway stations at Southland and Grovedale and rebuilding Warragul and Ringwood railway stations by mid-2012	Contract signed with Alstom to deliver seven new X'Trapolis trains to the rail network by end 2013. Commenced work on Rowville Rail Feasibility Study and early planning work for other rail network capital improvements.	Media Release – Minister for Public Transport 23 June 2011
Finalise planning for the implementation of agreed recommendations in DTF's Myki evaluation report by June 2011	DOT worked with Department of Treasury and Finance and others to provide information to enable decisions to be taken on the future of Myki. The Government announced its decision to retain Myki, with changes, on 21 June 2011. Implementation of the Government's decisions is underway.	Media Release – Minister for Public Transport and Premier 21 June 2011

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
Timely and appropriate response to flood relief	VicRoads successfully responded to the impact of the major flood events in late 2010 and early 2011.	<ul style="list-style-type: none"> • Road closure information provided to all road users through the VicRoads website to ensure public safety. • Successfully undertaking recovery efforts including closing roads, arrangement of detours, conducting inspections and making temporary repairs where possible to ensure local access and connectivity. • Regular updates on flood affected roads through an alert system to allow appropriate route choice. • Successfully expediting the repairs to roads and bridges to promote economic recovery.
Implementation of Government's Hoon Initiatives	Legislation passed in June 2011 and implemented to introduce an increase in impoundment periods from 48 hours to 30 days, increase look-back period for second offences and implement a new impoundment offence related to vehicle overloading.	<p>Passage of Bill.</p> <p>As at 30 June 2011, data not yet available to demonstrate quantitative outcomes arising from this initiative.</p>
Completion of the Western Highway Anthony's Cutting Realignment including the Woolpack Road extension in early 2012.	The main alignment for this project was opened to traffic on 27 June 2011 which was nine months ahead of the original schedule.	<ul style="list-style-type: none"> • Open Day on 26 June 2011 which was attended by the Minister for Roads and the Federal Member for Ballarat. The open day was also attended by approximately 4000 members of the local community. • Permit application to Heritage Victoria dated 5 May 2010. • Permit appeal to the Heritage Council dated 4 February 2011. • Smaller roundabout accepted by the Heritage Council prior to hearings. • Heritage Council hearings on 3, 10 and 24 June 2011.

Source: Department of Transport, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 11 January 2012, pp.121-3

Table A2.11: Department of Treasury and Finance (DTF)

Planned outcome to be achieved	Description of actual outcome achieved	Quantitative or qualitative data to demonstrate outcome
The establishment of the Independent Review of State Finances	The independent panel was established as the review commenced in February 2011.	Interim report was released in April 2011.
Maintaining a \$100 million budget surplus	Achieved \$517.3 million surplus in 2010-11 and \$140 million budget surplus estimated for 2011-12.	Annual financial report 2010-11 and 2011-12 Budget papers.
Retention of the Triple A credit rating	Retained.	Standard and Poor's confirmed Triple A credit rating on 3 May 2011. Moody's confirmed Triple A credit rating on 4 May 2011.
Management and delivery of infrastructure projects	Funding provided enables a greater level of strategic advice to departments, agencies and Government to assist with project development, procurement, governance and delivery of major infrastructure projects and programs.	Business unit established within the department.
An inquiry into the state based reform agenda	Inquiry established.	Terms of reference received in April 2011.

Source: Department of Treasury and Finance, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 20 January 2012, pp.31-2; Department of Treasury and Finance, response to the 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Further Clarification Points, received 5 March 2012, p.3

MINORITY REPORT

2009-10 and 2010-11 Financial and Performance Outcomes

Minority Report

The Minority oppose the adoption of chapter 7 of the report in its totality, and in this Minority Report outline the reasons why.

In chapter 7, the Majority have, in part, sought to make findings regarding the 36 *Growing Victoria Together* targets, which the Bracks Government established after coming to office in 1999.

The Minority believes that the use of a Budget Outcomes Report (covering 2 financial years) to pass judgement on the previous Government's 11 years in office, is a curious and inappropriate use of the Committee's powers.

The Minority's principal objection is to the methodology used by the Majority to determine whether *Growing Victoria Together* objectives were, or were not, met. *Growing Victoria Together* was a set of actions, objectives and philosophies, which for the first time (and, so far, for the last time), saw a newly elected Government outline a detailed framework for good governance, and a set of targets by which that Government could be measured.

Definitive conclusions about whether those performance measures have been met, however, require far more detailed analysis than that which has been conducted by the Majority. In too many instances, the determination of whether a performance measure has, or has not been achieved, appears to be entirely, or at least substantially, subjective.

By way of illustration, the Minority offers the following examples -:

Measure – The health of Victorians will improve

The Majority has determined that this performance measure was **not met**. By way of justification, the Majority has relied on data from the Victorian Population and Health Survey, and average life expectancy at birth (which according to the budget papers, had increased between 1999 and 2008).

The question of whether the community's health has improved over a decade is a complex one, with many potential measures. Smoking rates, eating habits, levels of childhood activity or obesity, and medical advances, could all be valid areas of observation in determining whether the health of the community has improved.

To reduce the analysis to one measure, which would indeed suggest improvement, and a survey, is simplistic in the extreme, and offers no proper foundation for the Majority's conclusion.

Measure – The appreciation of diverse neighbourhoods and communities will increase

Victoria prides itself on its diversity, and there are countless ways in which the term can be defined and understood by Victorians. Whether the focus is on cuisine, religion, ethnicity, a blend of different socio – economic groups, or support for the aspirations of the GLBTI community, there is no single measure of whether Victorians have a greater appreciation

of “diverse neighbourhoods and communities”. Unfortunately, the Majority seems to believe that there is.

The Majority have determined that the performance measure was **not met**. In supporting this conclusion, the Majority has relied upon a decline in support for multiculturalism between 2001 and 2009, as outlined in the Victorian Population and Health Survey 2009. In so doing, the Majority has demonstrated an exceedingly narrow perspective on the question of what constitutes a diverse neighbourhood or a diverse community, and again, the conclusion is without proper foundation.

Measure – Victoria’s taxes will remain competitive with the national average

There are a range of other conclusions that the Minority believes have been arrived at without clear justification. Amongst them is the conclusion that the Bracks / Brumby Government did not achieve its objective of keeping Victoria’s taxes competitive with the Australian average. There seems to be no obvious correlation between that finding, and the fact that over 11 years, the Bracks / Brumby Government reduced the rate of Payroll Tax from 5.75% to 4.9% and reduced Workcover Premiums on 6 occasions.

It is also worth noting that the majority’s analysis takes no account of royalty revenue. Page 13 of Budget Paper 2 (2010-11) states - “In 2008-09, Western Australia, Queensland and New South Wales each collected in excess of \$1 billion in royalty revenue compared with less than \$50 million in Victoria.” When royalty revenue for the period is taken into account, Victoria’s tax revenue in the period was below the national average.

Process

It is important to note that in the Majority's analysis of whether *Growing Victoria Together* performance measures were met, there was not a single hearing, nor did it examine a single witness. No former Minister, or any Departmental representative was given an opportunity to comment on any element of the Majority's analysis, and no submissions were invited.

It should, of course, go without saying that the progressive delivery of *Growing Victoria Together* commitments, together with other factors, was analysed by the Victorian electorate at the elections of 2002, 2006 and 2010. The Minority considers that to be a more compelling verdict than the potentially self-serving analysis of a Coalition dominated Parliamentary Committee.

All in all, the Minority believes that to attempt to reduce 11 years of Government to a desk top analysis does justice, neither to the *Growing Victoria Together* framework, nor to the other important analysis conducted by the Committee. In those circumstances, the Minority cannot lend our names to the findings in Chapter 7, and we have opposed the adoption of that chapter.

The Minority do not oppose other chapters contained in the 2009/10 and 2010/11 Outcomes report. However we place on record our disappointment that the Majority opposed motions which would have enhanced the transparency of reporting on performance measures, and which would have sensibly recommended improvements to the way the Department of Treasury and Finance progressively reports on outcomes. The Minority are concerned that this diminution of transparency runs counter to the objectives of the PAEC.

Of similar concern is the determination by the Majority of the committee that the report should treat the relationship between debt and infrastructure in a manner consistent with the Government's political critique of the previous Government, and in denial of facts.

It would be unfortunate if any member of the PAEC – the Parliament's principal scrutiny committee – believed that the PAEC should be transformed into a delivery agency for the Baillieu Government's political messages. The PAEC has always demonstrated an understanding of its remit and of its need to be independent of Government, and we believe that there has been an ongoing appreciation of that during the 57th Parliament. It is our expectation and our hope that PAEC continues to operate in that manner.



Martin Pakula MP
Deputy Chair



Robin Scott MP



Jill Hennessy MP

EXTRACT FROM THE MINUTES OF PROCEEDINGS

Chapter 5: General Government Sector Output Delivery in 2009-10 and 2010-11

Motion: That in *Chapter 5: General Government Sector Output Delivery* to insert the following words and tables at Section 5.2.2.

Moved: Martin Pakula MLC Seconded: Jill Hennessy MP

5.2.2 All performance measures, 2009-10 and 2010-11

For both 2009-10 and 2010-11, especially 2009-10, the Committee notes that the proportion of performance measures that significantly exceeded targets was greater than the proportion of performance measures that significantly fell short of targets. As noted in Section 5.1 of this chapter, this is generally indicative of good outcomes.

Tables 5.3 and 5.4 show, for each department, what proportion of measures were significantly below, close to, and significantly above targets.

Table 5.3 Performance measures, actual results compared to targets, 2009-10

Department	Measures (number)	More than 10% lower than target (per cent)	Within 10% of target (per cent)	More than 10% above target (per cent)	Not measured (per cent)
Education and Early Childhood Development	81	3.7	69.1	23.5	3.7
Health	160	9.4	79.4	11.3	0.0
Human Services	88	10.2	70.5	18.2	1.1
Innovation, Industry and Regional Development	103	11.7	52.4	35.9	0.0
Justice	105	7.6	74.3	18.1	0.0
Planning and Community Development	119	10.1	67.2	22.7	0.0
Premier and Cabinet	109	8.3	71.6	20.2	0.0
Primary Industries	66	10.6	65.2	24.2	0.0
Sustainability and Environment	84	6.0	69.0	25.0	0.0
Transport	206	14.1	69.4	16.5	0.0
Treasury and Finance	97	6.2	73.2	20.6	0.0
Parliament	51	5.9	80.4	13.7	0.0
Total	1,269	9.3	70.2	20.2	0.3

Source: *Departmental annual reports, 2009-10; Parliament of Victoria, response to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire — Part One, received 2 December 2011, p.2*

Appendix 2: Outcomes Achieved by Departments between 27 November 2010 and 30 June 2011

Motion: That *Appendix 2: Outcomes Achieved by Departments between 27 November 2010 and 30 June 2011*, as amended with errors and omissions be agreed to and adopted.

Moved: David O'Brien MLC Seconded: David Morris MP

Resolved in the affirmative.

Report Adoption

Motion: That the whole of the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, as amended with errors and omissions be agreed to and adopted.

Moved: David O'Brien MLC Seconded: David Morris MP

Resolved in the affirmative.

